



**DEPENDENCE (*OVERRELIANCE*)
ON THE EU STRUCTURAL FUNDS IN THE
BALTIC COUNTRIES.
WAYS OF EXIT**

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Facta non solum verba

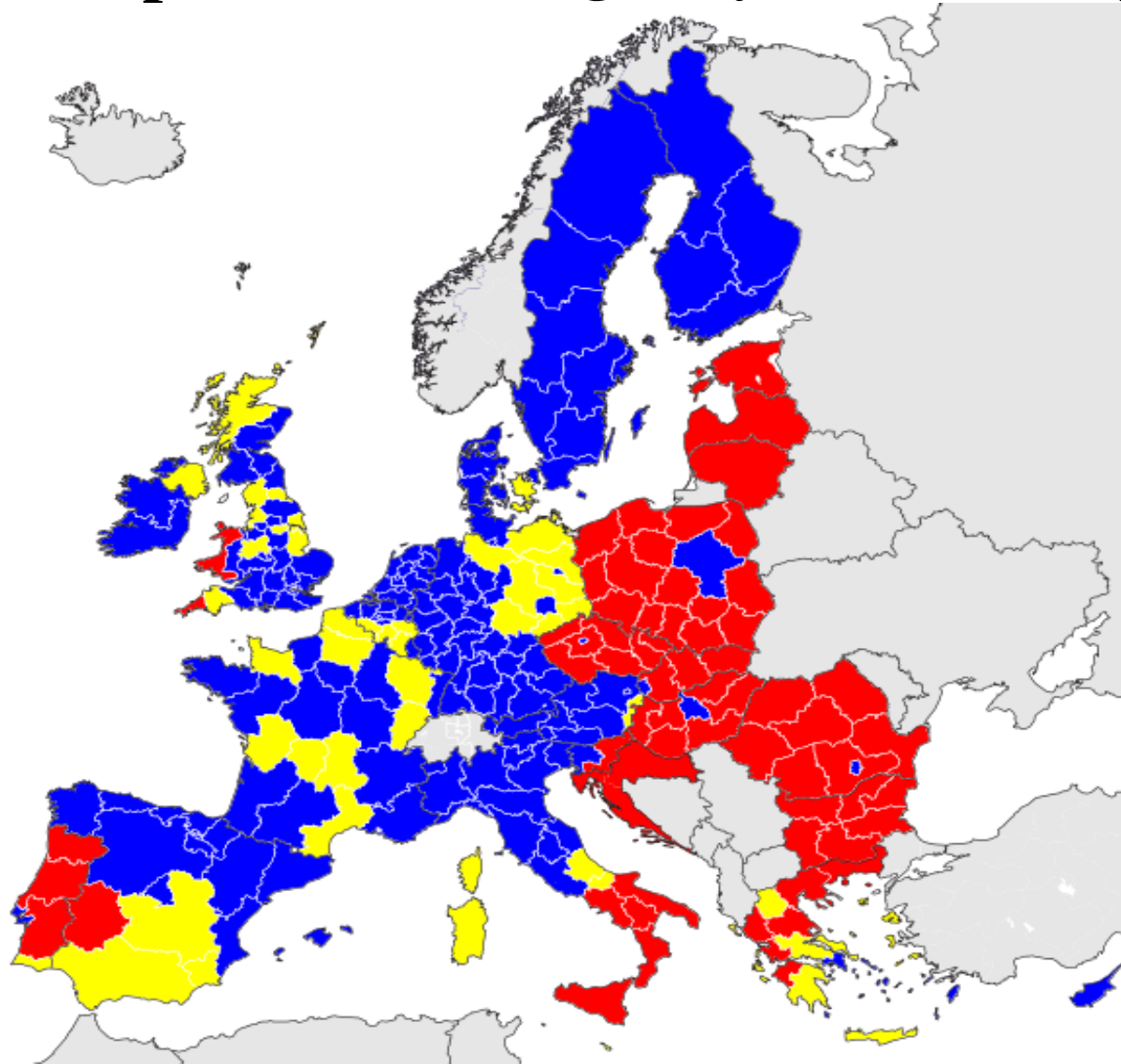
Structure of presentation

- **Why and which support channels are available?**
- **Relative position of Baltic countries in EU funding**
- **Formation of overreliance of Baltic countries on EU support**
- **Which are the positive and negative effects of the EU funding**
- **Examples of growing dependency on EU funding in research funding of Baltic countries**
- **Ways of exit. How to survive with the declining EU funding?**

Why EU structural funds?

- **EU structural funds vs. Marshal plan** (officially **European Recovery Program**) after **VWII**
- **US gave \$13 bn (approx.\$120 bn. in current value) to help rebuild European economies since 1948**
- **Aim of the EU cohesion policy – to reduce regional disparities in income, wealth and opportunities**
- “Cohesion policy, also known as regional policy, encompasses EU action to address economic and social imbalances, and to help less-favoured regions to compete within the single market” **The Multiannual Financial Framework 2014-20 - European Union Committee**
- **BUT - It is intended to be a supplementary and temporary funding**

Classification of regions of EU from 2014 to 2020 by their development level (eligibility for Cohesion policy)

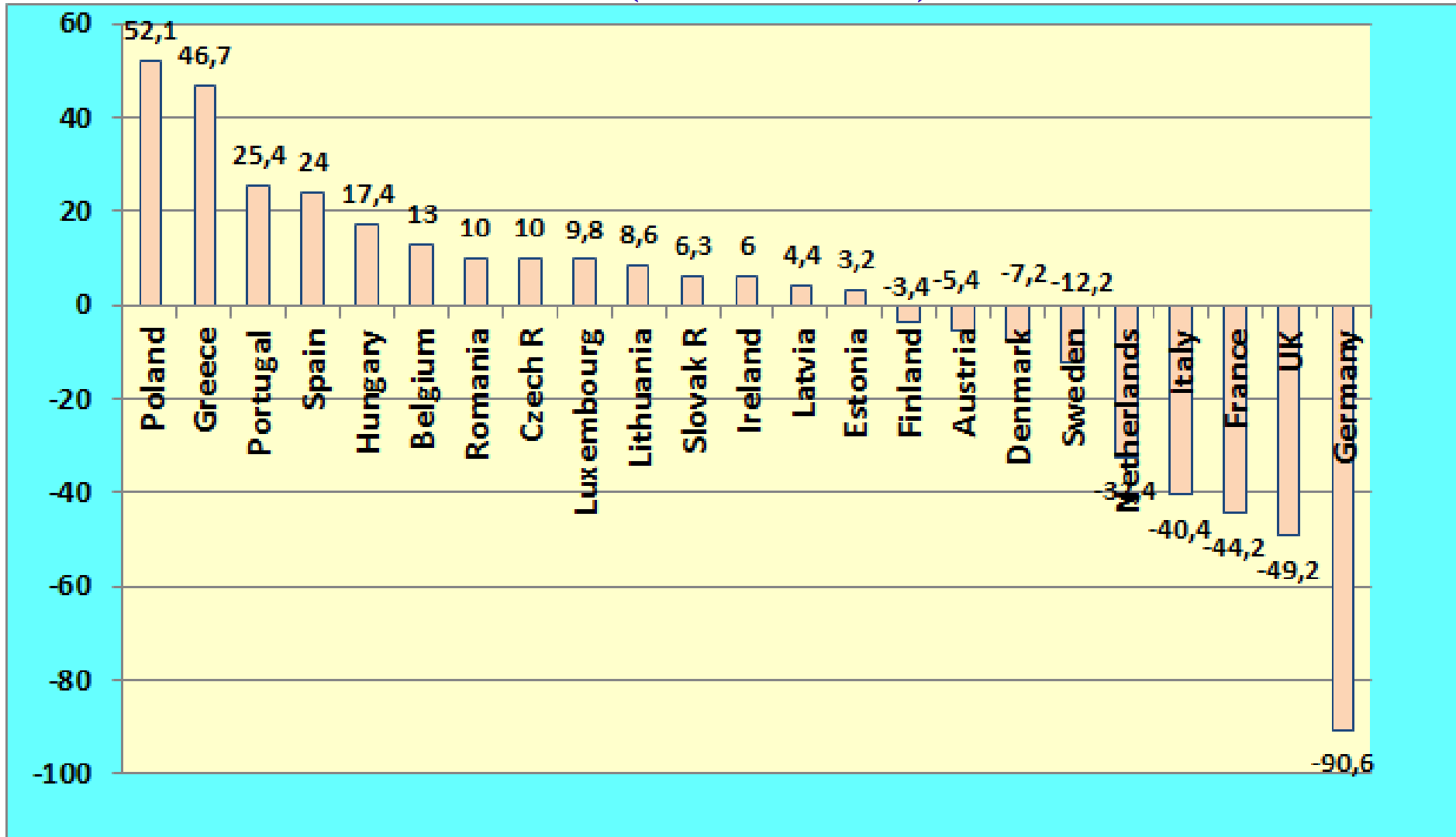


Which support channels are available?

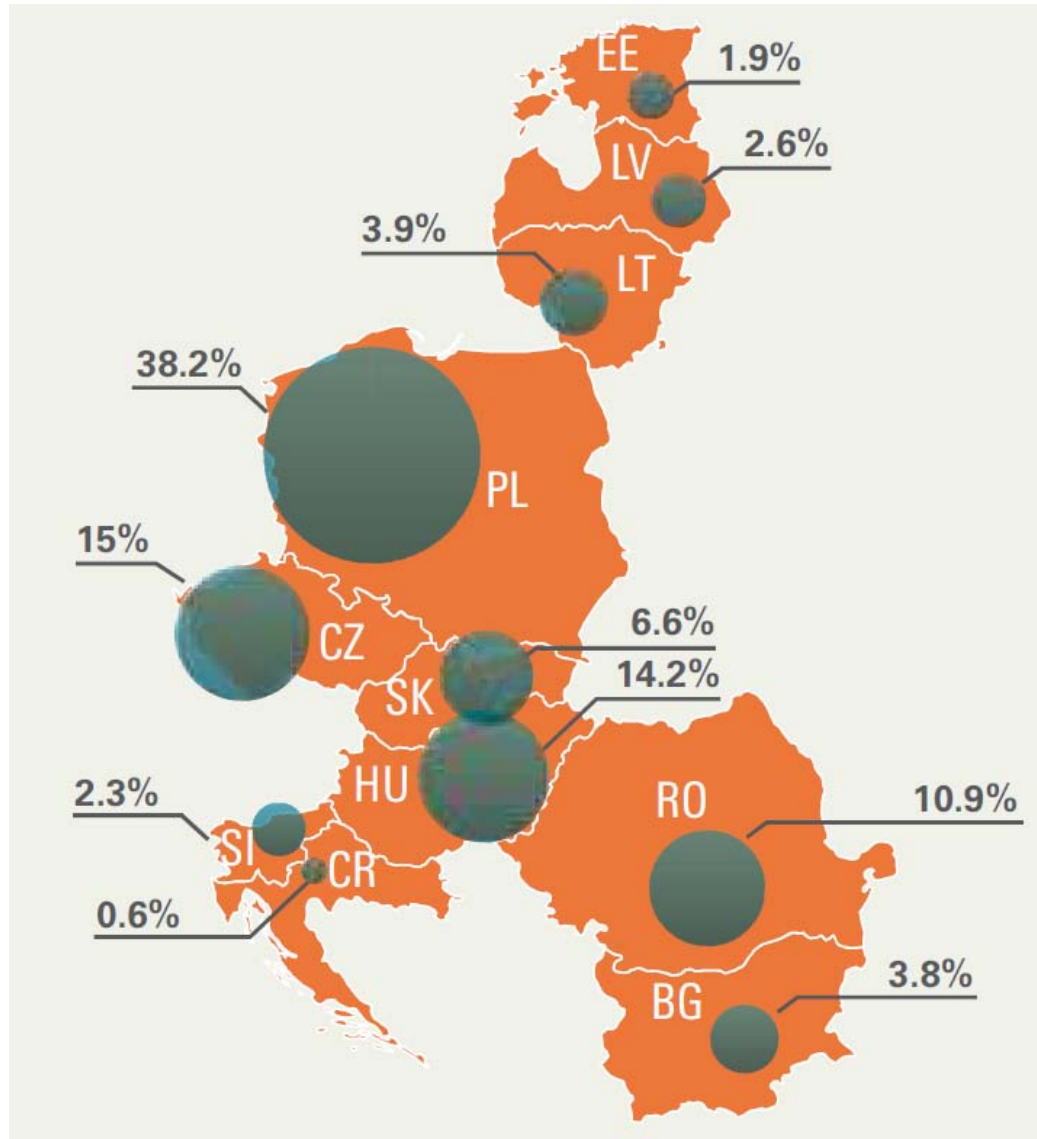
- **Structural funds of EU:**
 - **European Regional Development Fund**
 - **Cohesion Fund**
 - **European Social Fund**
- **Agricultural Funds of EU**
 - **European Agricultural Guidance and Guarantee Fund**
 - **European Agricultural Fund for Rural Development**
- **European Fisheries Fund**

Who are payers and who are receivers?

EU net budget transfers – paid and received 2004-2012 (in bn euros)

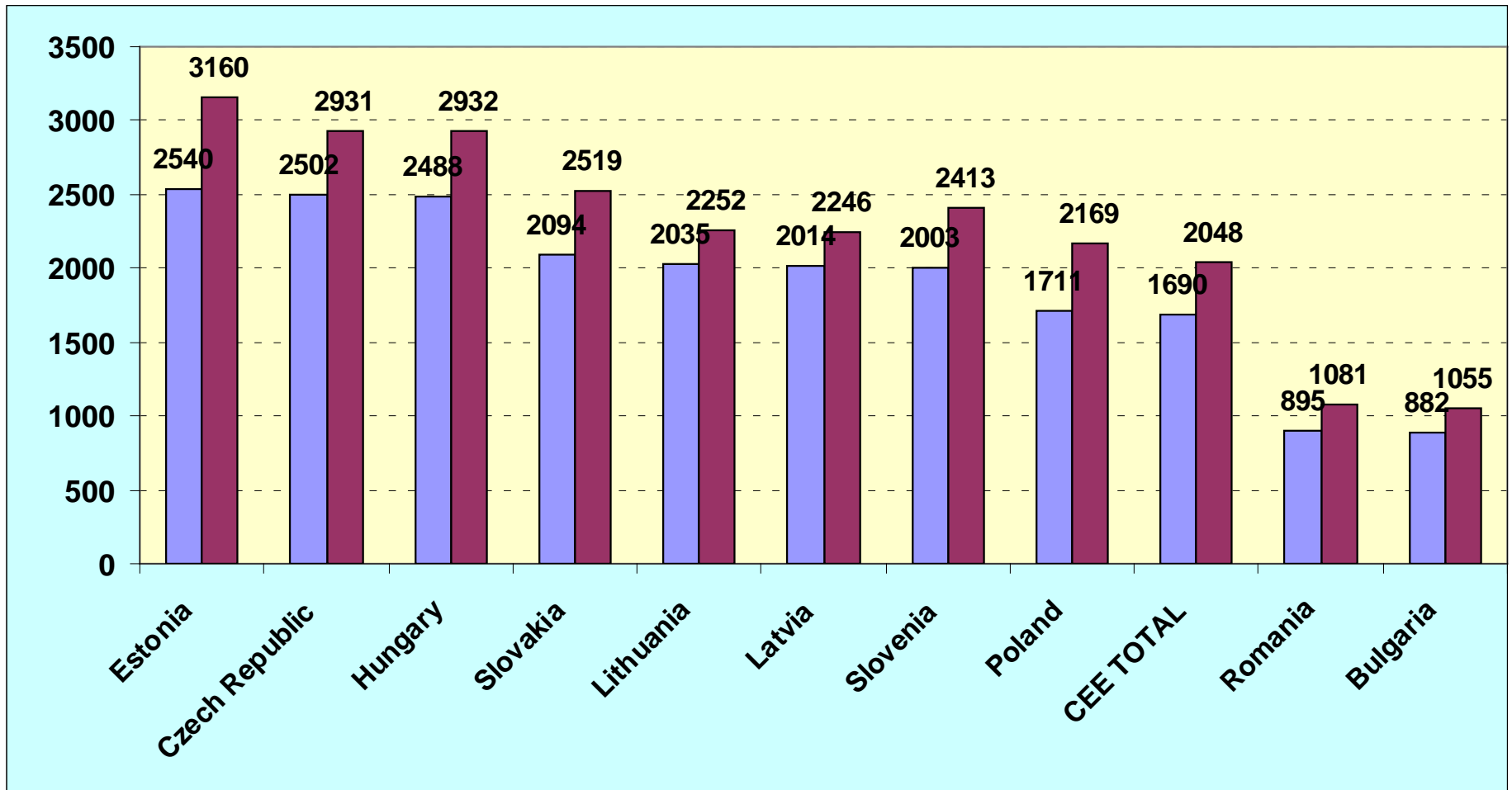


Breakdown of EU funds 2007-2013 by CEE countries

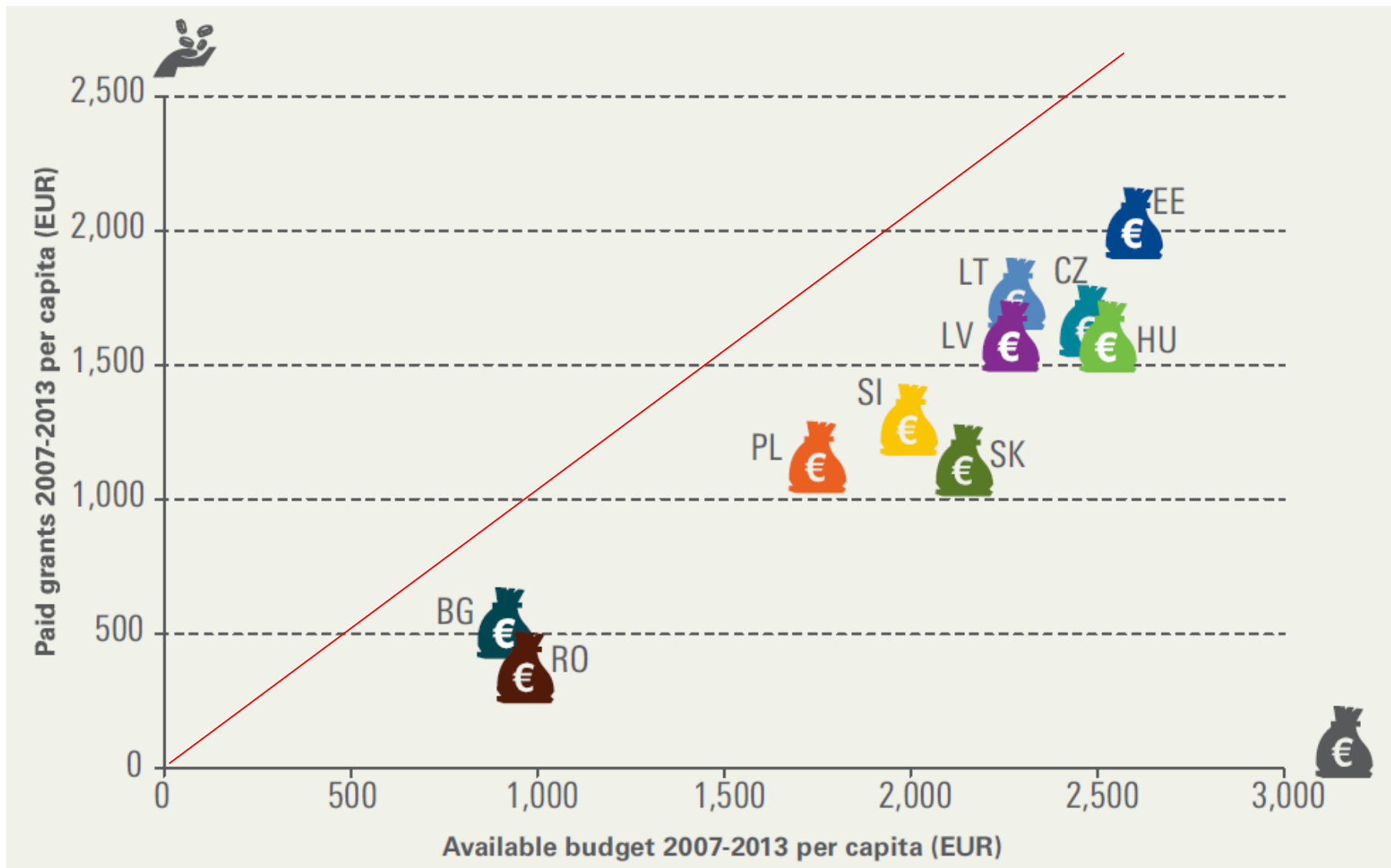


EL structural funds per capita 2007-2013 (ERDF, CF,ESF)

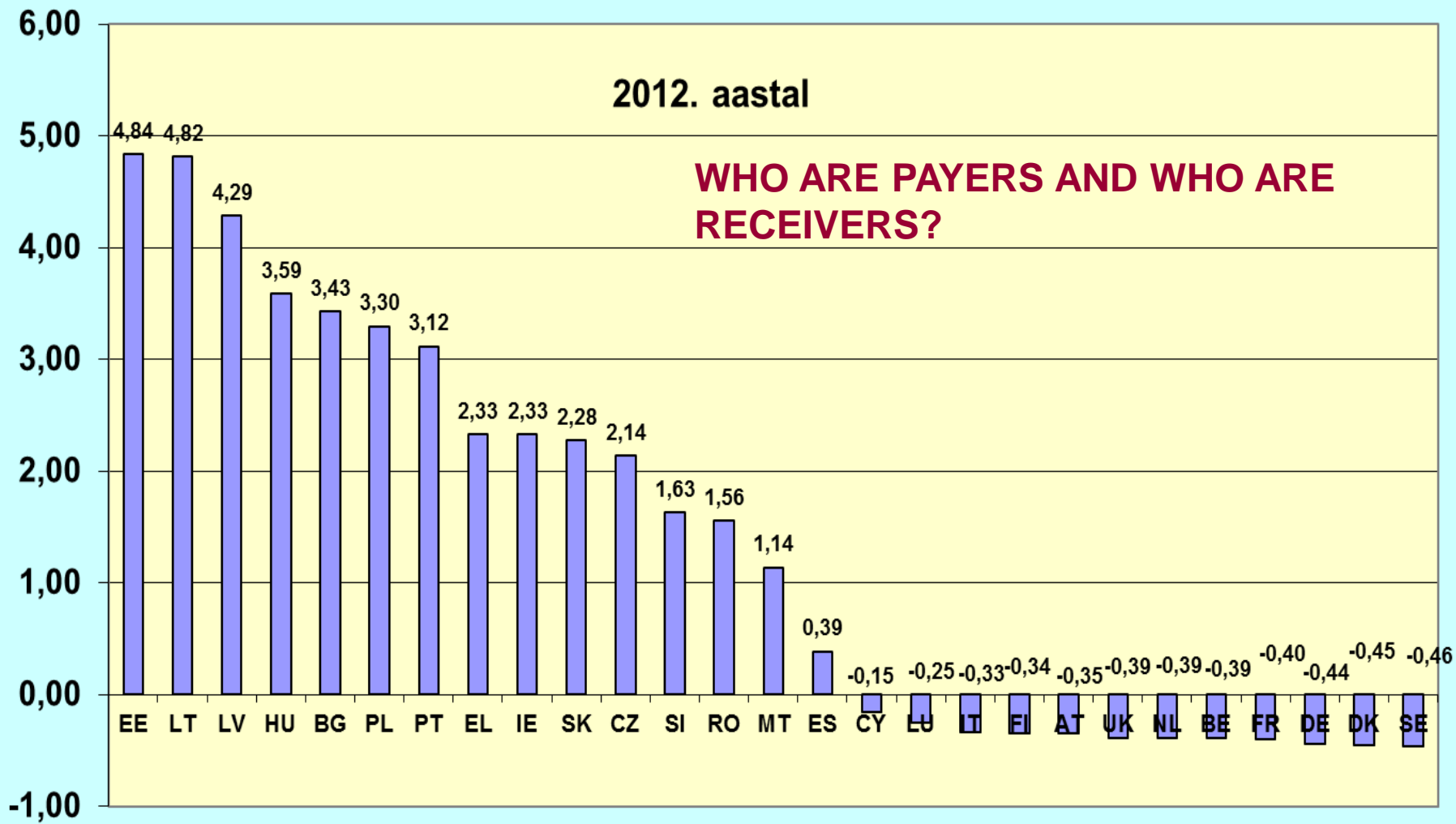
EU funds (left column) and with co-funding (right column)



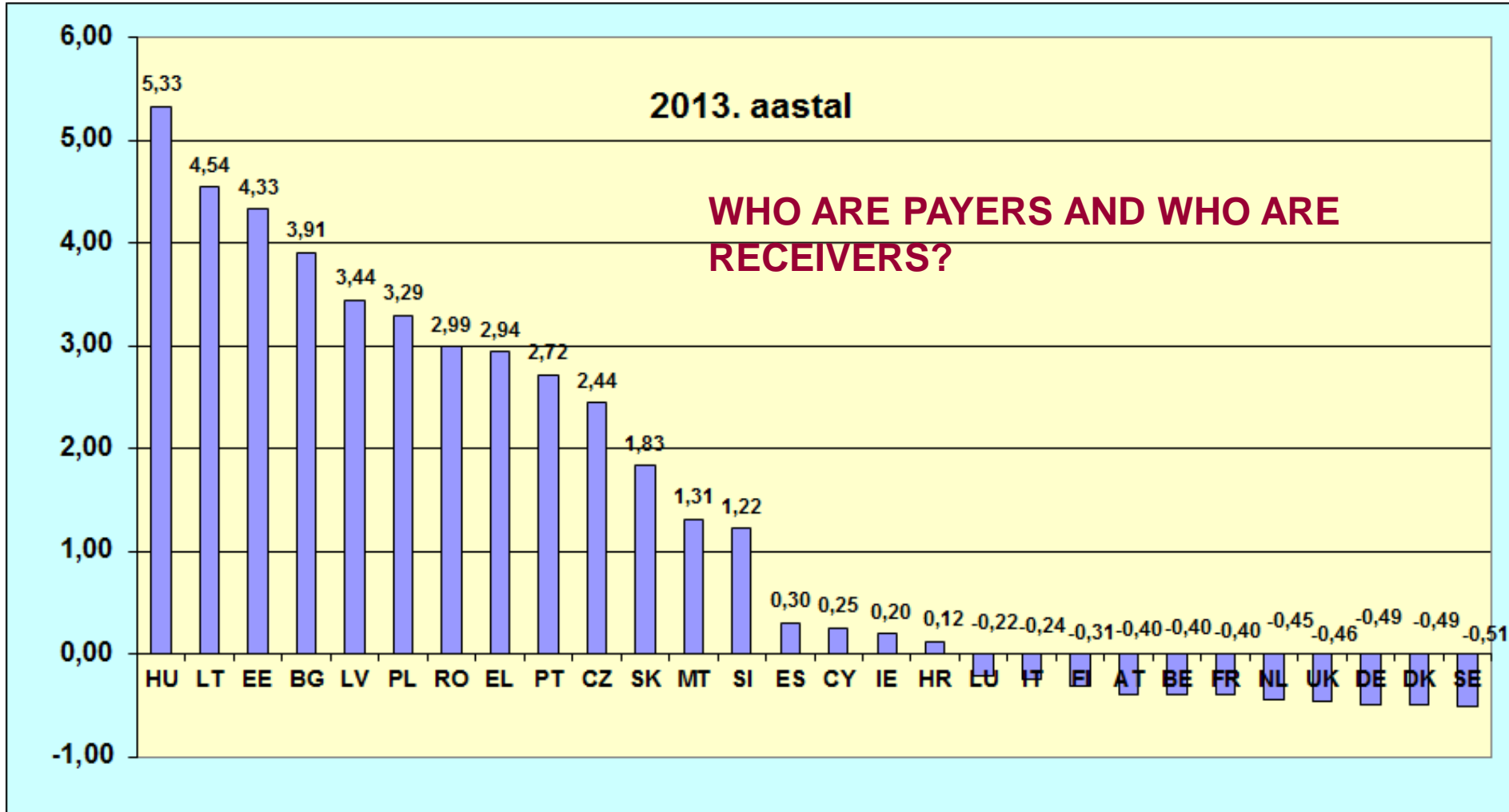
Available budget 2007-2013 per capita vs paid grants per capita



Net contribution from EU structural funds to EU member states in 2012 (in per cent from GDP)



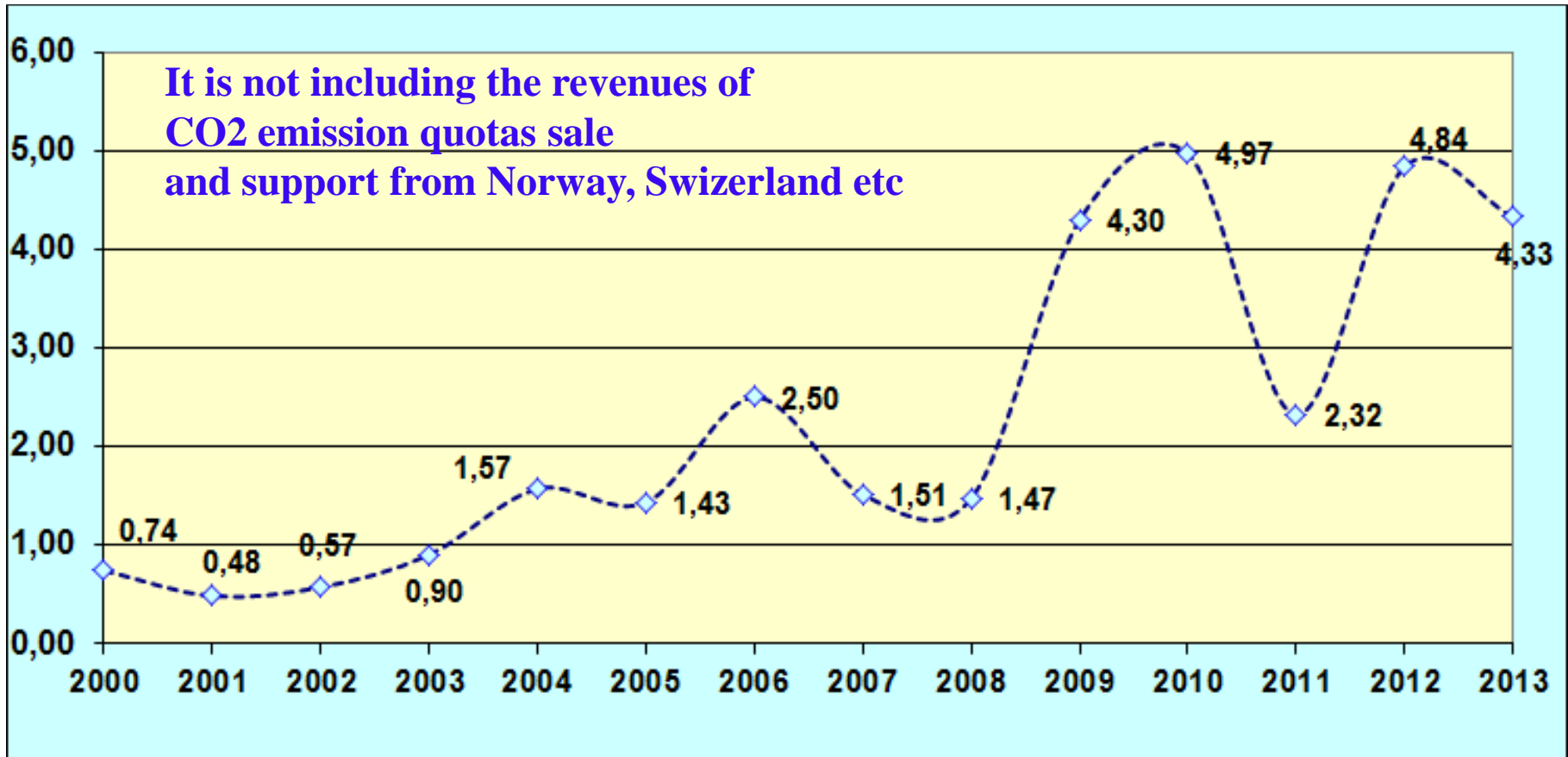
Net contribution from EU structural funds to EU member states in 2013 (in per cent from GDP)



Negative figure denotes net payer, positive net beneficiary.

Source: Calculations from the EU financial report dataset 2000-2013

Net revenue of Estonia received from the EU budget (as of GDP) between 2000-2013

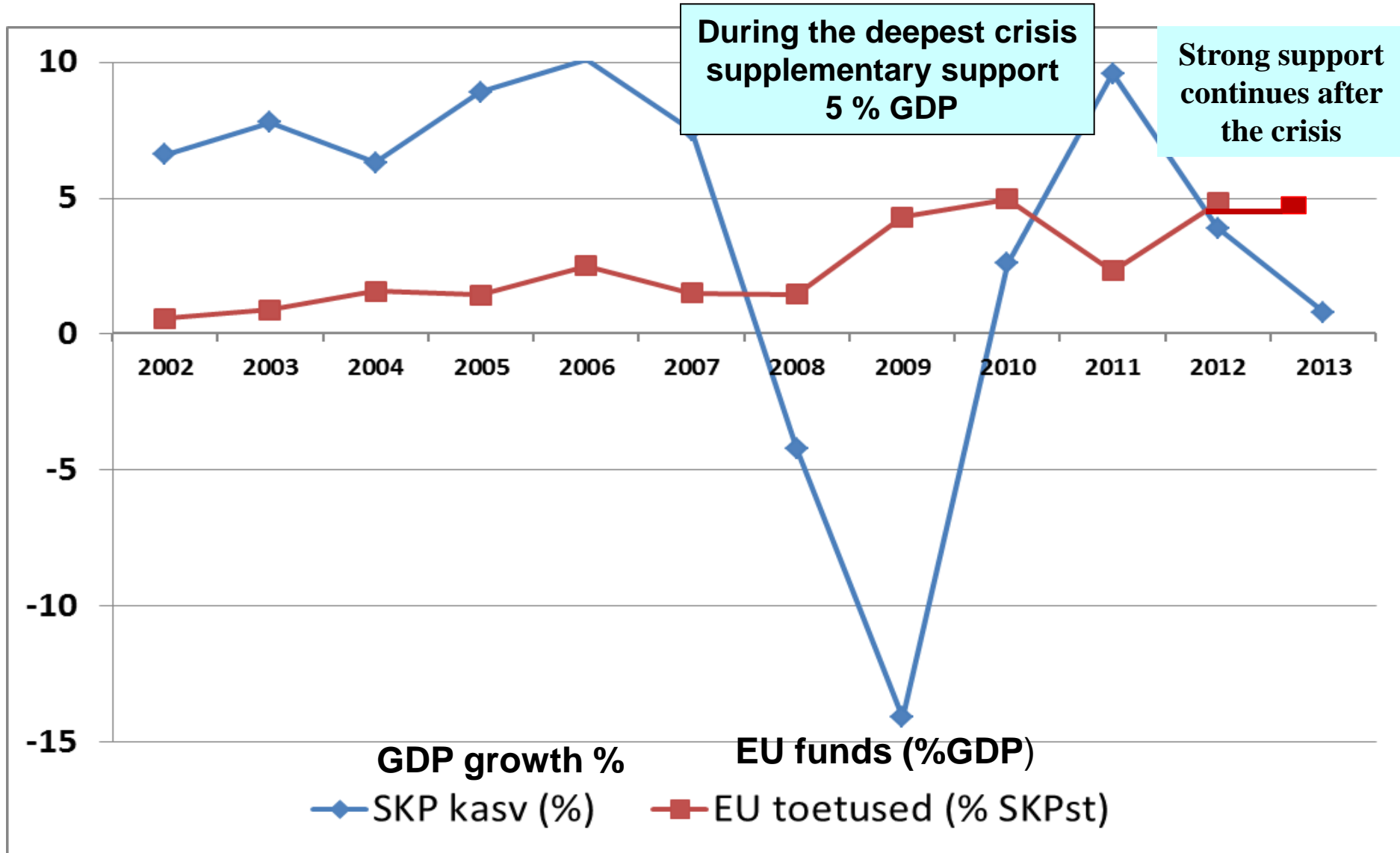


Source: EU budget data from various years

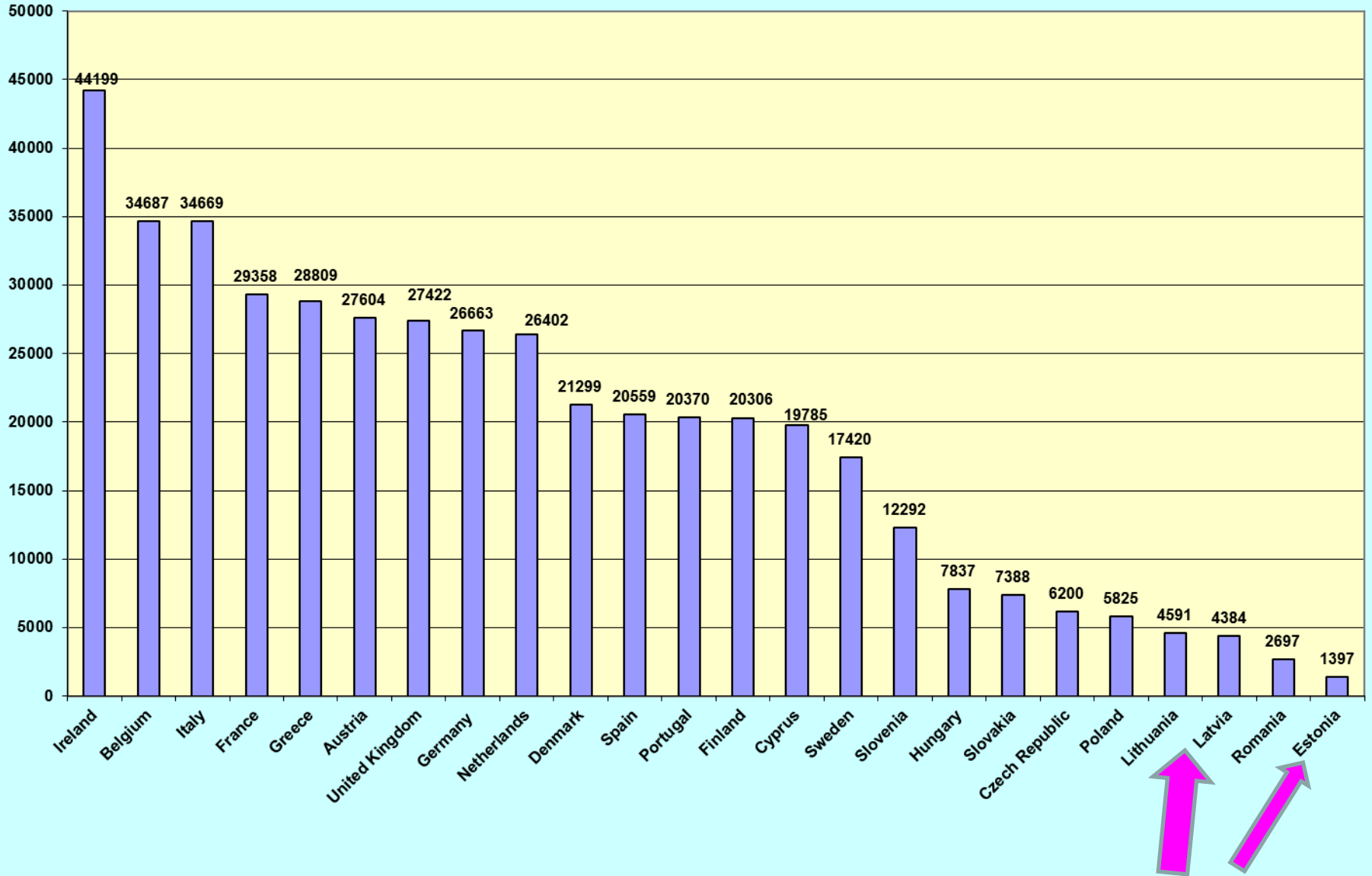
Usefulness of external support

- **Allows to maintain bigger budgets of Baltic countries without **INCREASING PUBLIC SECTOR DEFICIT****
- **During recent economic crisis – very important buffer to cover decline in budgets of Baltic countries** (E.g in 2009 decline in tax revenues of Estonia +400 mill.EUR was covered by increase of EU funds by the same amount)
- **Maintains capabilities of governments to invest** (with EU Funds financed 60-75 % of all investments)
- **Generates new jobs**
- **Represents/replaces regional policy** (rural support but also agricultural direct support)

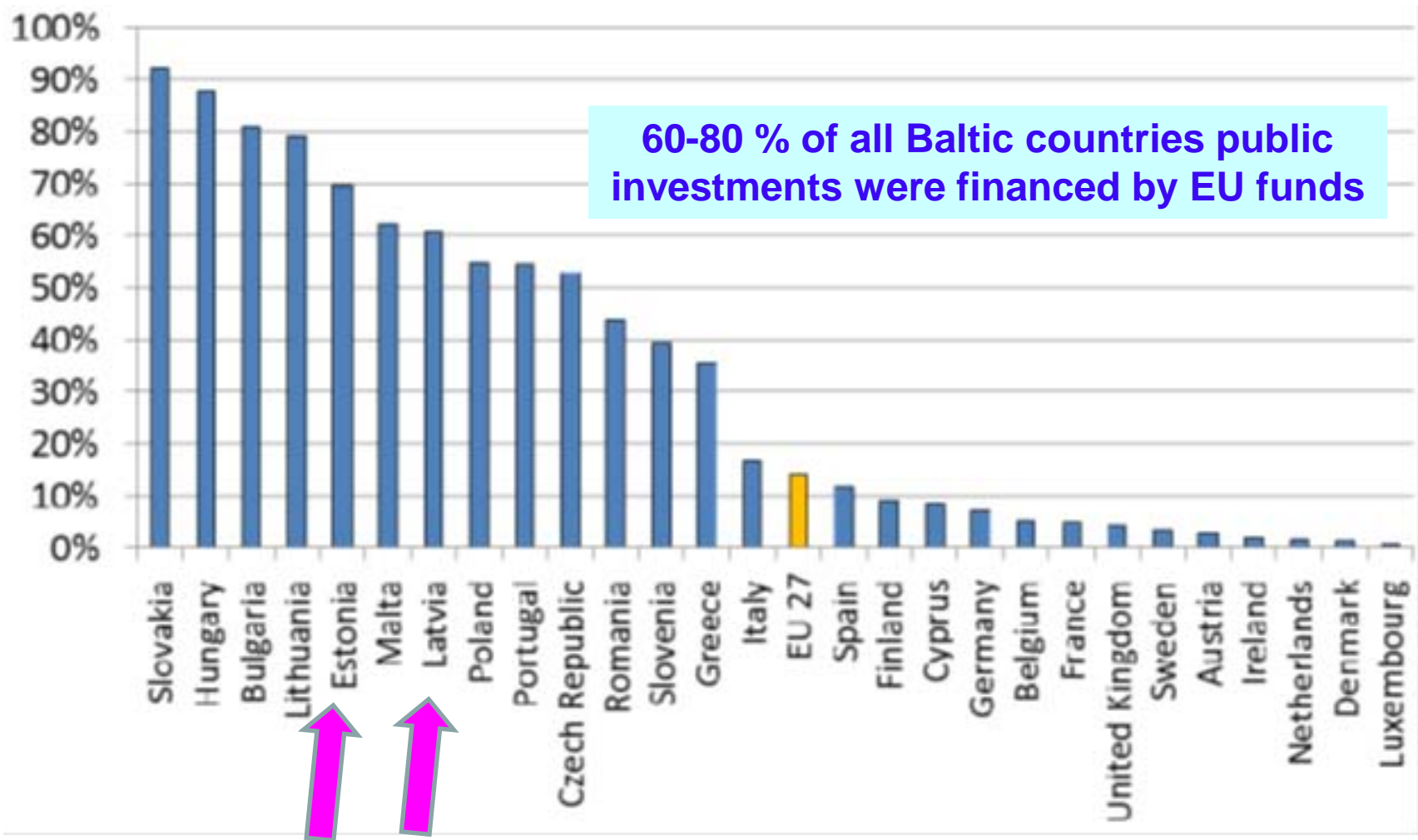
Annual GDP growth of Estonia 2002-2013 and EU net support (% of GDP per year)



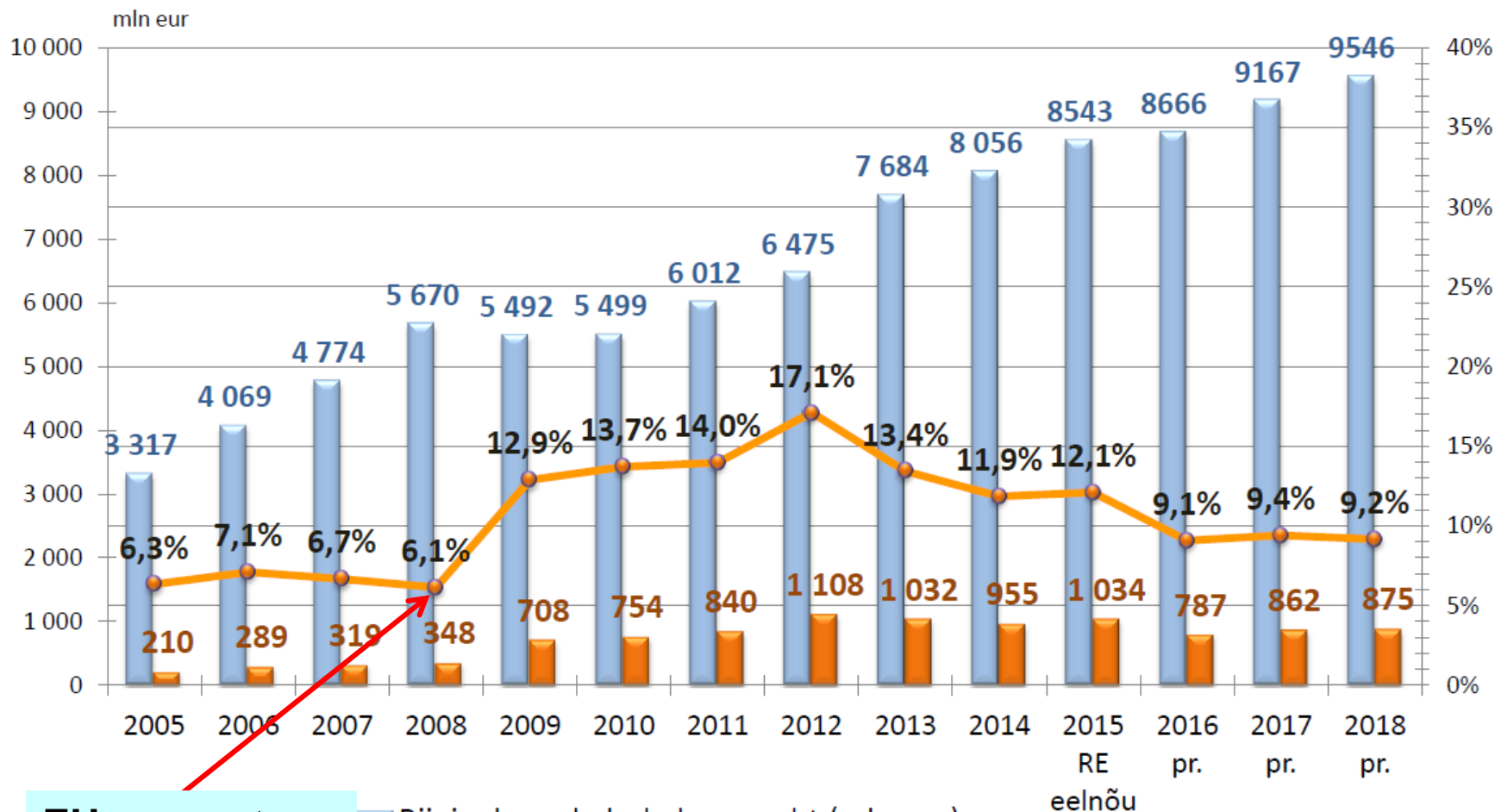
Public sector debt per capita in EU (end of 2013 in euros)



Structural funds and national co-financing as % of total public investment (average 2010-2012)



Estonian state budget and EU support 2005-2018



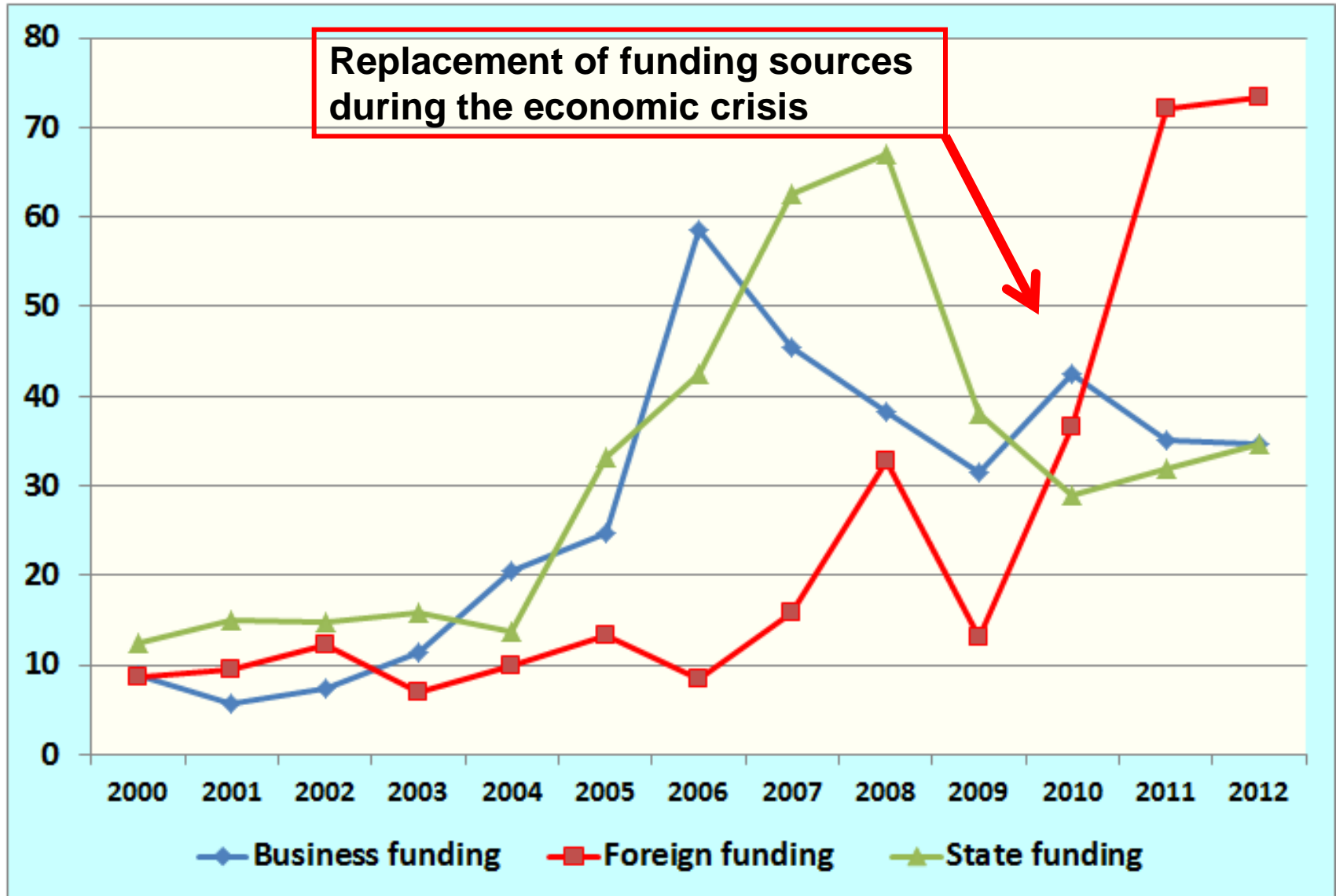
**EU support
as % of budget**

■ Riigieelarve kulude kogumaht (mln eur)

■ sh välistoetused ja CO2 vahendid (mln eur)

● Kulud, välistoetused ja CO2 vahendid, % kogumahust

Research and development expenditures of Latvia 2000-2013 by sector and financing (mill.EUR)

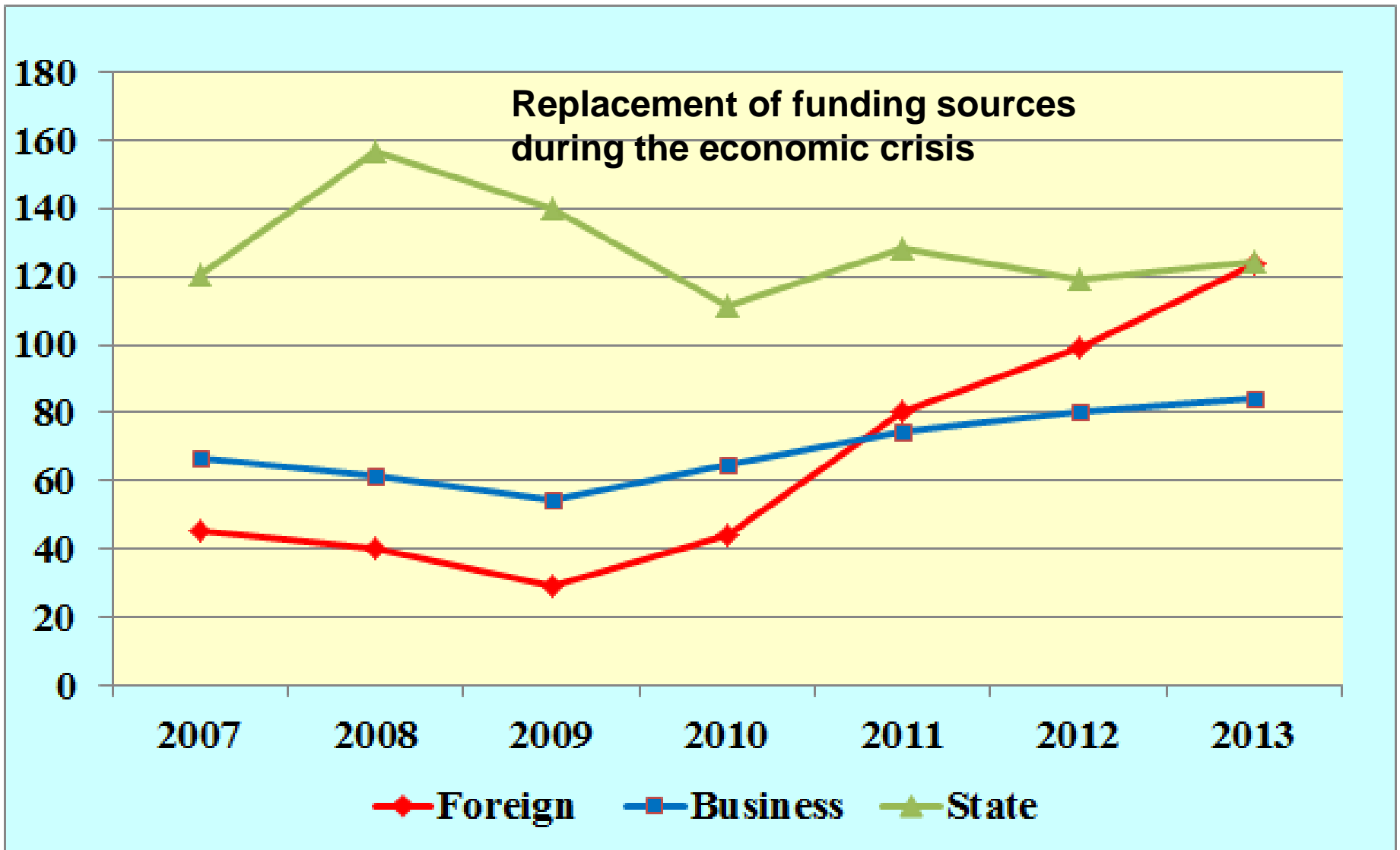


Abroad – funds received from international organisations or on the basis of international agreements, payments received from abroad

Latvian scientists look for the exit as funding situation worsens **Chemistry World**, 20.08.2013 by Mico Tatalovic

- Overreliance on EU funds.No long-term security and domestic funding to continue research once European cash runs out.
- *'There is no plan B,'* President of Latvias Science Academy prof. Sparitis tells *Chemistry World*.
- *'My heart is full of sorrow and pain due to passive, short-sighted and non-talented management of the development of all branches by our politicians.'*
- In real terms, **science funding is now less than half what it was in 2008, reaching only 0.65% of GDP in Latvia**
- *With institutes receiving only around a fifth of their running costs and EU-funded projects coming to an end hundreds of scientists now face losing their jobs.*

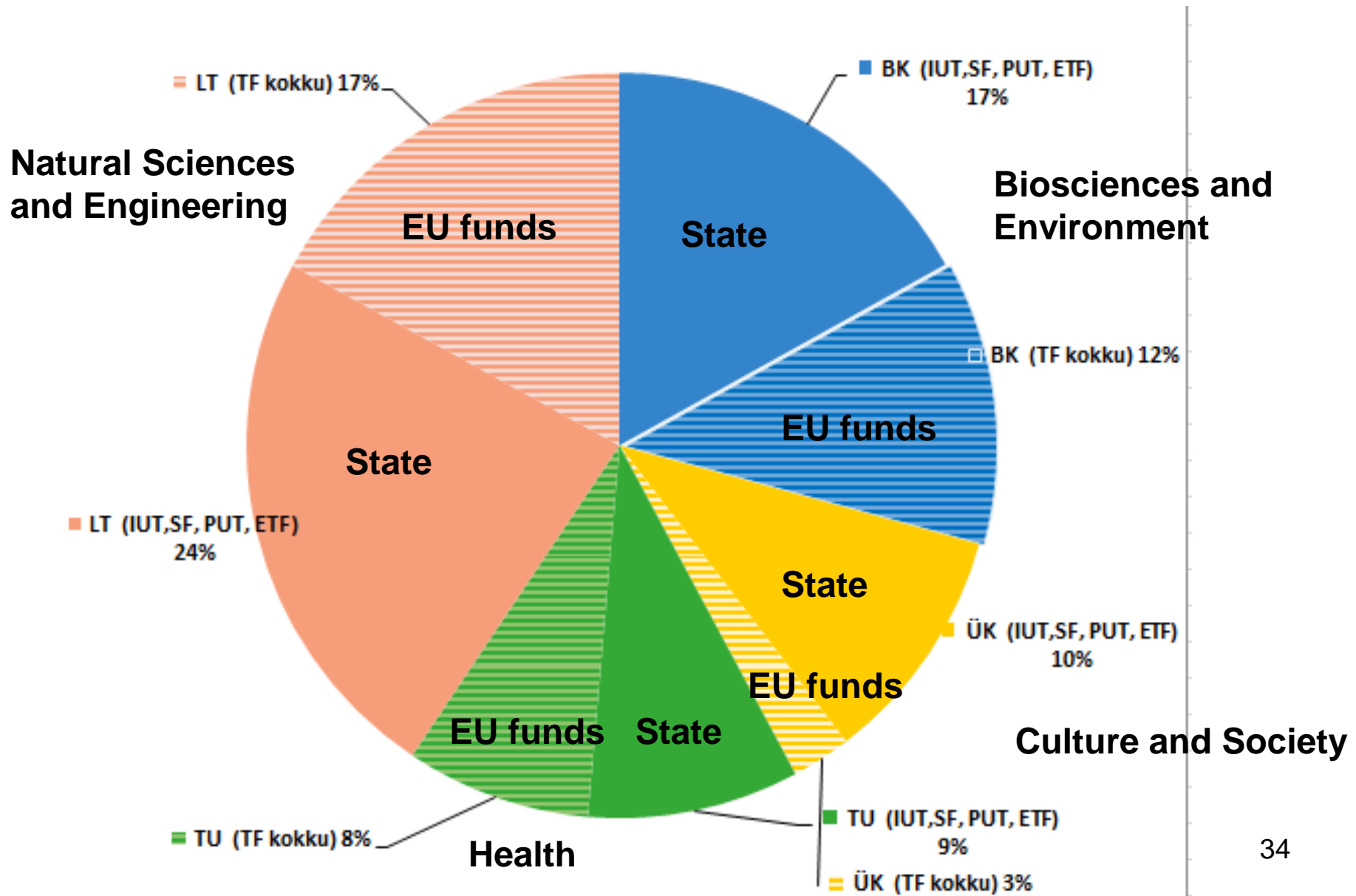
Research and development expenditures of Lithuania 2007-2013 by funding sources (mill.EUR)



Estonian research funding and EU funds

- 2008-2014 funding of research doubled (annual funding in nominal terms increased from 80 to 150 million euros) BUT
- **The share of EU structural funds increased from 12 % in 2008 up to 54% in 2014.**
- **Out of Estonian own tax revenues in 2014 was financed 68 million EUR or in nominal terms the same amount as in 2008.**
- **In real terms it is 28.6 % less, as this is the cumulative growth of CPI index between 2008-2013**

EU and state funding by fields of research in Estonia (% of all funding in 2013)



Problems related with overreliance on EU funding

- **Requires own and co-funding from Baltic countries** (problems if the project has no primary importance for the development of the beneficiary country)
- **Attracts huge amount of well educated labour** (from public sector as administering support schemes, private sector – writing applications and fulfilling bureaucracy requirements)
- **Relieves the current economic situation, allows to postpone reforms, changes in public governance**
- **Provides wrong signals to the private sector,** business plans are viable also without market demand
- **Creates funding obligations from own tax revenues for future expenditures in order to maintain and manage created infrastructure**

Average wages in organisations related with the application of EU funds (compared with Estonian average wage)

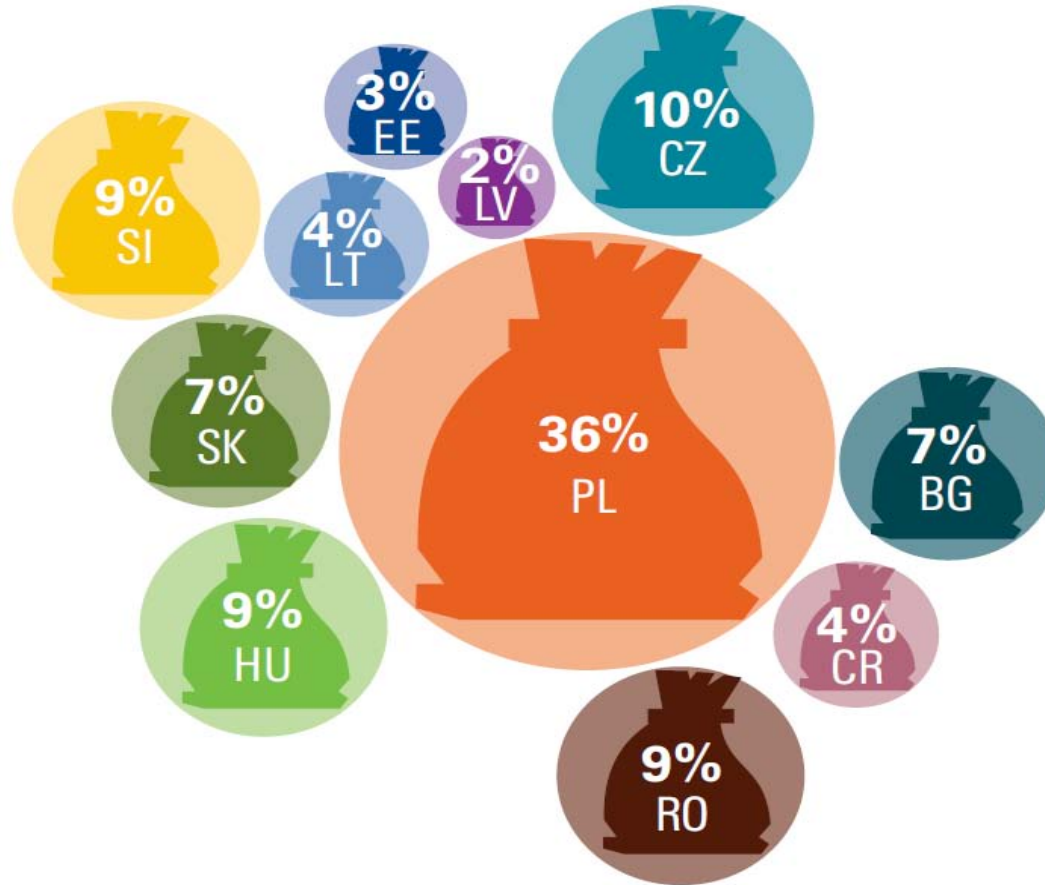
Sihtasutus	Suhe Eesti keskmisse	Täistööajale taandatud töötajate arv
Rügi Infokommunikatsiooni SA	2,2	59
SA Keskkonnainvesteeringute Keskus	2,0	91
Ettevõtluse Arendamise SA	1,8	281
Maaelu Edendamise SA	1,6	17
SA Archimedes	1,6	114
Integratsiooni ja Migratsiooni Sihtasutus Meie Inimesed	1,4	36
Elukestva Õppe Arendamise SA Innove	1,3	151
<i>Kes kvalitsuse sihtasutused ilma toetusi jagavate sihtasutusteta</i>	<i>1,4</i>	<i>8 807</i>
<i>Kes kvalitsuse ameti- ja ballatavad asutused</i>	<i>1,2</i>	<i>33 700</i>

Allikas: Rahandusministeerium, 2014.a. riigieelarve seaduse seletuskiri

What to do next?

- 1) **Acknowledge the problem– dependency on EU funds turns into addiction**
- 2) **Much better allocate and use EU funds for the period 2014-2020**
- 3) **Involvement of private sector into preparation of plans how to use EU funds – bottom up approach (e.g. Smart specialization)**
- 4) **How could own tax revenues be sufficient to finance necessary expenditures?**
 - a) **Serious analysis of governance at home**
 - b) **How to support real sector**
 - c) **Taxation policy out of taboo topic**

Breakdown of EU funds 2014-2020



**Near future –
even more EU
structural funds
available**

2007-2013

176 bn EUR

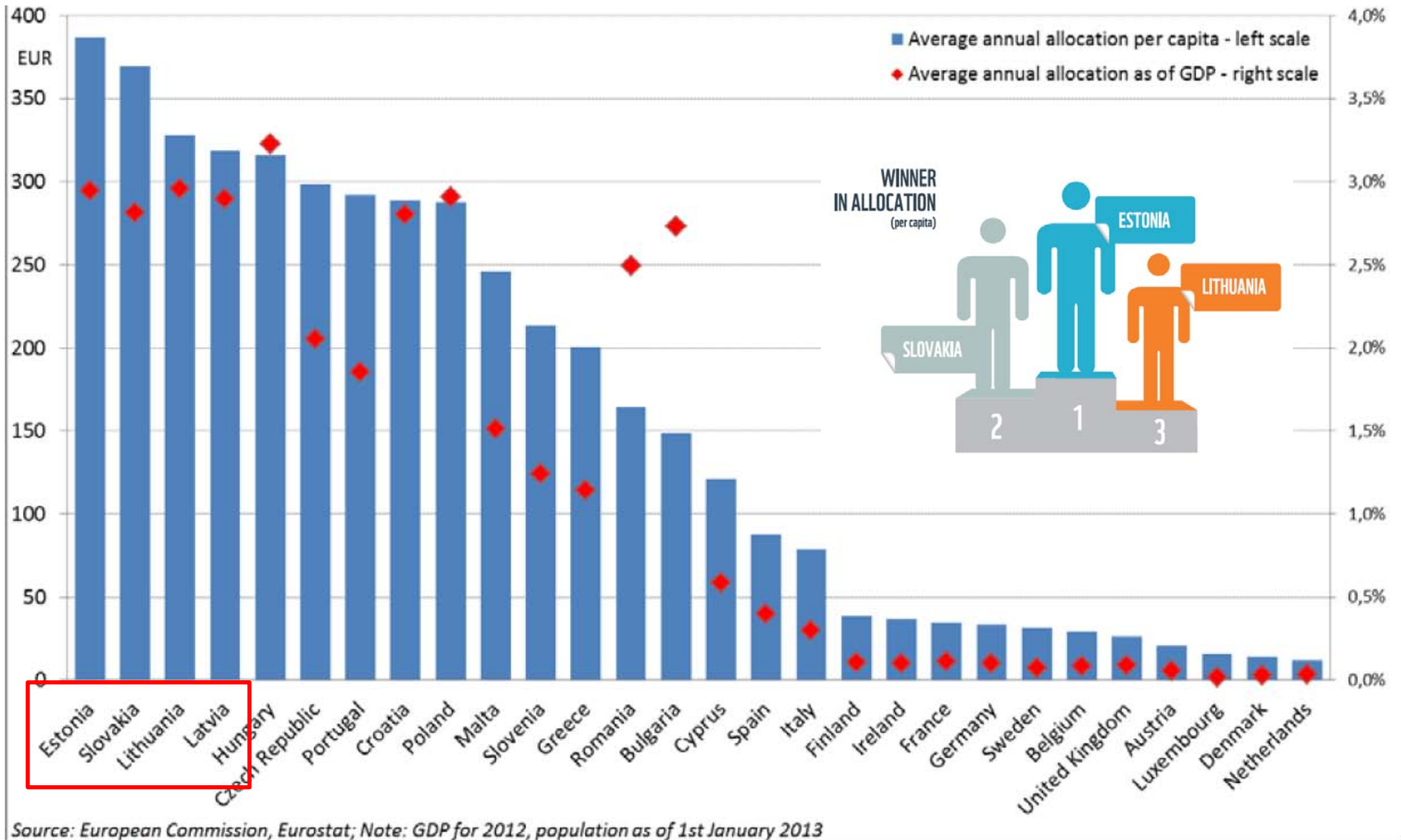
TOTAL BUDGET

2014-2020

226 bn EUR

	Bulgaria	Croatia	Czech Republic	Estonia	Hungary	Latvia	Lithuania	Poland	Romania	Slovakia	Slovenia	CEE sum	CEE average
Total Budget (in billion EUR)	15.7	8.61	21.60	5.9	21.49	4.42	8.35	82.5	21.4	15.24	20.83	226.03	20.55

Average annual allocation of EU funds in 2014-2020 – per capita and as percentage of GDP



Source: European Commission, Eurostat; Note: GDP for 2012, population as of 1st January 2013

Conclusion

- **Importance of EU funds has heavily increased and turned into addiction**
- With EU funding we are **trying to compensate insufficient ability to generate government revenues**
- **EU funds are playing dominating role as the source of investments** (in all three Baltic countries)
- **EU funding allows** to continue current economic policy and governance and **postpone any major changes**
- **Acknowledge that overreliance on EU funds is a problem**
- **EU funds should be used in order to increase ability of economy to generate income** – from 2022 investment capability without EU support

Conclusions

- **The whole scheme of using EU funds between 2014 and 2020 should be overlooked**
 - a) The problems which need to be solved are between ministries (growth of competitiveness, employment growth, innovation as the source of productivity growth ...)**
 - b) Coordination between different ministries clearly need to be improved (e.g. in Estonian case strengthen the role of the *Strategy Unit at the Government Office of Estonia*)**
 - c) Bottom up approach – use the expertise of entrepreneurs – e.g. How to use the smart specialization approach**
 - d) Clearly simplify the rules of using EU funds - could provide free time as the resource**

Conclusion

- **Increase the competitiveness of economy** – provides funding for the way out of dependency on EU structural funds

The whole support scheme of 2014-2020 should be overlooked from that prospective

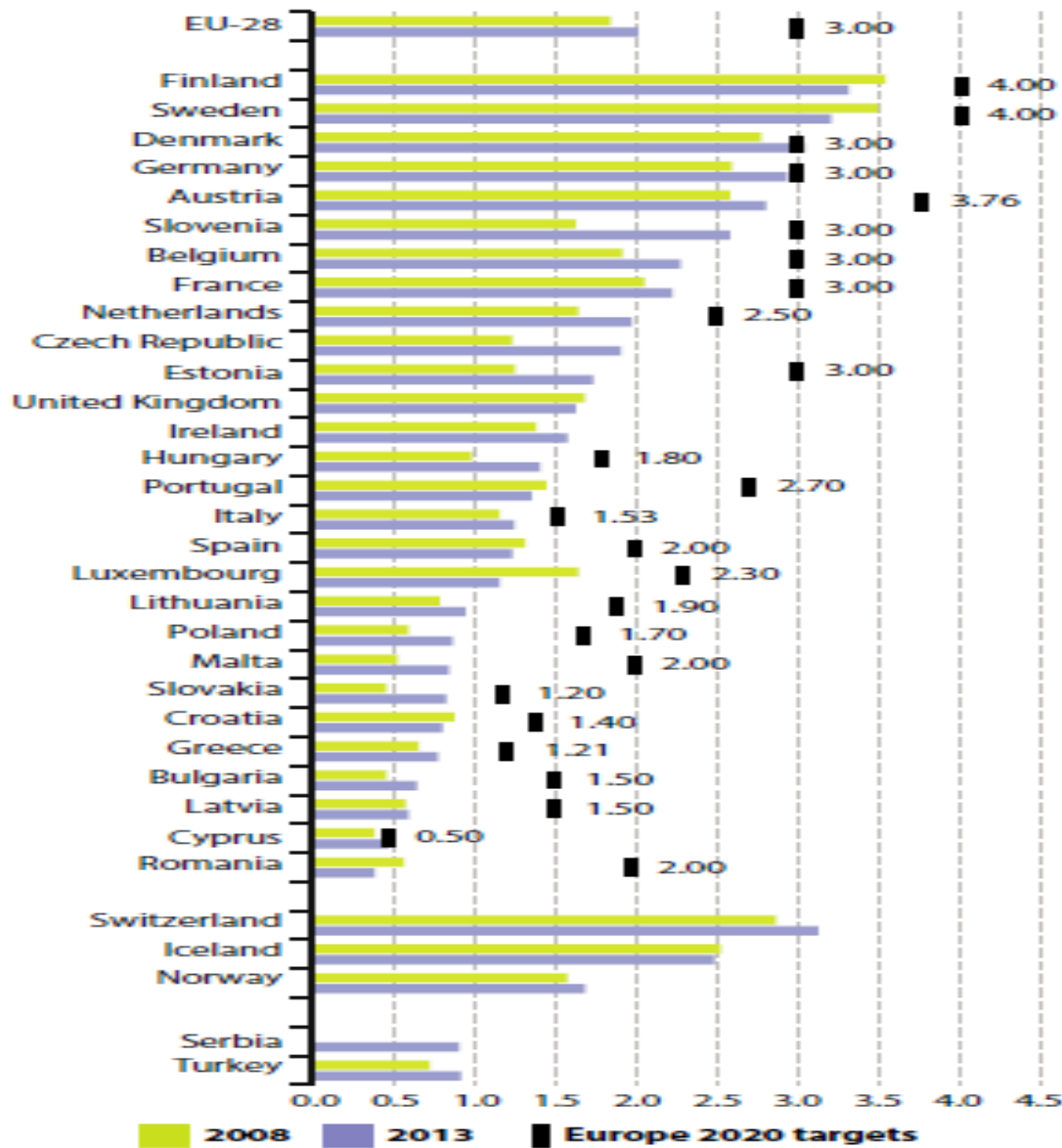
E.g. Productivity growth as the urgent problem is tackled as and abstract target without clear action plan

(According to the Competitiveness „Estonia 2020“ reach to the 80% EU average 2020 and 73% in 2015.)

Systemic approach how to increase productivity level is absent

- **Improve the governance on state and local levels**
(*e.g. capacity of the government to effectively formulate and implement sound policies*)

Strategic aims of countries to increase their R&D expenditures by 2020 and actual figures of 2008 and 2013



(*) 2011 data (instead of 2013) for IS, 2012 data (instead of 2013) for IE, CH, RS and TR; 2008 data are estimates for EL, AT, SE and UK, 2013 data are estimates or provisional for all countries except HR, HU, PL, RO, SK and FI; break in series for FR (2010) and for NL, RO, SI and IS (2011).

National targets: CZ: 1% (public sector only), IE: approximately 2% (2.5% of GNP), LU: 2.3–2.6%, PT: 2.7–3.3%, UK: no target.