

# Europeanisation of Regional and Agricultural Policy in the Czech Republic and Poland

by

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A thesis submitted in partial fulfilment of the  
requirements for the degree of

PhD in Government

The London School of Economics and Political Science

University of London

2005



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# Abstract

This thesis applies a ‘europeanisation’ perspective to the analysis of the adoption of European Union (EU) regional and agricultural policy in the Czech Republic and Poland during the pre-accession period. EU regional and agricultural policy in the pre-accession period potentially challenged both the sectoral institutional arrangements and the wider executive structure in the Czech Republic and Poland. However, the degree of prescription varied between policy sectors. Temporal factors and policy factors meant that in the regional policy cases the challenge to the executive structure was largely mediated. On the other hand, EU agricultural policy had a high level of prescription. In the case of a fundamental ‘misfit’ between the EU requirements and the domestic set-up, the research, following neo-institutional perspectives, expects limited adaptation on the sectoral and executive levels. This is the case in Polish agriculture. In the case of Czech agriculture, sectoral reform should be seen in the context of agricultural policy reform started in 1997. In regional policy, the neo-institutional perspective works less well. Here, the thesis proposes an actor-based perspective to explain sectoral adaptation. This sectoral adaptation, such as the alignment of administrative procedures, remains within the range permitted by the national executive structure. The effects can be found mostly on the sectoral level. The main effect of the EU pre-accession process on executive structure is the institutional enhancement of certain national executive actors. Only, the Polish case shows an unexpected change of the executive structure. This change can be explained by endogenous reform of the institutional configuration. This research makes two main contributions to the literature. First, it is one of the first studies to apply systematically a ‘europeanisation’ perspective to the Eastern enlargement. Secondly, empirical evidence on East and Central Europe, based on the ‘europeanisation’ perspective, has been limited. In this way, the thesis will contribute to extending ‘europeanisation East’ and hope to produce a better conceptualisation of the EU pre-accession process and domestic factors mediating the impact of the EU.



# Acknowledgments

I would like to acknowledge the contribution of several people and bodies to this work. Starting at the London School of Economics and Political Science, first and foremost, I would like to thank my supervisor, Dr. Vesselin Dimitrov, for his constant availability, support, sharp insights, and editing of the work. I am very grateful for his involvement, which often went beyond the mere call of duty. Dr. Klaus Goetz provided me with some exciting ways of looking at theory and helped me considerably in advancing my understanding of ‘europeanisation’ and extending it East. Klaus, especially, set me straight at the end of my second year, a painful but necessary experience. I am also grateful for workshop comments made by Dr. Sebastian Balfour, Dr. Bob Hancke, and Dr. Abby Innes as well as many colleagues who took part in these sessions. I am sure my work was not always up to standard, but discussants always patiently tried to decipher the meaning of my work. I also owe thanks to Dr. Simon Hix whose encouragements to be ambitious, bold, and expansive always excited me about what I was doing. Simon also sent me to Leiden for a seminar series where I learnt some tricks of the trade from Dr. Christoph Knill, Professor Kenneth Dyson, and Professor Guy Peters among others. Further, the crowd of L50/56 provided a lasting source of comic relief, IT help, tennis matches, and academic feedback. I also want to thank my students in GV246, who I set out to teach East European politics but who ended giving me a valuable life experience. Any deficiencies, inaccuracies, or spelling mistakes in this work are completely my own.

I also want to acknowledge the help of various sponsors. The Central Research Fund of the University of London gave me a travel grant which enabled me to do fieldwork in Poland and the Czech Republic. The Postgraduate Travel Grant at the London School of Economics gave me grants to attend several conferences. The Department of Government provided me with two Research Studentships, which lessened the burden of tuition fees and costs of life in London. On this note, I would like to also acknowledge the patience and support of my part-time employers over these five years, in particular Henry Holterman.

On a personal note, I want to thank those officials who took time to sit down for interviews and discussions. Aside from walking me through European and domestic

processes, some went considerably beyond what I could have reasonably expected. I am especially grateful to the Office of the Committee for European Integration in Poland, the Centre for Foreign Aid and the SAPARD Agency in the Czech Republic. There are too many names to mention.

Closer to home, I want to thank my parents for their love and support over these years. I cannot begin to thank you for all you have done for me in my life. You remain shining examples to me. I also want to thank my wider family and my friends, both in the United States and in Europe, for their support and friendship. Most importantly, I want to thank Mary for always being there for me, loving me, and believing in me. You are the bedrock of my life. I could not have done this research without you.

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## **Selected Acronyms**

AMA: Agricultural Market Agency

APA: Agricultural Property Agency

ARMA: Agency for Restructuring and Modernisation of Agriculture

AWS (Polish): Solidarity Electoral Action

BDA: Business Development Agency

CAP: Common Agricultural Policy

CBC: Cross Border Cooperation

CEE: Central and Eastern Europe

CEEC: Central and Eastern European Country

CEI: Committee for European Integration

CFA: Centre for Foreign Aid

CFCU: Central Finance and Contracting Unit

CP: Compensatory Payments

CPO: Central Planning Office

CRD: Centre for Regional Development

CSF: Community Support Framework

CSSD (Czech): Czech Social Democratic Party

DG: Directorate General

DIS: Decentralised Implementation System

EAGGF: European Agricultural Guidance and Guarantee Fund

EC: European Commission

ECA: European Court of Auditors

EDIS: Extended Decentralised Implementation System

ERDF: European Regional Development Fund

ESC: Economic and Social Cohesion

ESF: European Social Fund

EU: European Union

FAPA: Foundation for the Assistance Programme for Agriculture

GCEI: Government Committee for European Integration

**GDP:** Gross Domestic Product  
**IACS:** Internal Accounting and Control System  
**IDA:** Industrial Development Agency  
**IMF:** International Monetary Fund  
**ISPA:** Instrument for Structural Policy Adjustment/Instrument for Structural Policies  
 for Pre-accession  
**JMC:** Joint Monitoring Committee  
**KCSM (Czech):** Communist Party of Bohemia and Moravia  
**KDS (Czech):** Christian Democratic Party  
**KDU/CSL (Czech):** Christian and Democratic Union/Czechoslovak People's Party  
**KERM (Polish):** Economic Committee of Council of Ministers  
**LPR (Polish):** League of Polish Families  
**NAC:** National Aid Coordinator  
**NAO:** National Authorising Officer  
**NDP:** National Development Plan  
**NFEP:** National Fund for Environmental Protection  
**NIC:** National ISPA Coordinator  
**NPAA:** National Programme for the Adoption of the Acquis  
**NPPME:** National Programme for the Preparation of Membership in the EU  
**NROS (Czech):** Independent Foundation for the Development of Civil Society  
**NSI:** National Strategy for Integration  
**NSRD:** National Strategy for Regional Development  
**NTF:** National Training Fund  
**NUTS (French):** Nomenclature des Unités Territoriales Statistiques  
**OCEI [UKIE]:** Office of the Committee of European Integration  
**ODA (Czech):** Civic Democratic Alliance  
**ODS (Czech):** Civic-Democratic Party  
**PAED:** Polish Agency for Enterprise Development  
**PAO:** Programme Authorising Officers  
**PAR:** Public Administration Reform  
**PARR (Polish):** Polish Agency for Regional Development  
**PHARE:** Poland and Hungary Assistance to Economic Restructuring (from French)  
**PIS (Polish):** Law and Justice  
**PMU:** Programme Management Unit

PO (Polish): Civic Platform  
PSE: Producer Subsidy Equivalent  
PSL (Polish): Polish Peasant Party  
RDA: Regional Development Agency  
RFI: Regional Finance Institution  
ROP: Regional Operational Programme  
SAIF: State Agricultural Intervention Fund  
SAPARD: Special Accession Programme for Agriculture and Rural Development  
SAO: Sectoral Authorising Officer  
SEF: State Environmental Fund  
SFMR: State Fund for Market Regulation  
SGFFF: Support Guarantee Fund for Farmers and Forestry  
SLD (Polish): Democratic Left  
SME: Small to Medium Size Enterprises  
SOP: Sectoral Operational Programme  
SPO: Senior Programming Officer  
SPP: Special Preparatory Programme  
TAIEX: Technical Assistance Information Exchange  
TINA: Transport Infrastructure Needs Assessment  
TRDI: Temporary Rural Development Instrument  
UP (Polish): Labour Union  
US (Czech): Freedom Union  
UW (Polish): Freedom Union  
WB: World Bank  
WCICREU: Working Committee for the Integration of the Czech Republic in the European Union  
WTO: World Trade Organisation

## Exchange Rates

In 2003 prices indicative

100 Czech Koruna: 2 British Pounds

100 Czech Koruna: 3 EURO

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1 Polish Zloty: 0.15 British Pounds

1 Polish Zloty: 0.22 EURO

1 British Pound: 1.45 EURO

## **Chapter 1: Introduction**

The question this research poses is how domestic administrations in the post-communist candidate countries are shaped by the European pre-accession process.

The research will look at how the administrative requirements of specific European Union (EU) policies affect both the macro-institutional configuration or the national executive structure and the sectoral institutional arrangements that govern the management of sectoral policy. The first issue is how to place the question in the existing literature looking at the impact of the EU in the candidate countries.

Secondly, one has to operationalise the analysis. Finally, it is important to outline the choice of policies, countries, and time periods in the comparative framework.

### **1. The Analysis as ‘Europeanisation’**

First, a distinction needs to be made between enlargement studies and those studies analysing the domestic impact of EU accession. Enlargement literature focuses on the decision to enlarge, enlargement preferences in the member-states and EU institutions, and the consequences of enlargement for EU institutions and policies (see Schimmelfennig and Sedelmeier 2002b). In this literature, the domestic level has been mainly discussed in how it informed the shaping of the EU pre-accession process (see for instance Lippert et al 2001).

The analysis of the domestic impact of EU accession in the post-communist candidate countries shows three main approaches: 1. an approach that sees enlargement as part of transition (see Mattli and Plumper 2004); 2. an approach that focuses on institutional weakness in the candidate countries (see Goetz 2002a); and 3. conditionality views (see Grabbe 2003). All these approaches have particular weaknesses and limitations. First, transition literature by definition is temporally confined to a certain period. For the first-wave candidate countries, it can be argued that ‘europeanisation’ falls outside the period of transition. For these countries most institutional choices have been made before the intensification of relations with the EU in the period of 1996 to 1997. Further, the transition perspective sees Europe as a

context that enables domestic reform. This ‘enabling constraint’ view has been criticised, as domestic contestation on EU membership has increased in light of the costs of membership close to accession. Secondly, the assumption of institutional weakness might not be a helpful generalisation on the level of institutional development in the post-communist candidate countries. Concepts, such as the absence of administrative capacity and institutional voids, might be inaccurate depictions of the true core executive and sectoral institutional configurations. The research rather stresses the ‘difference’ or ‘specificity’ of the institutional configuration in these candidate countries. Third, conditionality research by its own admission produces shallow and short-term effects linked to mediating factors such as uncertainty. Such studies seem indeterminate and negative in showing what the possible impact of the EU in the post-communist candidate countries might be.

By focusing on the ‘specificity’ of the institutional configuration rather than ‘institutional weakness’ in the post-communist candidate countries, it seems logical to use ‘europeanisation’ literature.

## **2. Operationalising ‘Europeanisation’**

In research design, the thesis adopts the empirical questions set out by Dyson and Goetz (2003) in their volume on ‘europeanisation’, which are similar to those posed by Featherstone and Radaelli (2003). These questions have five dimensions: 1. the ‘what’ question or what form has ‘europeanisation’ taken; 2. the ‘who’ question or who are the domestic and EU actors affected by or shaping the pre-accession process; 3. the ‘how’ question or what are the mechanisms of ‘europeanisation’; 4. the ‘when’ question or whether we can distinguish different stages in the ‘europeanisation’ dynamic in the given countries; and 5. the ‘why’ question or what are the causal triggers of ‘europeanisation’.

On the ‘what’ question, it is necessary to distinguish between general and specific forms of ‘europeanisation’. On a general level in a comparative context, the research looks at ‘convergence’ and ‘divergence’ in the administrative organisation between countries and policy sectors. However, this kind of analysis on the impact of Europe

has often been criticised for not being specific enough (see for instance Knill 2001, p. 12). This specificity refers to establishing the degree of change. 'Degreeism' here exists for both the level and magnitude of change associated with 'europeanisation'. On a more specific level, 'europeanisation' studies should try to establish whether interaction with EU policy and administrative requirements has led to domestic accommodation, absorption, transformation or retrenchment (see Borzel and Risse 2003 for this categorisation). Further, looking at the magnitude of institutional change, one could ask whether the change was in the institutional set-up of the executive in the candidate countries or whether it was more sectoral or marginal.

The second question refers to 'who' is involved with this interaction on the domestic and European levels. This research looks at two levels of domestic administrative actor: 1. the national executive level, which includes administrative actors such as the Prime Minister, the Council of Ministers, the line ministries and the central implementation agencies; 2. the sectoral and regional level, which includes the regions, regional development agencies, interest groups, sectoral agencies and sectoral beneficiaries. The next question is how to conceptualise actor behaviour. The research observes that administrative actors 'instrumentalise' Europe in the way the association with European policy coordination and implementation affects their institutional position. In a positive way, domestic actors, dependent on their institutional allocation of resources and competences (capacity), will attempt to enhance their institutional position. In a negative way when the EU signifies a domestic redistribution of resources and competences, domestic actors will attempt to resist or maintain their institutional position (for this point on agency behaviour in the Czech Republic see interview with Howard Harding: Prague, April 26 2002). This instrumental view (see also Sharf 1997, p. 64-65) counters both the 'constructivist' view on enlargement and the 'cognitive exchange' view'.

Secondly, this research, in chapter 4, looks at the way EU actors shape the pre-accession template. Though the thesis is not concerned with the development of EU institutions, the interaction between EU actors affects the process of 'europeanisation' in the candidate countries in terms of the management of the pre-accession process, the building and the continuity of the pre-accession templates, and the role in the management of the new member-states after accession. These processes reflect on the



role of the member-states in reforming EU institutions and leading the negotiations with the candidate countries and the role of the European Commission in managing the pre-accession process and influencing internal institutional reform.

The ‘how’ question refers to the mechanisms of ‘europeanisation’. It seems obvious ‘europeanisation’ in the post-communist candidate countries has to first and foremost be conceptualised as a hierarchical ‘top-down’ process based on the asymmetry of power between the EU and the candidate countries in the pre-accession period. The main mechanism of ‘europeanisation’ is the ‘downloading’ of EU templates. The institutional set-ups of the national executive and policy sectors are important in this analysis, as they will determine the ‘misfit’ with EU administrative and policy templates. This ‘misfit’ produces adaptive pressure at the domestic level (see also Borzel and Risse 2003). However, the administrative requirements also vary between the policy sectors in specificity and over time in the pre-accession period. This observation means that domestic actors can have discretion to shape the administrative outcomes in the domestic arena. Discretion tends to be higher for administrative requirements than policy requirements.

The ‘when’ question is particularly relevant in the pre-accession period. For the candidate countries, one cannot assume the presence of interaction at all points in time. The publication of ‘Agenda 2000’ in 1996 can be seen as the start of the intensification of the interaction between the EU and the candidate countries. Stages of ‘europeanisation’ are mostly linked to the ‘continuity’ of the EU pre-accession template. Section 3.3 in this chapter elaborates.

The ‘why’ question refers to the causal triggers for institutional change. In this research, it is necessary to use different levels of abstraction (similar to the different mechanisms listed in Knill and Lehmkuhl 1999). The thesis follows the framework set out by Knill (2001), with two important modifications. First, the thesis uses the national executive organisation as the macro-institutional context, rather than administrative traditions. Secondly, the thesis pays close attention, similar to Hughes, Sasse and Gordon (2004), on how European actors shape the pre-accession templates. Consequently, when one finds a large ‘misfit’ or a direct EU challenge to the domestic macro-institutional configuration, institution-based accounts are sufficient

for explaining the process of institutional change or persistence. However, such ‘misfits’ are neither present for every policy sector, nor are they absolute. Here, the thesis will argue that where discretion is high or EU templates less prescriptive, institution-based approaches offer little explanatory value beyond the persistence of the domestic institutional arrangements. These accounts find it hard to explain changes within sectoral arrangements. Agency-based accounts might be better able to explain institutional change in these cases. In this approach, the domestic administrative actors use the European requirements and opportunities in a ‘bottom-up’ way to shape the domestic arena. This process will normally mean the enhancement of their respective institutional position.

### **3. Comparative Framework**

#### **3.1 Regional and Agricultural Policy**

The research looks at the domestic adaptation in the regional and agricultural policy sectors. In the choice of policy areas, three factors play a role: 1. the existence of interaction in the chosen policy sectors in the pre-accession period; 2. the administrative requirements associated with the policy sectors; and 3. the extent to which the analysis can be extended to other policy sectors.

First, one cannot make an assumption of interaction between the EU and the candidate countries. In contrast to the member-states, one has to establish a pattern of interaction and consequently a base for the transmission of effects. Otherwise, this research could be describing temporary or transient effects. At worst, for a given policy area, the interaction might be minimal or non-existent.<sup>1</sup> Both regional and agricultural policy involved a path towards accession unique to this current enlargement, namely the pre-accession instruments. This path assumes: 1. a greater intensity of EU interaction from the early pre-accession to the accession period with domestic administrative actors; 2. links between pre-accession management and EU

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<sup>1</sup> Some studies have sought to generalise on the ill-defined nature of the EU pre-accession process. Schimmelfennig (1999, pg. 16) or Sedelmeier and Wallace (1996) for instance claim there is ‘no path, programme, or timetable for accession’.

funds management; and 3. a basic willingness of domestic actors to participate in EU policy.

Secondly, in looking at domestic administrative adjustment, it is important to choose policy areas that include administrative requirements. The main problem in the study on the impact of Europe on domestic administration has been the notion that the European Union does not have an administrative template to transpose to the member-states. Indeed, there is no common administrative policy in the EU. Coordination and implementation should be seen in the national context. Therefore, the study of the impact of Europe on domestic administration seems to have clear limitations. Sverdrup (2000) for instance argues for Nordic countries that European integration produces a passive and reluctant response in domestic administrations. The study of linkage units would be an example of more concentrated and limited effects of Europe on administration. Such reasoning has also infiltrated studies on administration-building in the post-communist candidate countries, where authors emphasise the vagaries and absence of an EU template (see Dimitrova 2002; Grabbe 2001a).

On this point, the thesis argues, similar to Knill (2001), that such arguments overlook the administrative impact in terms of the coordination and implementation of EU policy. There is a direct relationship between policy content and the required administrative arrangements in some policy areas. This relationship exists in policy areas where the EU is expanding its competences, the core policy areas of the EU, and policy areas where the EU has a strong regulatory focus.

For regional and agricultural policy there are direct links between policy and administrative management. The EU template can challenge sectoral institutional arrangements. Moreover, these challenges to sectoral institutional arrangements can also affect or challenge the macro-institutional configuration at the domestic level. The sectoral institutional arrangements refer to the changes in administrative procedures that govern the management of development and intervention policy (coordination, implementation, and financial control). The macro-institutional configuration means the horizontal or vertical organisation of the executive administration. This thesis will build an explanatory framework in chapter 3, based on

the type of challenge the EU poses. Finally, the thesis looks briefly at whether policy adaptation is consistent with the adaptation of sectoral institutional arrangements.

The difference in the underlying policy and temporal factors (see section 3.3 of chapter 3) between policy sectors provides an interesting comparative context in establishing the patterns of domestic adaptation, as the adaptation pressure and the domestic discretion in shaping administrative outcomes and arrangements will vary between the policy sectors.

Thirdly, regional and agricultural policies present an ‘extreme case’ in European policy adoption in the candidate countries. Interaction in these policy areas, unlike in most other EU policy areas, can be traced back through the pre-accession instruments. Moreover, EU funds management, which is linked to the pre-accession instruments, is an integral part of these policy areas. This incentive to domestic actors makes sectoral accommodation of EU requirements more likely. Finally, these core policy areas have particular and extensive policy and administrative requirements. The degree of institutional adaptation at the domestic level for other EU policy areas would likely be ‘less’ or ‘different’.

## **3.2 Countries**

The selection of countries in the shape of the Czech Republic and Poland allows us to compare the role of the domestic institutional frameworks in the process of adaptation. As these countries would emerge from the communist period, trends and choices in the institutional set-up in these countries were similar. Indeed, the institutional configurations of the Czech Republic and Poland have commonalities. After the initial transition period, both had a territorially centralised administration and a decentralised executive, in terms of ministerial autonomy and the proliferation of central and quasi-governmental agencies. On a sectoral basis, regional policy was part of a wider industrial policy in both countries, a legacy of the communist past.

However, the Czech Republic and Poland also show important differences in the development of institutional configurations. The core executive developed differently

in both countries from the middle of the 1990s onwards. Poland aimed to strengthen the core executive, while the Czech Republic continued to show ministerial autonomy within the executive. In agricultural policy, there were important differences in the administrative structure and policy between the countries. These differences were related to the communist legacy and the structure of agriculture in the respective countries.

These distinctions allow the research to link domestic institutional arrangements in the national executive and the policy sectors to the possible differences in adaptation or institutional change between the countries. Moreover, the research will aim to develop comparisons to be drawn between this group of post-communist countries and groups of member-states such as the core members, Nordic member-states, and Southern member-states.

It is important to note that this analysis mostly applies to the ‘first-wave’ candidate countries. There are two reasons for this choice. First, it is easier to argue that transition is over in these countries. Further, adaptation requires an intensification of interaction between the candidate countries and the EU. This process took place earlier in the first-wave candidate countries. This last point deals with the importance of ‘time periods’ in the research.

### **3.3 EU Templates over Time**

It is important to raise the temporal factor in the interaction between the EU and candidate countries. This thesis identifies three time periods, which follow the developments in the EU pre-accession instruments: 1. early pre-accession up to 1996, where these instruments were predominantly aid instruments (1992-1996); 2. the pre-accession period post-Agenda 2000, when negotiations commenced and where pre-accession instruments focused on the adoption of the ‘acquis’ (1997-2002); and 3. early accession, where these instruments evolved into transition facilities aimed at the implementation of EU Structural, Cohesion and agricultural funds (2003-).

The focus of the research is on the period from 1997 to 2002. The main reason is that this period represents the intensification of the relations between the EU and the candidate countries. It would be difficult to ascertain any distinct patterns of institutional adaptation before 1996, given the more discretionary and unstructured EU involvement. Further, it would also open up the analysis to the ‘transition perspective’.

The pivotal point in the analysis is the PHARE (Poland and Hungary Assistance to Economic Restructuring) Management Reform of 1997, which coincided with the publication of ‘Agenda 2000’. These reforms aimed to raise the efficiency and effectiveness of implementation close to accession. These reforms ended the vertically and horizontally fragmented implementation and coordination of PHARE. PHARE Reforms had a procedural and structural impact. The reforms meant a focus on centralised coordination, consolidated implementation and financial control. Moreover, PHARE aimed to build a bridge to the ‘acquis’ and funds management. Finally, the PHARE Reforms introduced budgetary frameworks, which put limits on the overall spending. Any redirection of resources to specific sectors would come at the expense of other administrative units.

The reason why the research further subdivides the period of 1997-2002 into ‘pre-accession’ and ‘early accession’ is to stress the continuity or lack of continuity in the EU pre-accession templates. There are two aspects to continuity in the EU templates: 1. the stability of the template over time in the pre-accession period; and 2. the relationship between the pre-accession template and the ‘acquis’. Though EU policy templates after the reforms of 1997 form the base for the pre-accession templates, these pre-accession templates often incorporate specific domestic conditions such as problems in the absorption of funds (for PHARE Management Reforms see for instance EC 1997b). This incorporation formed part of an ongoing debate between ‘administrative compliance’ and ‘administration-building’, which shaped the EU pre-accession templates. Continuity affected the domestic discretion of actors to shape the institutional outcomes.

## 4. Chapter Structure

In chapter 2, I explain how and why ‘europeanisation’ analysis should be extended East. This chapter will also indicate the contribution the research aim to make to the academic literature. Chapter 3 will outline the general analytical framework introduced above and explain the methodology used in the research. Chapter 4 will show: 1. the changes in the pre-accession approaches in terms of the procedures and allocation of finances; and 2. how the EU has internalised enlargement in terms of policy reform, the budgetary framework, and transition periods. This last point is important in establishing what kind of EU the candidate countries are joining. Chapters 5 and 6 will aim to develop an analysis of: 1. how the institutional set-up for regional policy has developed in the Czech Republic and Poland; 2. how the European templates challenge this set-up; and 3. how the EU pre-accession instruments are integrated, accommodated, or resisted in the institutional set-up. Chapters 7 and 8 will do the same for agriculture. Chapter 9 will outline: 1. the empirical observations on temporal and policy factors in EU templates; 2. link the degree and magnitude of institutional change to the different causal mechanisms; 3. draw conclusions on which aspects of administration are strengthened and outline divergent or convergent outcomes. In Chapter 10, the research will make some observations on the differences between the candidate countries and the member-states, the likely effects of enlargement on the European Union, and draw conclusions on what the analysis means for the wider ‘europeanisation’ literature.

## **Chapter 2: ‘Europeanisation Goes East’**

### **1. Introduction**

In this chapter, I will explain why and how extending ‘europeanisation’ literature to the Central and East European Countries (CEECs) is worthwhile. First, this extension means a critique of existing ways of looking at the impact of the EU in Eastern Europe. Secondly, the chapter will look at ‘europeanisation’ literature and see how it could apply to these countries. This section will focus on the complementary uses of institution-based and actor-based institutional perspectives. Finally, I will outline the contributions the research aims to make.

### **2. ‘Europeanisation’ Goes East**

The impact of the EU in the candidate countries of Eastern Europe has been conceptualised in three main ways. The dominant views have been: the ‘transition’ perspective, which has interpreted European accession as a context for domestic reform; institutional weakness views, which argue against the expansion of ‘neo-institutionalist’ theories to Eastern candidate countries; and ‘conditionality’ views, with roots in hierarchical ‘top-down’ perspectives on the accession process. The next sections will outline the respective weaknesses of these approaches.

#### **The Transition Perspective**

The transition literature was late in acknowledging the EU as a factor in domestic transformation. Transition studies have mostly taken a domestic view to issues of institution-building. Most studies have shown the unique path of post-communist transition, rather than viewing transition as a wholesale adoption of institutional models of other countries (see Elster et al 1998). Studies primarily deal with the path of transition and the stability of the institutional outcome. Many domestic determinants of the path of transition have been studied. Some point to the role of national political systems and domestic politics (see Bruszt and Stark 1998; Elster et al 1998; O’ Donnell et al 1986). Others emphasise the historical and institutional



legacies (see also Dawisha and Parrott 1997). Actor constellations, levels of civil society, the role of economic crisis, policy networks (Bruszt and Stark 1998), levels of socio-economic development have been studied (for an overview see Mattli and Plumper 2004). There was also a debate in the literature between those commenting on the relative success and failure of institutional consolidation in Central and Eastern Europe (CEE) (see for instance Hellman 1998a), which often had a 'normative' dimension through the linkage between a particular institutional configuration and policy outcomes (see Hellman 1998b; de Melo et al 1996; Kitschelt 1999).

The role of the EU in the process of institutional change in CEE was seen as contextual (see Mattli and Plumper 2004). 'Europeanisation' was thus placed comparatively next to other patterns of development (see for instance Goetz 2001b, who also looks at 'latinization' and 'modernization' of administration and Goetz and Wollman 2001). The EU is seen as an incentive to push domestic reform. Nunberg comments on the 'back-burner' efforts at reform in Poland as receiving a major boost from the political support derived from Poland's imminent accession to the EU (Nunberg et al 1998). Similarly, in the Czech case, the pressure of the EU was intense on a system that up until 1998 was incapable of developing a single body to coordinate the relations with the EU (see Smejkal 1998), but whose government in August 1998 announced a policy statement to improve public administration.

The traditional 'constructivist' perception of enlargement has been that domestic and EU actors have 'internalised' in their political and organisational culture that European Union membership is desirable to achieve greater economic performance at home, to provide national security, and ultimately legitimise and stabilise the budding political traditions (Mayhew, 1998). The benefits of EU membership, as perceived in many post-communist societies, focus on these issues: stability of institutions (legislative, executive, and judiciary); a possible counterweight of extremist tendencies at home; the integrity of the state; greater political legitimacy for the elites; economic performance; and the possibility of using the EU for undertaking difficult reform (Mayhew, 1998). These views are 'enabling constraint' views in the way the discipline and incentive of impending EU membership will produce transition and consolidation of democratic structures, modernisation of society and marketisation in

the CEECs.<sup>2</sup> The appearance of consensual societal and political support for EU accession in the CEECs also strengthens this approach (for Poland see Szczerbiak 2002). Moreover, many leading politicians in the candidate countries saw the EU as a wider opportunity to legitimate reform rather than a constraint.<sup>3</sup>

Three main criticisms exist of this approach. A first consideration is to determine what conceptual limits the 'europeanisation' process is likely to encounter. Grabbe (2003) in her conclusion, copying from Sartori, warns of the need for 'degreeism' in the conceptualisation of 'europeanisation' as the main driver of reform, given the salience and overuse of EU enlargement by both domestic and EU actors in the candidate countries. 'Europeanisation' is not equivalent to the enlargement process and needs to be distinguished from modernisation and globalisation ongoing in the CEECs. Transition studies therefore are on different planes and in different time frames than 'europeanisation' studies.

Secondly, following from the previous point, one can argue that transition falls outside the temporal scope of this research. As indicated in the introduction, it is pointless to study 'europeanisation' unless one can establish clear interaction between the EU and candidate countries for the given policy sectors. The period of pre-accession started in earnest in 1996-1997 with the publication of 'Agenda 2000'. By 1997, most institutional choices had been made in the Czech Republic and Poland. Institutional choices were made at the time of regime change in 1989-1990. The reform of the core executive of 1996 and 1997 in both the Czech Republic and Poland was a response to particular domestic conditions, the economic crisis in CEE, and the continuation of public administration reform set out in the early 1990s. Regional and agricultural policy sectors showed continuity in the administrative set-up and policy style from the period of 1989-1990 until 1997. Institutional choices were often quite stable. Thus, the identification of the EU as a context for transition seems at least 'temporally' flawed for these 'first-wave' accession countries.

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<sup>2</sup> A model for constructivist views on enlargement is presented in Schimmelfennig (1999) and Sedelmeier and Schimmelfennig (2002).

<sup>3</sup> This is a point raised by for instance Ioakamides who for Greece equates 'europeanisation' with 'modernisation' (similar to Lippert et al [2001]) in the volume on Southern states edited by Featherstone and Kazamias (2001).

Third, a more contentious outlook among domestic actors has been found in the empirical evidence. Opposition might come in terms of the vested interests associated with enterprises, civil servants, political elites and political parties, certain lobby groups such as peasant groups, or the general voting public (Mayhew 1998, p. 201). An effect of the realisation of the costs of membership has been how political actors use the imminence of EU accession ‘strategically’ in party politics. This observation shows the potential for the emergence of cleavages on EU accession or on specific policy issues in the Czech Republic and Poland (Kopecky and Mudde 2002). Featherstone and Kazamias (2001) point here to the cleavage in the domestic response to the EU between ‘reformers’ and ‘traditionalists’ in their volume on Southern states. The formation of European networks seems to build and reinforce a cleavage between those participating and gaining, and those on the fringes. Finally, even among the ‘winners’ in the process of European integration, there are clear limitations in cognitive exchange and the formation of ‘policy communities’ in CEE. Domestic perceptions and goals of EU policy experts in the candidate countries are still different from those of EU officials (see Marta von Mauberg: Warsaw January 23 2002). These points were raised in interviews with Twinning officials (see interviews with Jan Cermak: Prague April 22, 2002 and James Hunt: Prague April 24, 2002)<sup>4</sup>. There are limits to the internalisation of EU beliefs and values in the national administrations, even in administration characterised by a strong interaction with the EU (see also Papadimitriou and Phinnemore 2002).

### **Institutional Weakness**

A second view pertains not to the process of domestic reform, but to the strength of institutional outcomes. These approaches have focused on: 1. institutional underdevelopment in the CEECs; and 2. weakness in administrative capacity.

The first observation has been the overall institutional underdevelopment of the candidate countries. The question as in Schimmelfennig and Sedelmeier (2002a, p. 3)

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<sup>4</sup> James Hunt, for instance, provides anecdotes of colleagues (fellow ‘twinners’) attending operational meetings that were held in Czech, even though they did not speak the language, and colleagues being placed in back offices in annexes of the relevant ministry. Both Hunt and Cermak indicate that domestic resistance in both project selection and project process were factors in limiting exchange of ideas and practices.

remains whether the absence of ‘institutional inertia’, an important factor in reducing the impact of Europe in the member-states, reduces or increases the impact of Europe in the CEECs. This debate also focuses on the relative strength and weakness of institutional arrangements in the post-communist countries of CEE. Whereas the original core member-states at the centre of the initial phases of European integration had stable institutional settings and developed public policies, it has been argued that for the southern wave of enlargement as well as the coming eastern enlargement EU membership will be more ‘institutionalisation *ab ovo*’, rather than institutional change’ (Dyson and Goetz 2003, p. 17). Goetz (2002a), in a recent study, argues that the neo-institutional perspective, which is dominant in Western ‘europeanisation’ perspectives, works less well in a less established and evolving setting of CEE, where the inherited structures have lost legitimacy and institutional frameworks are developing.<sup>5</sup> Radaelli (2003) makes a similar point for ‘fragile’ institutions. Goetz (2002a) continues that these settings put a premium on ‘reversibility’ and ‘provisionality’.

Secondly, a component of the debate on strength or weakness of institutions is the administrative capacity of the state to undertake domestic reform or implement EU policy. Capacity has been in the spotlight due to the salience given by the European Commission to ‘institution-building’ in the pre-accession process. Studies have either focused on the EU’s attempt in the pre-accession period to aid in building administrative capacity (Papadimitriou 2002; Papadimitriou and Phinnemore 2002) or have commented on the problems of administrative capacity in the CEECs (for instance Nunberg 2000; Verheijen 2000; Verheijen and Kotchegura 1999)<sup>6</sup>. The obvious thesis is that low administrative capacity is a hurdle to the implementation of EU policy and associated administrative requirements. Therefore, given the administrative weakness, the overall impact of the EU might be limited.

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<sup>5</sup> This point qualifies the reasoning of Knill that strong administrative traditions and institutional configuration in West European countries prevent adaptation to EU pressure (Knill 2001). In absence of such traditions and strong institutions in the CEE, the question is asked what patterns of adaptation one is likely to see.

<sup>6</sup> The Regular Reports have indicated on several occasions concerns about the administrative capacity to take up the ‘acquis communautaire’ (see e.g. EC, ‘Regular Report on the Czech Republic’s Progress towards Accession’, 1999 pg. 59). Other reports have highlighted problems with the general absorption of pre-accession aid (see EC, ‘New Phase Orientations for Pre-Accession Assistance’ of 1997; and more recently EC, ‘Phase 2000 Review: Strengthening Preparations for Membership’ of 2000).

These assumptions of institutional weakness, weak administrative capacity, and public policy voids basically raise questions on the relative importance of the institutional configuration as a determinant in the 'europeanisation' dynamic within the candidate countries. In this work, I question the validity of the assumption that institutions in the post-communist candidate countries are weak or indeterminate. Rather, the institutional configuration is 'different' or 'specific'. There are two reasons for this approach. First, the persistence of institutional arrangements seen in the empirical evidence would indicate stability rather than a weakness of the institutional configuration. Secondly, differences in the institutional configurations have been acknowledged for the current member-states and associated countries. Goetz (2002b), for instance, writes about 'four worlds of europeanisation', classifying different groups of countries affected by the EU. Featherstone and Kazamias (2001) emphasise the importance of distinct institutional settings on the periphery, especially when divergence from the core is great. They stress 'fragmentation, asymmetry, and dynamism' in describing 'europeanisation' effects in the Southern periphery. Similarly, studies on CEECs have started to acknowledge the difference of configurations, rather than the indeterminate nature of them. Ferry (2003) relates how the CEECs due to institutional legacies have a different configuration of institutions, actors and interests from the core member-states. Ferry stresses the relevance and persistence of national institutional frameworks and domestic interest mediation and their role in shaping European accession.

The focus on the 'difference' or 'specificity' of institutional configurations is also of importance in the conceptualisation of 'europeanisation'. Few studies have determined: how capacity can be determined; what lack of administrative capacity means; or what effects lack of administrative capacity has. In terms of research design, this can be problematic. First, administrative capacity and strength of institutions are better conceptualised in terms of mapping what competences and resources are assigned within the institutional framework or executive configuration (similar to Knill 1999) and within the persistence and stability of this macro-institutional framework. Secondly, this approach, similar to studies of 'europeanisation' in the member-states, will allow for a more systematic analysis of the impact of the EU.

## Qualifying Conditionality

As the pre-accession process was formed in 1997, a ‘top-down’ and vertical approach emerged. This approach came out of the ‘classical community method’ examined by Preston (1995), with a strong focus on the applicant’s acceptance of and compliance with the ‘acquis communautaire’. At the centre of ‘europeanisation’ effects in the CEECs, is the downloading by the candidate countries of the ‘acquis communautaire’. Adoption of the ‘acquis’ also means the establishment of a suitable legal and institutional framework for the implementation of the ‘acquis’. The pre-accession process is seen as a technical process. Intrinsically, the relationship between the EU and the candidate countries is seen as an *asymmetry of power*, whereby the EU represents a relatively unified front<sup>7</sup> in the bilateral negotiations. These negotiations around the adoption, implementation, and enforcement of the ‘acquis’ offer limited opportunities at ‘opting out’ or ‘uploading’. Grabbe (2003, p. 313) also makes this point. Moreover, Mayhew (1998) remarks that the involvement of the EU in the preparation of the candidate countries is particular to this wave of enlargement. Mayhew (2000) points to the distribution of resources through the pre-accession programmes and a verification process that determines whether the conditions for accession have been met.

This gave rise to the identification of a variety of ‘top-down’ conditionality tools. Grabbe identifies five mechanisms for ‘europeanisation’ in the pre-accession period: 1. institutional models; 2. aid and technical assistance; 3. benchmarking and monitoring; 4. advice and twinning; 5. gate-keeping (Grabbe 2001b). These mechanisms offer different degrees of prescription and indeed adaptive pressure. The intervening variables are the asymmetry of power between the EU and candidate countries and the dimension of uncertainty that is present in the enlargement decision-making<sup>8</sup>, programmatic process, and in policy and institutional reform on the EU side. Some studies have emphasised the existence of a ‘moving target’, as the European

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<sup>7</sup> Even though negotiations showed divergent views and interests between the member-states and between the member-states and the EC on enlargement (see also Szamuely 1999).

<sup>8</sup> Grabbe (2003) identifies five levels: 1. uncertainty over policy agenda; 2. uncertainty over hierarchy of tasks; 3. uncertainty over timing of reforms; 4. uncertainty over whom to satisfy (Council, member-state, or European Commission); 5. uncertainty about what constitutes meeting norms and standards.

Union reforms key policy areas such as CAP and regional policy (see Tangermann 1997 on CAP; and Hughes et al 2004 on regional policy).

There is a temporal dimension to conditionality. Lippert et al (2001) divide the overall period from the early interaction to accession in about five periods of differential pressures and differential adaptation effects: 'first contacts; the Europe Agreements; pre-accession; negotiations; and post-accession'. In essence, it is an overview of the different foci the EU presents at different times in the pre-accession process.

Similarly, Grabbe and Hughes (1998) make a distinction between the technical pre-accession strategy and the highly political negotiations and decision to enlarge.

Further, authors distinguish between types of conditionality. Hughes, Sasse, and Gordon (2004, p. 2) make a distinction between 'formal conditionality', which includes the 'acquis' and the stated preconditions for enlargement and 'informal conditionality', which refers to all other expressions of preferences on the EU side. Vachodova (2002) distinguishes between the 'passive' leverage, namely the attraction of membership to the elite, and 'active' leverage, namely the deliberate conditionality. She sees 'passive' leverage in the initial phases reinforcing the neo-liberal post-transition reform and 'active' leverage from 1996 having a differential effect between 'nationalist' and 'liberal' pattern states. However, Vachodova (2002) did not specifically look at the policy or an institutional impact, but rather the complementarity with domestic reform.

The main problem with these approaches is that it is very difficult to attach general direct and indirect effects to the 'europeanisation' mechanisms, which vary over time and are mediated by uncertainty, domestic credibility (see Schimmelfennig and Sedelmeier 2002b), and the relative openness (or lack of resistance in adaptation) of the CEECs, given the post-communist transition. The wide range of conditionality approaches<sup>9</sup> almost pre-determine the impact of Europe as exceptional, random and shallow, even more so when studies use 'convergence' as an assumption to measure the effects of 'europeanisation'. Dimitrova (2002) sees little administrative

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<sup>9</sup> The most ambitious design for measuring the domestic impact was made by Schimmelfennig and Sedelmeier (2002a). However, the model considering all kinds of approaches and literatures and has not been operationalised.

convergence because of the adoption of EU requirements, given that EU ‘institution building’ does not have clear institutional templates in the ‘acquis’. Further, she says that the institutionalisation of EU governance based on conditionality is highly problematic. Hughes, Sasse and Gordon (2004) show the limited impact of the conditionality tools in regional policy and in the formation of territorial administration in the CEECs.

Conditionality by definition is also transient. Checkel (2000) argues that conditionality studies are problematic, because reform is often not associated with domestic ‘legitimacy and ownership’. Grabbe (2001a) argues that for the acceding countries conditionality produces shallow and short-term effects and is unlikely to promote deep and lasting institutionalisation. So, conditionality tools seem to have a limited impact. This observation falls in line with other observations on adaptation in CEE. In terms of the impact of Europe, Radaelli (2002) describes a range of voluntary adaptation. Goetz (2001a) describes adaptation effects in the domestic administrations of CEE as ‘anticipatory’ and ‘anticipated’.

The usefulness of ‘uncertainty and variability’ in such ‘top-down’ analysis is questionable. These concepts leave a fragmented independent variable in the shape of the European pre-accession approaches with little possibility to compare the impact of Europe across sectors or countries, let alone make generalisations or derive theoretical implications outside of the limited or disparate impact of Europe. Such research design would mean a great singularity of results. Any subsequent research design requires either a better identification of the EU template and defined trends within the EU template underlying the ‘top-down’ approach, or alternatively the conceptualisation of ‘europeanisation’ as a bottom-up process, in which the EU operates as an intervening variable. Further, ‘uncertainty’ and ‘credibility’ only exist in the context of eventual EU accession, a prospect that for the first-wave candidate countries accession was a certainty. Gate-keeping, benchmarking, and progress monitoring therefore seemed to be less determinate in a causal framework and subordinate to what was essentially a political decision (see also Grabbe and Hughes 1998). This observation not only questions the importance of the effects associated with conditionality mechanisms, but also the overall applicability of conditionality tools over time.



Finally, the question needs to be asked whether ‘europeanisation’ is so different for the candidate countries than for the member-states. The variation of European templates, the ongoing reform of the EU templates, and the ‘differential’ impact of Europe have been well documented for the member-states. Dyson and Goetz (2003, p. 16) for instance comment that ‘EU legal frameworks, institutions and public policy have no absolute existence’. ‘Europeanisation’ studies have also adopted ‘bottom-up’ perspectives on analysing the domestic impact.

### **3. Narrowing down ‘Europeanisation’**

The overview above is relatively negative in outlining the limitations of several approaches that study the impact of the EU. This section aims to more positive by demonstrating the analytical advantage of extending the ‘europeanisation’ literature to the CEECs. First, this extension involves a discussion on the current conceptualisation of process and effect in the ‘europeanisation’ literature and its applicability for the Czech Republic and Poland. In discussing how the ‘europeanisation’ literature could be extended, it is important to: 1. conceptualise ‘europeanisation’; 2. debate the mechanisms of ‘europeanisation’; 3. identify the motivations of actors in ‘europeanisation’; and 4. conceptualise the impact of ‘europeanisation’. The section above had three main findings: 1. the importance of ‘degreeism’ and temporality in studying ‘europeanisation’; 2. the logic of focusing on the ‘difference’ or ‘specificity’ of institutions in the first-wave CEECs rather than the weakness; and 3. the limitations of conditionality tools.

#### **3.1 Conceptualisation**

This rapidly developing ‘Europeanisation’ literature attempts to describe not only different processes of member-state and EU interaction, but also a wide range of effects on the member-states and on European institutional development. Dyson and Goetz (2003, p. 13) list six main uses in literature for ‘europeanisation’: 1. institutions of governance developing at the EU level; 2. the export of EU models; 3. the achievement of political union; 4. domestic politics becoming subject of EU policy; 5.

domestic politics using the EU to form strategic decisions; and 6. the effect of particular modes of EU governance on domestic politics. Featherstone (2003, p. 14) sees three levels of 'europeanisation' in literature: 1. in its relationship to globalisation; 2. institution-building at the EU level; and 3. the impact on the member-state. In all, this literature is quite diverse and falls short of a theoretical framework. It grows from complex interactions on various levels (sectoral, regional, national, and supra-national) between actors and institutions. Indeed, it poses several direct problems to the researcher. Problems with 'concept-stretching' have been prominent in many 'europeanisation' studies (see also Radaelli 2003). Further, as noted earlier, any research has to incorporate 'degreeism' and distinguish between 'europeanisation' and 'globalisation'.

First, it is necessary to distinguish between the process of European integration and the impact of integration on the member-state. European integration studies have limited capacity for explaining domestic adjustments. Studies saw new political opportunity structures developing in European integration that affected the distribution of power in terms of competences and resources within the European Union. Some saw a strengthening of the autonomy of the state (executive) in the case of intergovernmentalist analyses (for an overview Moravcsik 1999). Others saw the development of a European way of governance, which actively challenges national policy-making as featured in Bulmer (1997), the description of supra-national governance by Stone Sweet and Sandholtz (1998), the view of the EU as a 'regulatory state' by Majone (1994), or the development of a multi-level style of governance through cooperation and coordination (Hooghe and Marks 2001; Kohler-Koch and Eising 1999; Goldsmith and Klausen 1998; Kohler-Koch et al 1998; Ansell, Parsons, and Darden 1997). In short, these studies did not provide a systematic analysis on the effect of Europe at the domestic level. Knill (2001, p. 12) notes that the pre-occupation in these studies with the distribution of power between the domestic and European levels rather than the intra-domestic level is a major shortcoming.

The thesis here follows the logic that 'europeanisation' is first and foremost the study of the impact of the EU at the domestic level. This view of 'europeanisation' focuses on 'downloading' or the 'reception' of EU legal frameworks, institutional templates, and policy at the national level, rather than the process of European integration or

‘uploading’. Most definitions follow this line. Meny, Muller, and Quermonne (1996) argue that the emergence of a bundle of common norms beyond the control of a single member-state creates a ‘permanent challenge to national political systems’. Borzel (1999, p. 574) defines ‘europeanisation’ as a ‘process’, by which domestic policy areas become increasingly subject to European policy-making.’ Radaelli (2000a, p. 3) points out that ‘common sense indicates that ‘europeanisation’ has something to do with the ‘penetration’ of the European dimension in national arenas of policy and politics.’ Ladrech (1994, p. 69) makes a further refinement in this definition of ‘europeanisation’ as a process. Ladrech sees Europeanisation as ‘an incremental process re-orienting the shape of politics to the degree that EC political and economic dynamics become part of the organisational logic of national politics and policy-making.’

## **3.2 Mechanisms of ‘Europeanisation’**

### **3.2.a ‘Top-down’ and ‘Bottom-up’ Views**

Within the conceptualisation of ‘europeanisation’ as ‘downloading’, there are two approaches to ‘europeanisation’. The ‘top-down’ way of looking at ‘europeanisation’ sees the relationship between the EU and national governments as a vertical hierarchical relationship, in which the member-states react to ‘adaptive pressure’ coming from above. These are institution-based views that emphasise institutional compliance of the member-states with EU requirements. The second approach is the ‘bottom-up’ approach, whereby EU policy or templates are used strategically by actors at the domestic level (see for instance Hix and Goetz 2000) or affect the cognitive dimension of domestic actors. These actor-based views indicate that European integration changes the equilibria in the domestic opportunity structures or actors’ beliefs

An important analytical tool in the process of domestic adaptation in ‘top-down’ approaches is the notion of ‘inconvenience’, ‘misfit’, ‘mismatch’ or ‘goodness of fit’ (see e.g. Green Cowles, Caporaso, and Risse 2001; Borzel and Risse 2000; Borzel and Risse 2003; and Radaelli 2003). The basis for adaptation is an incompatibility between domestic policy or the institutional configuration and policy and institutional

arrangements at the supra-national level. A lower compatibility will lead to a higher pressure at the domestic level to adapt (for this logic see Borzel and Risse 2003, p. 61). If this incompatibility does not exist, no adaptation is required. If the mismatch was too large, no adaptation would take place because domestic resistance would be too high. In this case, actors evade or resist adaptation (see Knill and Lenschow, 1998; Knill 2001).

The notion of 'mismatch' has evoked much response. Studies showed that 'goodness of fit' does not explain a whole range of voluntary adaptation, domestic adaptation independent of EU pressures, or adaptation when pressure was deemed to high for adaptation. This last case in the field of environmental policy is part of a comparative study by Haverland (1999) on the importance of institutional veto points in explaining adaptation.

In this context, approaches focusing on 'mismatch' have been expanded conceptually to see a 'mismatch' as a precondition for adaptation, but not solely as a predictor for the quality of adaptation. Green Cowles, Caporaso, and Risse (2001) link adaptation to the multiple veto points of the domestic opportunity structure, similar to Tsebelis (1995), mediating formal institutions, the differential empowerment of actors, and the existence of a cooperative culture (similar to Borzel 2002b). Steunenberg and Dimitrova (2000) point to the mediating factor of 'national agreement' in predicting cross-national convergence due to European pressures. Borzel and Risse (2003) differentiate between the conceptualisation of 'europeanisation' in rationalist and sociological perspectives. In rational choice accounts, veto points and formal institutions are mediating factors. In sociological accounts, 'norm entrepreneurs' and the political culture mediate domestic adaptation. Moreover, they state both forms of institutionalism often occur together in adaptation. Borzel (2002b, p. 27) also uses a mix of 'agency' and 'structure' approaches in her volume on the 'europeanisation' of the territorial administration in Germany and Spain, by modifying resource dependency theory into institution dependency. 'Misfit' views increasingly incorporate domestic institutional, cultural, and cognitive factors.

Bottom-up views have directly challenged the assumptions of 'misfit' analyses in terms of: a. the existence of a stable body of European Community legislation and

policies; and b. the strictly vertical relationship between the supra-national and national levels. They focused on the evolution and variability of EU institutions and policies, and the influence of member-states through the uploading of preferences. For them, the EU is increasingly becoming a system, whereby the member-states often co-operate on a horizontal level or where new pillars of European policy emerge, which certain member-states can opt out of. Enlargement and institutional reform in the European Convention, in the shape of deepening and widening the institutional set-up, are likely to increase the diversity between the member-states and the breadth of coordination and cooperation. Indeed, tools of coordination and co-operation have evolved considerably to systems that are described as 'softer' forms of integration. Moreover, European Community legislation is often open to interpretation and the enforcement of this common law has also been variable. The 'acquis communautaire' is vague, evolving, and incomplete in various policy areas (see Heritier 2001c). The generalisation of EU law and policy as fixed downplays the various European institutions, which can affect the law and its enforcement as well as the national governments' ability in 'uploading' national preferences<sup>10</sup>. Dyson and Goetz (2003, p. 15) see the EU more as an 'arena' than a superior legislator.

Radaelli (2003, p. 51) argues that a 'top-down' perspective in 'europeanisation can 'produce serious fallacies....when its only aim is to find out domestic effects of independent variables defined at the EU level.' He sees this as adopting a 'chain of command' style logic. Instead, he proposes an 'inside-out' and bottom-up conceptualisation of 'europeanisation', where the EU plays a role in the domestic choices made in policy reform or institutional adjustments. In several cases, 'bottom-up' studies have shown that domestic factors outweigh the European Union legal and policy constraints. Radaelli (2003), for instance, lists domestic regulatory competition as a stimulus to change. Kerwer and Teutsch (2001) acknowledge the 'robust level' of governance the EU provides, but for the liberalisation of road haulage seem to find that abandonment of policy traditions in Germany, France, and Italy had more to do

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<sup>10</sup> Kassim (2002, pg. 85-87) lists five factors in the variability of the EU templates in 'downloading': 1. the fluidity and evolving structure of the structure of the EU which is not built on a single treaty or vision; 2. the openness of policy processes and therefore the various sources which contribute to the policy agenda; 3. the institutional complexity of the EU and the lack of division of powers; 4. organisational density and institutional fragmentation or segmentation; 5. the variation of the EU between policy sectors and variations between policy sectors of distributive, re-distributive, and regulatory policy styles.

with domestic factors as the European factors did not significantly curtail national policy-making autonomy.

Dyson and Goetz (2003, p. 15), in discussing bottom-up 'europeanisation', see this mechanism as a 'circular' dynamic, by which the national governments 'upload' preferences and 'download' laws and policies. Through 'uploading' of national institutional models and policy preferences, domestic actors shape the 'misfits' or create the 'misfits' at the domestic level. 'Downloading', though still separate in definition from 'uploading,' does not exist in isolation from 'uploading'. This view is also given in Hix and Goetz (2000 p. 10). Their definition of 'europeanisation' means the 'delegation of policy competences to the European level and the resulting political outcomes constrain domestic choices, reinforce certain policy and institutional developments, and provide a catalyst for change in others.' Further, European integration means 'the establishment of higher level governance provides new opportunities to exit from domestic constraints, either to promote certain policies, or to veto others, or to secure informational advantages.' Domestic actors use the EU requirements and recommendations to shape the domestic opportunity structure.

Moreover, this 'bottom-up' approach does not only have a strategic dimension. A cognitive dimension also exists in the way domestic actors legitimate domestic reform. Page (2003, p. 166) lists mechanisms such as 'imitation', a more pro-active rather than coercive view on policy transfer, and polydiffusion, whereby 'a variety of actors and institutions [are] involved in the transfer of ideas and cognitive practices in different ways' as modes for 'europeanisation'. These mechanisms are often associated with exchange between different policy communities at various levels within the EU.

In both the 'top-down' approach and the 'bottom-up' approaches, the debate centres on how to contextualise European effects. Is Europe merely an intervening variable in domestic processes as in bottom-up approaches? Is Europe as in 'top-down' views an independent variable affecting domestic adjustments? These represent somewhat contrasting views on whether 'institution-based' views or 'actor-based' views are more worthwhile in studying 'europeanisation' (for an overview see for instance Checkel 1999 or Knill and Lenschow 2001a). Any analysis has to take into account

the importance of the European templates and factors such as domestic reform processes and institutions. Dyson and Goetz (2003) remark that ‘top-down’ approaches might be better suited for prescriptive EU templates. Knill and Lehmkuhl (1999) show this differentiation and identify three mechanisms of ‘europeanisation’:

1. ‘positive integration’, which involves the ‘top-down’ downloading to the domestic level of EU institutional templates;
2. ‘negative integration’, which is a more ‘bottom-up’ perspective whereby the EU changes the opportunities and constraints of the domestic actors and consequently their strategic options; and
3. ‘framing integration’, which again is more a ‘bottom-up’ dynamic and involves the adjustment of beliefs and perceptions of domestic actors.

These mechanisms also speak to different theoretical approaches and ‘logics of behaviour’ in institutional analysis, the ‘logic of appropriateness’ in sociological institutionalist theories and ‘logic of consequentialism’ in rational choice accounts. Featherstone and Kazamias (2001) associate the ‘top-down’ approach of downloading institutional templates with an historical institutionalist approach (see Thelen and Steinmo 1992); ‘negative integration’ with multi-level bargaining and thus a rational choice perspective; and the ‘framing integration’ with a sociological institutional approach.

However, studies of ‘europeanisation’ have also combined different neo-institutional perspectives to build analytical models. Knill and Lenschow (2001a) show how different mechanisms and neo-institutional perspectives can be used next to each other and combined to analyse the process of ‘europeanisation’.

### **3.2.b Mechanisms in Candidate Countries: Using Institution-based and Actor-based Perspectives**

How does this debate inform the study of ‘europeanisation’ in the Czech Republic and Poland? It is clear that for candidate countries, such as the Czech Republic and Poland, ‘europeanisation’ is first and foremost a ‘top-down’ process given the ‘asymmetry of power’ between the EU institutions and the acceding countries and the focus on the adoption of the ‘acquis’ in the pre-accession period. The EU in negotiations tends to perform in a homogenous and prescriptive way aimed at

institutional compliance. This process is very much in line with the mechanism of 'positive integration' coined by Knill and Lehmkuhl (1999). The candidate countries can also not directly 'upload' preferences and therefore create or manipulate 'misfits'. The nature of the EU challenge depends on the 'misfit' between the EU requirements and the domestic institutional configuration. This 'misfit' determines the adaptive pressure (see Borzel and Risse 2000; 2003). In this way, 'misfits' seem a precondition for analysing 'europeanisation' effects in the CEECs.

However, similar to the member-states, one can assume 'misfits' for the candidate countries are not absolute. In this research, this distinction plays out in sectoral policy. Different policies have different requirements, which inherently have different levels of specificity and can evolve over time. Also, as chapters 3 and 4 will show in more detail, a characteristic of the pre-accession process has been that the pre-accession templates have internalised domestic conditions. Policy reform within the EU has anticipated enlargement (see also Friis and Murphy 1999). Policy factors and temporal factors, associated with the pre-accession templates, have given domestic actors discretion in shaping outcomes in regional and agricultural policy.

These observations bring the following differentiation, which comes from the categorisation of mechanisms above in Knill and Lehmkuhl (1999). When actors have little discretion and EU requirements present a fundamental challenge to the domestic institutional set-up, 'top-down' perspectives taking an institution-based perspective might explain adaptation better. When actors have much institutional 'discretion' in shaping the administrative outcome or when the EU does not fundamentally challenge the domestic institutional set-up, adaptation can be better explained through 'bottom-up' perspectives with a more prominent role for domestic actors.

The approach used in this thesis, similar to Knill (2001), merges an historical institutionalist view (see Thelen and Steinmo 1992) with an agency-based approach. However, the approach differs from Knill (2001) on two main levels. First, the thesis does not use national administrative traditions as the macro-institutional context. Rather, the thesis refines this concept and focuses on the organisation of the executive and the institutional relationship between the national executive and sectoral actors. The organisation of the national executive set-up confines sectoral choices and indeed



the institutional position of sectoral actors. However, similar to Knill (2001, p. 60), the national executive organisation does not determine the form of sectoral adaptation. Various sectoral options are possible within the macro-institutional set-up. EU requirements that challenge the macro-institutional context or the organisation of the national executive challenge the core administrative structure of the state. There are two main reasons for refining Knill's concept of administrative tradition. First, observations from the empirical evidence and literature (see for instance Hausner and Marody 2000) indicate that first and foremost the central state (or the core executive and specific line ministries) is the main architect of change and of adaptation to EU requirements. At this level, most interaction on the coordination and implementation set-up takes place. This point underlines the importance of the organisation of the executive as the main determinant in the administrative adaptation in the pre-accession period. This approach is somewhat similar to studies that look at how the member-states coordinate and participate in EU decision-making (see for instance Kassim 2003). However, in this work the focus is clearly on implementation. Secondly, the concept of national administrative tradition is in some ways not easy to define or conceptualise. This seems especially the case in the post-communist countries, which have undergone a major transition in their respective institutional set-ups in the early 1990s. The newness or ongoing formation of administrative traditions in the post-communist candidate countries make the identification of core and sectoral administrative traditions and culture difficult and would lead us to an approach or observation that this chapter criticised earlier, namely institutional underdevelopment or administrative weakness. This seems especially the case in sectoral institutional arrangements, which developed quickly from the transition period to the pre-accession period. However, this observation is of course not the same as saying legacies and administrative traditions do not play a part in the organisation of the executive. In a sense, they are implicit in the structure of state administration.

Secondly, the approach acknowledges the importance of inherent policy factors and specific temporal factors in the pre-accession process, which mediate the 'prescription' of the EU templates and consequently the pressure to adapt emanating from EU requirements. The analysis of such temporal factors is one of the main novelties in the analysis. Temporal and policy factors vary between the policy sectors.

So, the presence of temporal and policy factors in the EU templates help determine how much discretion administrative actors have in shaping adaptation or whether the EU presents a core challenge to the domestic institutional set-up. 'Discretion' and the 'core challenge' also determine the theoretical approach to 'europeanisation'.

Moreover, another innovation in this work is the analysis of actors, not only at the domestic, but also at the European level. In chapter 4, the thesis discusses how European actors shape the pre-accession template. Though the thesis is not concerned with the process of European integration, the interaction between EU actors affects the process of 'europeanisation' in the candidate countries, in terms of the management of the pre-accession process, the building and the continuity of the pre-accession templates, and the role in the management of the new member-states after accession.

In institution-based accounts, a level of predetermination is present. By hypothesising that adaptation occurs according to historically grown 'paths', this approach anticipates that institutional change will be limited. It can be expected that an exogenous process, such as European accession, would have limited effects on the national executive institutional set-up. Institutional adaptation will only be dramatic in cases of a sudden systemic change or collapse (see Krasner 1988). Thus, institution-based approaches have a weakness. They would not directly explain sectoral change, where the 'adaptational requirements' from the EU do not directly change or challenge the macro-institutional configuration (Knill 2001, p. 31). However, change and sometimes substantial institutional change can be observed, even when EU prescription is limited.

In this case, agency-based views would have to be used to explain sectoral changes. Institutional change, associated with agency-based 'europeanisation', comes from how actors use the EU requirements to shape the domestic opportunity structure. It describes not only how actors interacting in the domestic opportunity structure affect adaptation, but also how actors attempt to shape adaptation. The problem of actor-based approaches is that they tend to overestimate institutional adaptation, as they overlook the persistence or even presence of the wider or macro-institutional configuration. Their foci are on the gain of efficiency (Hall and Taylor 1996) or the

gain of power in the domestic opportunity structure (Dunleavy 1991). Moreover, hypotheses-building in light of dynamic actor-based models is difficult, as preferences and strategies tend to vary and different environments occur over time. The easiest way to counter this analytical weakness of agency-based approaches is to start from a historical institutionalist perspective and determine the specific conditions under which agency-based accounts should be used in the analysis.

The differentiation between ‘agency’ and ‘structure’ also has consequences for the conceptualisation of institutions. The question is whether institutions function as an independent variable for institutional change in institution-based accounts (Thelen and Steinmo 1992; Pierson 1996), or whether institutions function more as an intervening or mediating variable in actor-based accounts (Schepstle and Weingast 1989; North 1990).

### **3.3 Actors in ‘Europeanisation’**

An analysis of ‘europeanisation’ incorporating an actor perspective also requires a generalisation on the motivation of actors. On the European level, actor behaviour in the Commission, Council, and member-states has to be seen in the context of enlargement. European actors will aim to keep the costs of enlargement low by: 1. tying in policy areas and institutional reform before accession (see for instance Mayhew 2003); and 2. preparing candidate countries in the pre-accession process. Further, the widening of the European Union, associated policy reform, and the evolution of the pre-accession process also mean a redistribution of competences among supra-national institutions and between supra-national institutions and member-states. Though this thesis is not directly concerned with the development of European institutions, these developments also affect the process of ‘europeanisation’ in the candidate countries in terms of the management of the pre-accession process, the continuity of the pre-accession templates, and the inclusion of the new member-states in EU institutions after accession.

At the domestic level, ‘europeanisation’ can produce a differential empowerment of actors (see for instance Green Cowles et al 2001, p. 229). Featherstone and Kazamias (2001, p. 17) noted both a cleavage between ‘traditionalists’ and ‘modernisers’ in

their volume on Southern states and ‘diffused’ and ‘differentiated’ empowerment among domestic actors. This thesis takes a rational approach in light of the limitations of the ‘constructivist’ and ‘cognitive’ views listed in section 2.

It is important to determine the motivation of administrative actors. Following Scharf (1997, p. 64-65), administrative actors have a principal interest in maintaining institutional survival and expanding organisational capacities, influence and budget (see also Dunleavy 1991 on budget-enhancing behaviour). This statement has two components. First, administrative actors have an interest in maintaining their institutional position. Domestic actors will try to avert the ‘costs of adaptation’ associated with the European Union templates, which potentially shift resources and competences at the domestic level. It is logical to assume that these shifts affect foremost those actors that have resources and competences to lose. In a centralised state such as the Czech Republic and Poland, it is logical to assume that national executive actors will safeguard their institutional position and resist decentralisation of competences and resources (mostly implementation) associated with EU templates. Borzel (2002b) makes a similar point for regions in Spain and Germany, which faced a centralisation of ‘decision-making’ in EU regional policy. Here, the motivation of actors is synonymous with the persistence of the macro-institutional configuration. Borzel (2002b) calls such actor behaviour ‘institution-dependent’.

Secondly, actors can use the EU requirements and funds management opportunities to enhance their institutional position and shape the domestic opportunity structure. The reason why this dynamic is prevalent in these policy sectors is because: 1. EU policy templates do not always challenge the domestic polity; and 2. there is a willingness of actors to participate in EU funds given the opportunities in terms of financial resources, competences and legitimacy offered by the EU. EU funds management is likely to be accommodated in some way, rather than resisted. This second motivation is consistent with ‘bottom-up’ and ‘agency-based’ views.

### 3.4 The Impact of Europe on Public Administration

Finally, the thesis has to conceptualise the impact of the EU on domestic administration. This analysis, as stated earlier, takes place on the macro-institutional and sectoral levels. Measuring change in domestic institutions has three components. First, on a general level one has to establish whether cross-national and cross-sectoral convergence or divergence occurs. Secondly, one has to determine the specific degree of change. This involves determining whether administrative adjustments are sectoral or whether adjustments affect the macro-institutional configuration or executive structure. Third, one has to determine the stability or magnitude of this change. These last two points also speak to the need to establish sectoral changes often overlooked in 'institution-based' accounts mentioned in 3.2.b. Finally, it is important to take into account different levels of investigation. Here, one needs to differentiate between 'projection' and 'reception' in administrative effects.

First, the debate on impact often takes place between those seeing some form of 'convergence' in domestic administrations, and those who emphasise the differential impact of Europe.

In terms of convergence, some authors argue that a commonality in the EU body of laws and policies could lead to a commonality in the national responses. Wessels and Rometsch (1996a; 1996b) refer to this cross-national institutional 'fusion' in national and supra-national bureaucracies. Radaelli (2000b) sees a possibility of 'isomorphism' through policy transfer. Dolowitz and Marsh (2000) see policy transfer on: policy substance, structure and goals; institutions; ideas, ideology; and the policy framework and administration. This convergence has theoretical underpinnings. Dimaggio and Powell (1991) and Hall and Taylor (1996) indicate that institutions functioning in a similar environment should start to look alike after a while. Hall and Taylor (1996) argue this point from the perspective of 'rational choice institutionalism', whereby institutions operating in a similar environment would increasingly look alike out of efficiency and optimisation by the member-states. Dimaggio and Powell (1991) see a commonality in responses, from the application of new institutionalism on organisations. They see commonality through coercion and

mimicry depending on 'hard' or 'soft' rules (also formal and informal institutions). Others, like Harmsen (1999), point to 'socialisation', whereby increased interaction between national actors leads to a commonality of outcomes.

However, theory and empirical evidence increasingly question the 'convergence' hypothesis. March and Olson (1989) argue based on 'sociological institutionalism' that organisations adapt to external pressures in terms of pre-existing structures and beliefs. They see this internalisation of rules and norms and their reproduction as the 'logic of appropriateness'. Historical institutionalism (see Thelen and Steinmo 1992, p. 9) comes to similar conclusions. Bulmer and Burch (1998) argue for the relevance of the domestic institutional 'paths' in the shaping of national coordination systems.

These theoretical perspectives have been integrated in empirical studies. The differential impact of the EU is apparent in various policy areas such as transport and the environment (Heritier et al 2001; Knill and Heritier 2000; Knill 2001; Borzel 2002b). Peters et al (2000), in terms of coordination systems in the member-states, looked at 'convergence' of national responses operating in similar institutional environments. In their observations, the differences between national responses are pronounced, even though important similarities exist, mainly in the rules and routines of the national coordination of the EU policy process. They link this national differentiation to particular aspects of the domestic polity: 'political opportunity structure', 'administrative opportunity structure'; and the choice of coordination (Kassim 2003, p. 103). Wright and Hayward (2000) look at different types and styles of coordination. Page (2003) concludes that there is no real evidence to suggest 'europeanisation' equates to homogenisation, but rather emphasises 'national filters', such as path dependency, administrative philosophy, actor constellations and political interests. These factors produce variable national outcomes. Goetz (2003), in addressing the 'fusion' of Wessels and Rometsch (1996a) in the case of German bureaucracy, distinguishes between 'administrative fusion' and 'governmental bifurcation' based on the shaping of incentives by institutional opportunity structures and the dual nature of the executive.

Studies on 'convergence' and 'differential impact' are of course not mutually exclusive. Commonality can exist next to differential effects in a given country (see

also Peters et al[2000]). However, it seems clear that using convergence as a working hypothesis<sup>11</sup> is too narrow a way to look at the overall impact of Europe.

Secondly, it is important to determine the degree of change. Borzel and Risse (2000, p. 10) identify three degrees of domestic change in the member-states; absorption; accommodation; and transformation. This distinction is similar to Heritier (2001) and Radaelli (2003). Absorption refers to an ability to incorporate European policies. Here, the member-states adjust institutions without substantially modifying existing processes, policies, and institutions. Accommodation refers to the adaptation of policies and institutions without changing their essential features. For instance, one could place new institutions on existing ones without changing them (Heritier, 2001). Transformation refers to fundamentally changing existing policies, institutions, and processes by new ones.

Further, as Schimmelfennig and Sedelmeier (2002b) point out, many studies have shown much change in domestic structures without focusing on the institutionalisation of EU rules and structures. This point refers to the magnitude or stability of institutional change.

Finally, there is a difference between studies looking at the interaction between domestic administration and the supra-national level or 'projection' of national preferences (Wessels and Rometsch 1996a; Page and Wouters 1995) and those studies looking at policy implementation and domestic administrative compliance or 'reception' (Knill 2001).

This last paragraph is important for studies looking East. The candidate countries are almost uniquely 'policy-takers' in the pre-accession period. The differentiation between 'projection' and 'reception' also underlines a wider gap in the literature. With the exception of Knill (2001) and Borzel (2002b), few studies have developed an analytical and theoretical model to analyse the impact of Europe on domestic administration and in particular implementation and 'reception'. Where analytical

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<sup>11</sup> Mair and Zielonka (2002) have suggested this working hypothesis for the candidate countries.

models exist as with Borzel and Risse (2003), empirical evidence on administrative adaptation has been scarce.

## **4. Contribution to the Literature**

This research makes two main contributions to the literature. First, it is one of the first studies to apply systematically a ‘europeanisation’ perspective to the Eastern enlargement. There is a growing literature analysing the impact of Europe in the CEECs. However, as indicated in section 2, studies have suffered from several conceptual limitations. Moreover, empirical evidence has been limited. In this way, the thesis will contribute to extending ‘europeanisation East’ and hope to produce a better conceptualisation of the EU pre-accession process and domestic factors mediating the impact of the EU. On the EU level, such analysis requires a specification of the mechanisms of ‘europeanisation’.

Extending ‘europeanisation East’ also involves asking questions whether the fact these countries are not yet member-states limits or enhances domestic adaptation of EU templates. This analysis also includes whether domestic actors see the EU as an enabling constraint for domestic reform or whether for domestic actors EU membership is becoming a topic of contestation.

Secondly, the thesis will contribute to ‘europeanisation’ literature by showing how Europe interacts with the first-wave post-communist candidate countries. This interaction is not with countries with a weak institutional configuration, but with countries with a specific institutional set-up. This configuration shows similarities and differences with those of core member-states, Nordic member-states, and Southern member-states. This interaction will allow us to reflect on the future development of the process of European integration and differences in ‘europeanisation’ experiences between groups of member-states.

A final aim is to reduce the ‘exceptionalism’ attached to the post-communist candidate countries. By focusing on transition, the institutional weakness of the candidate countries, and the conditional nature of the pre-accession process, some



studies seem to preclude that it is difficult to compare the candidate countries with the member-states. However, the future of the study of the CEECs is within a comparative analysis that shows the differences and commonalities between the member-states and the candidate countries. The final discussion centres on whether these candidate countries make up a new 'world of europeanisation' (for an overview of the 'four worlds of europeanisation' see Goetz 2002b).

## Chapter 3: Theory and Methodology

This chapter will set out the analytical framework based on the questions posed in section 2 of the introduction.

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### 1. Analytical Framework

#### 1.1 Introduction

The analytical framework in this thesis is based on Knill's (2001) framework with some important modifications. Knill in his analysis of the 'europeanisation' of national administrations looks at the effects of Europe on both administrative structure and policy style. He looks at specific regulatory policy areas, which have an administrative impact or implications for the domestic administrative organisation. The effects he finds are then linked back to explanatory mechanisms (see Knill 2001, p 201-212). Knill concludes that sectoral 'fits' and 'misfits' are not sufficient to explain domestic adaptation. Any sectoral change should be seen in the context of core administrative traditions. Where sectoral adjustments challenge these core traditions, domestic sectoral arrangements are likely to persist. The reverse is also true. This is by and large a neo-institutionalist approach. Furthermore, for the cases that he cannot easily explain within this framework, he proposes a dynamic view with two components. The first is possible ongoing reform of the state administration, which would alter the challenge of the EU to the core administrative traditions, as they are subject to change. A second component is the role of sectoral actors, be it administrative actors, political actors, or sectoral lobby groups, whose preferences might have changed. Their actions can produce sectoral adaptation, even when one would not expect it (for instance in the case, where the EU template challenges core administrative traditions).

This thesis makes two important modifications to this framework. First, this thesis, similar to Knill, finds that sectoral 'fits' or 'misfits' do not adequately explain the observed institutional adaptation and the differences between countries and policy

sectors. Secondly, the incentive of EU funds does not explain sectoral adaptation either. For similar incentives, institutional patterns in these policy sectors and countries vary. Especially, sectoral institutional resistance is hard to explain in light of the incentive of EU funds. Therefore, sectoral changes should be placed in a macro-institutional context. The research does not use the concept of administrative traditions like Knill. For reasons explained in section 3.2.c of chapter 2, the thesis uses the organisation of the national executive as the macro-institutional context. By the organisation of the executive or the macro-institutional configuration, I mean the organisation of the national executive on both horizontal and vertical levels. Section 2 in this chapter will elaborate on the definition of the organisation of the executive and the characteristics of the executive structure in the Czech Republic and Poland. It is important to distinguish between the macro-institutional context and sectoral institutional arrangements. It is possible that different sectoral institutional adjustments are accommodated within this macro-institutional context. Consequently, sectoral adjustments do not necessarily imply a challenge to the macro-institutional context, as long as they are within a range permitted by the macro-institutional context. This is a slight modification of Knill's framework.

A second modification is a closer analysis of the EU templates. The strength of the EU challenge depends on the level of prescription by the EU in its policy templates and secondly the incompatibility of such prescription with the domestic institutional configuration. Importantly, this analysis also incorporates how EU actors shape the EU templates (see chapter 4). Section 3 in this chapter will elaborate on the analysis of the EU templates and how temporal and policy factors shape the incompatibilities in these policy areas and countries. A differentiation in the level of incompatibility also leads to a differentiation in the mechanisms of 'europeanisation'. This research acknowledges the different mechanisms of 'europeanisation', outlined by Knill and Lehmkuhl (1999). I distinguish between three dynamics in institutional change with particular explanatory capacity: 1. a fundamental EU challenge to the domestic macro-institutional set-up; 2. a moderate EU challenge to the domestic macro-institutional set-up; and 3. the absence of a challenge to a domestic macro-institutional configuration. In a fundamental 'misfit between the domestic configuration and the EU template, domestic sectoral adaptation to the EU template can challenge the macro-institutional context. In a moderate misfit, the EU challenge

pertains mostly to sectoral institutional arrangements. This potential sectoral adaptation does not directly affect the macro-institutional context. In this dynamic, the incentive of EU funds implementation plays a role in actor behaviour. Finally, in some cases, the EU template provides no challenge at all.

Further, I propose, similar to Knill (2001), to look at institutional change through different levels of explanatory abstraction. By this, I mean that the explanatory capacity of the first two dynamics, which are applicable to this research, can be enhanced. I propose to do this, by looking at two main subsections of the first two dynamics listed above: 1. domestic reform ongoing in the candidate country; and 2. the evolution of the EU templates after the pre-accession period. These subsections are important in linking the full extent of the empirical evidence presented in subsequent chapters to the theoretical framework.

## **1.2 Three Dynamics of Institutional Change**

### **1.2.a A Fundamental Challenge to the Domestic Institutional Configuration**

A challenge to the macro-institutional set-up foremost indicates that the EU prescribes a policy template with administrative requirements to the candidate countries. Secondly, this EU drive towards sectoral institutional compliance in the policy areas shows incompatibilities with the domestic configuration, in particular with the organisation of the national executive. This approach is an institution-based account using the ‘goodness of fit’ hypothesis. ‘Misfits’ produce adaptive pressure, which is resisted or accommodated to varying degrees at the domestic level. The concept of a ‘misfit’ operates under the assumption: the greater the ‘misfit’, the greater the potential for institutional change at the domestic level (see Borzel and Risse 2003). In a fundamental challenge to the domestic institutional configuration, it is likely that a redistribution of competences and resources would be resisted (institutional positions are maintained). Institutional change and sectoral adaptation would be limited, accommodated in a limited way on the sectoral level, or isolated within the existing macro-institutional set-up. On the whole, the executive set-up and the sectoral

institutional arrangements would persist. This analysis will look at patterns of resistance and domestic retrenchment in light of EU challenges. Such patterns of resistance could also be shaped by the presence of specific veto players and facilitating formal institutions (see Green Cowles et al 2001, p. 226).

### **1.2.b A Moderate Challenge to the Domestic Institutional Configuration**

Secondly, the EU's ability to prescribe varies between policy areas and over time in the pre-accession period. A 'misfit' therefore is not an absolute concept with continuous clear 'prescriptive' properties as noted in Dyson and Goetz (2003, p. 16).<sup>12</sup> As sections 3.2 and 3.3 in this chapter will show, there are inherent policy and temporal factors in the EU templates in these policy areas. Temporal factors refer to the process of incorporation of specific domestic conditions in the 'top-down' EU approaches of the pre-accession process in the EU templates.

In a moderate 'misfit', the key point is that in terms of the 'misfit' between the EU template and the domestic institutional set-up and the consequent adaptive pressure on the candidate countries, the sectoral institutional changes required by the EU are in the range permitted by the national executive structure. The EU template in this case is less likely to challenge the macro-institutional configuration, governing sectoral policy implementation and coordination.

What does this mean for the theoretical framework? In the most extreme cases, where both temporal and policy factors mean substantial institutional discretion, the EU challenge to the macro-institutional context would largely dissipate. In these cases, institution-based accounts would predict little change on the macro-institutional level. However, this approach might fail to capture important sectoral institutional change, such as changes in sectoral administration and the type of intervention. In order to escape institutional determinism, it is necessary to complement institution-based

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<sup>12</sup> In line with this view on 'misfit', David Hudson, a European Commission official, acknowledges that for the candidate countries the European Commission might comment on, influence and monitor the national choice, but the EC often does not want to mandate this choice in the determination of the implementation agencies or policy coordination (Interview with David Hudson: Brussels, August 29 2001).

views with approaches focusing on domestic actors and in particular on how domestic actors use EU requirements and opportunities from the bottom-up.

The prospect of sectoral institutional change is strengthened by the basic willingness at the domestic level to participate in and absorb EU funds, given the wider benefits of EU funds. Both EU actors and certain domestic political and administrative actors have a rational interest in ensuring that absorption of funds occurs. In this sense, domestic support in specific actor groups in the domestic constellation is important in determining whether institutional change occurs. Sectoral actors extend beyond administrative actors and include the beneficiaries of EU funds and interest groups. Section 4 in this chapter will elaborate on the motivation of actors.

The next question is what shape institutional change is likely to take. In promoting absorption from both the EU and domestic perspective in the pre-accession period, ‘administration-building’ was often more important than ‘administrative compliance’. ‘Capacity’ as determined by the resources and competences of administrative actors was the main factor in how actors could take advantage of EU funds opportunities (similar to Borzel 2002b, p. 32) and shape the domestic opportunity structure. Mostly, actors with ‘capacity’ would aim to maintain and strengthen their respective institutional positions through the management of EU funds. Section 5 in this chapter will discuss the degree and magnitude of institutional change.

### **1.2.c A Low Challenge to the Domestic Institutional Configuration**

In the case of a low challenge to the domestic institutional configuration, the EU template does not require changes in either the macro-institutional or the sectoral institutional arrangements. The reason for this could be that the EU procedures are easily absorbed within the domestic arrangements, or that the EU does not have a distinct template and allows national practices to persist.

In this case, the EU reinforces the executive structure and the sectoral arrangements of the candidate country. The main effects of ‘europeanisation’ in this dynamic relate to the impact of ‘europeanisation’ on the beliefs and knowledge of domestic actors.

It is important to note that this category does not appear in this research. The research argues that in both policy areas a fundamental to moderate challenge exists between the EU templates and the institutional configurations of the candidate countries.

### **1.3 Explanatory Subsections**

#### **1.3.a Domestic Reform**

The first explanatory subsection differentiates between reform of the national executive structure and sectoral reform. As stated earlier, the macro-institutional context limits sectoral outcomes. However, as the case of agricultural reform in the Czech Republic shows, sectoral outcomes can take on several forms within this context.

##### **A Challenge to a Domestic Institutional Configuration undergoing Endogenous Macro-institutional Reform**

First, it is important to consider the pattern of institutional change in the context of ongoing endogenous administrative reform of the executive structure. Endogenous reform here is used to explain institutional change of the executive structure that can not be accounted for in ‘europeanisation’-based perspectives. This statement could refer to two types of change processes. First, administrative reform could explain change in the executive structure, where ‘europeanisation’-based accounts would only expect limited change. This would be the case in a fundamental ‘misfit’. Ongoing reforms of the executive structure can alter the ‘misfit’ and the nature of adaptation pressure. On the other hand, a lower prevalence of endogenous reform in the executive structure obviously indicates a more stable domestic institutional configuration. This could strengthen institutional resistance.

Secondly, ongoing endogenous reform of the executive structure could explain a change in the macro-institutional context, where ‘europeanisation’-based accounts would only expect a change in sectoral institutional arrangements or no institutional change at all. This would be the case with a ‘moderate misfit’. An example is the

reform of the executive structure in Poland, which started in 1996-1997 and was continued by the government of Leszek Miller in 2001.

### **Sectoral Institutional Change in the Case of a Fundamental Challenge**

Third, a fundamental challenge to the macro-institutional context does not mean sectoral institutional change cannot occur. This seems especially the case when endogenous sectoral institutional change preceeds the challenge posed by the EU templates. As stated earlier, it seems several forms of institutional arrangements are possible within the executive set-up. Such reform could also offer new opportunities to interest groups. However, similar to Knill (2001, p. 208), this observation does not indicate that sectoral changes lead to changes in the executive set-up over time. In fact, such sectoral institutional change could strengthen the executive set-up. Czech agriculture will be the example in this research.

### **1.3.b A Variation in the EU Challenge over Time**

Fourth, as indicated earlier and stated in studies on the pre-accession period (see Grabbe 2003; Lippert et al 2001), the temporal factor is important in determining the EU challenge and consequent pressure to adapt at the domestic level. The temporal factor, indicated in section 3.3, is different from the policy factor in mediating the EU pressure to adapt. The policy factor is inherent in the EU 'acquis', whereas the temporal factor by definition is variable over time. Of course, the policy factor can change, as the 'acquis' changes. However, the temporal factor, in terms of the transition periods and the continuity of the pre-accession template, has more determinate and predictable timelines.

Considering that temporal factors in the pre-accession period have been incorporated in the dynamics listed above, temporality here refers to changes or possible changes to the EU template after accession. These future changes, though sometimes speculative, could have two consequences. First, in institution-based accounts, they could mediate or strengthen the 'misfit'. Further, in actor-based accounts, possible changes in the EU template allow for domestic actors to look at future developments strategically.



Actors can anticipate how they would use EU requirements and opportunities in the future.

## **2. Domestic Institutional Arrangements**

In expanding the framework, it is first necessary to talk about domestic institutional arrangements. The domestic institutional configuration and institutional patterns to emerge from the configuration determine 'europeanisation' in two basic ways. First, the institutional configuration will in 'top-down' institution-based 'europeanisation' determine the degree of 'misfit' with EU requirements and templates. Secondly, the domestic institutions in terms of administrative procedures, the constitution, budgetary rules, and legal norms will determine the ability of domestic administrative actors to take advantage of the opportunities and EU requirements to shape the domestic polity. This point is also made in Borzel (2002a). For instance in centralised states, regions will have less capacity (resources and competences) to exploit funds opportunities. As stated earlier, capacity was of importance both to the domestic and European actors. There can in other words be a link between an institutional position and the capacity to act. First, it is of importance elaborate on the macro-institutional configuration, introduced in section 1. A subsequent section will show how these determinants differ between countries and policy sectors over time.

### **2.1. Institutional Determinants**

This work takes the organisation of the national executive or the relationship between the national executive and sectoral actors as the core macro-institutional context. I identify two dimensions of institutional arrangements that define this context: 1. the level of horizontal centralisation in the executive; and 2. level of vertical centralisation in the national executive and territorial administration. Horizontal centralisation has two aspects, the degree of segmentation within administration and the degree of coordination in the core executive. Segmentation can exist between special purpose administration such as foundations and government agencies in the policy sectors, on one hand, and the core executive, line ministries and regions, on the other. Segmentation could not only potentially fragment policy implementation, but

reduce the core executive's capacity to coordinate. The level of horizontal decentralisation also varies between the types of specialist administration. For instance, government agencies often have a close ministerial linkage, whereas foundations do not (see Hausner and Marody 2000). The degree of coordination here means the ability of the core executive to coordinate policy and sectoral actors and allocate implementation competences. Vertical decentralisation encompasses how regional bodies, both state administration and regional development agencies, are integrated in the executive, and also the institutional relationship between the executive and regional and local self-government.

## **2.2 Variation between the Czech Republic and Poland**

Between Poland and the Czech Republic, there are similarities in the institutional set-up of the executive, which emerged after transition in the early 1990s. Both countries from transition onwards had vertically centralised but horizontally decentralised executives. However, Poland in 1996 developed a stronger coordination role for the core executive. This development led to differences between the countries in the institutional patterns of executive coordination and implementation.

In looking at coordination, the post-1996 development of formal coordination at the core executive level or in inter-ministerial bodies in Poland allows for a more stable allocation and delineation of competences in the executive. This reform was a response to the need to raise administrative effectiveness, but also to reduce the correlation between intra- and inter-political splits and executive coordination (Szlachta 1999). In Poland, this centralising tendency is also due to the growing importance of the position of Prime Minister in the executive (see for instance Zubek 2001). In the Czech Republic, more informal coordination arrangements exist, whereby ministries have discretion in determining their competences and allocation of resources. This informality produced a segmented coordinative culture, where policy coordination was driven by the respective ministries, with limited central direction and information exchange between departments<sup>13</sup>. Reform was limited. In 1998, the Zeman government introduced a new Deputy Prime Minister, who would oversee the

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<sup>13</sup> This weakness of linkage was also noted in Goetz and Margetts (1999). They describe core executives in the CEECs as 'solitary centres'.

coordination of efforts to prepare the Czech Republic for EU membership. This post, close to the Prime Minister, was quickly abandoned in favour of a structure, in which the Foreign Minister again coordinated overall relations with the EU and a Deputy Finance Minister was the contact point for financial assistance. The elevation of the Minister of Foreign Affairs and the Minister of Finance to Deputy Prime Ministers again emphasised ministerial autonomy.

The institutional patterns of implementation in the Czech Republic and Poland followed the difference in the ability of the core executive to coordinate in respective countries. After 1996, Poland saw a push towards '*consolidation*' of strategically important administrative implementation responsibilities close to the core executive and associated line ministries and agencies. In the Czech Republic, the pattern remained a '*sectoralisation*', whereby administrative implementation was conducted by national administrative actors, such as line ministries and central agencies. Implementation tasks in the absence of formal coordination were often contested between national executive actors.

However, several factors affect the capacity to coordinate. First, Kassim (2003) notes that non-majoritarian governments, such as in Poland and the Czech Republic, produce less 'positive coordination' in state administration. The prevalence of coalition governments and the frequency of political turnover in both the Czech Republic and Poland can affect the stability of the alignment of competences and the distribution of resources by decreasing the capacity of the Prime Minister and the core executive to coordinate in the cabinet. Secondly, the ability of the executive to control the legislature through political management affects coordination of policy. For instance, splits within the parliamentary caucus of the AWS in 1997 in Poland and between this caucus and the executive meant that the position of government was weak and policy-setting occurred in parliament. Third, interest group mediation was important in particular policy areas such as agriculture. In Poland, agricultural lobby groups were highly effective in determining intervention policy, which undermined the ability of the core executive to coordinate development and intervention policy. Fourth, a semi-presidential system as in Poland meant a sharing of certain coordinative powers in defence and foreign policy between the Prime Minister and President. Cohabitation made such sharing more challenging.

Further, the segmentation within administrations is relevant in determining the horizontal organisation of the domestic administration. After transition, both Poland and the Czech Republic relied on special purpose administrations. Such administrations provided 'specialised administrative capacity'<sup>14</sup> in these countries and led to an additional fragmentation in the executive set-up.<sup>15</sup> Special purpose administrations have been seen both as a product of the politicisation of state administration (see for instance Goetz and Wollman 2001) and an attempt to escape the politically influenced state administration as in the Czech Republic (Interview with Ctibor Kocman Prague: April 23 2002) (see Goetz and Wollman 2001).<sup>16</sup> This point indicates that differences exist in the extent of segmentation of these foundations.

Territorial decentralisation, given the fact the Czech Republic and Poland have a traditionally centrist unitary political and administrative culture, has meant a low level of cooperation and sharing of competences between the regional level and central state. Moreover, in both countries there was no clear delineated allocation of competences and resources to the regions. Regions in the Czech Republic had been disbanded at the time of transition. In Poland, regions were maintained, but were extensions of state administration. Though in both countries there existed a stipulation in the respective constitutions on regionalisation, reform at the time of transition had focused on municipalities and reforming state administration at district levels. This regional vacuum in both countries meant a greater role in regional policy for the national executive through ministries and a proliferation of government agencies and foundations at the regional level. Though regional reforms in Poland and the Czech Republic in 1998 and 1997 respectively were a fulfilment of the respective constitutions, they provided limited actual decentralisation of decision-making, implementation, and budgetary resources.

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<sup>14</sup> Their competences primarily centred around: a. the management of economic transformation stemming from transition; b. the promotion and economic development; c. management of external funds; and d. the minimisation of social costs on societal groups stemming from this economic transformation.

<sup>15</sup> Hausner and Marody (2000) refer to these as an element in the development of 'quasi-government'.

<sup>16</sup> This independence often meant that staff members of special purpose administration were not subject to civil service law.

In conclusion, the main variance between the Czech Republic and Poland, given that both are centralised states, lies in the organisation of the national executive, in particular the organisation of the core executive and its ability to coordinate policy and sectoral actors.

## **2.3 Sectoral Variations in Regional and Agricultural Policy**

In regional development policy in both countries, regional policy was part of national industrial policy. Intervention was planned and coordinated at the national level with little regional input or consultation. Implementation was scattered in various regional and national bodies across territorial administration. The main difference in implementation post-1995 was the ‘sectoralisation’ of implementation in the Czech Republic and the ‘consolidation’ in Poland.

In agricultural policy, there were fundamental differences in the institutional set-up between Poland and the Czech Republic. These differences reflected the different structural issues that existed at the time of transition. Poland had an extensive and costly interventionist policy with formalised interest mediation. This policy resulted in several agencies being formed to administer intervention. These agencies have a large degree of institutional autonomy in the executive set-up. This autonomy also led to these agencies being politicised (see Jablonski 2000), given the political salience of agricultural policy. Moreover, farmers’ groups were formally consulted in intervention conducted by the agencies. Intervention was often ad hoc. These arrangements decreased the ability of the core executive to coordinate or consolidate implementation in the agricultural sector. In the Czech Republic, a liberal agricultural policy meant a less extensive interventionist policy and less decentralisation in the executive institutional set-up.

## **3. Mechanisms of ‘Europeanisation’ over Time**

The second modification to Knill’s (2001) framework, developed in this thesis, is a close analysis of EU templates. The question is how mechanisms of ‘europeanisation’ can be linked to clear EU templates and ‘prescription’. Here it is necessary to look at

the mechanisms in regional and agricultural policy more closely, at how the pre-accession period affected such templates, and at the evolution of the templates over time.

### **3.1 Mechanisms of ‘Europeanisation’**

On a modal level, the main mechanisms of ‘europeanisation’ in the pre-accession period in regional and agricultural policy are: 1. the ‘downloading’ of programming and policy templates; and 2. the allocation of resources in pre-accession funding.

Downloading of EU templates consists of: a. the adoption at the national level of the ‘acquis’ and operational templates governing management and payment functions; and b. the benchmarking and monitoring at the European Commission level and inter-institutional level to make sure that the domestic administration follows EU procedures and regulations. Secondly, the EU affects the national distribution of resources through the allocation of funds.<sup>17</sup> The EU controls the substance and direction of the distribution of resources.<sup>18</sup>

Control over programming at the EU level resides in: 1. the ex-ante standards and regulations, 2. ex-ante, rolling, and ex-post evaluations and monitoring; and 3. substance and direction of resources. These points refer to the three main tools of procedural control in EU programming: approval; monitoring; and audit and financial control.

### **3.2 EU Challenges to the Domestic Institutional Configuration**

The EU, through ‘downloading’ and the allocation of resources, challenges the sectoral institutional arrangements in both policy sectors. However, even though in all cases presented in this research sectoral ‘misfits’ are high and similar, different patterns of institutional adaptation emerge. On a further level of analysis, this thesis

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<sup>17</sup> It is clear that the allocation of resources is conditional on the domestic administration adopting EU templates and gaining positive evaluations through monitoring and accreditation. However, I differentiate between these factors, as accreditation alone does not determine the specific targeting, overall direction, and degree of resources allocated.

<sup>18</sup> This refers to overall direction per instrument. National governments through the drafting of the National Development Plan have some discretion on funding per priority axis.

has to look at the challenge that potential sectoral adjustment to EU templates might pose to the macro-institutional configuration. These challenges seem to exist for the Czech Republic and Poland in both policy areas. The adoption of a re-distributive EU regional policy implies: 1. a decentralised implementation according to NUTS requirements; and 2. a specific national implementation administration and domestic resources to coordinate, manage and draft regional policy (and eventually Structural Funds). For agriculture, the adoption of CAP and SAPARD type intervention mean: 1. the formation of ‘specific administration’ at the national level to initially implement and coordinate rural development and later direct payments (and IACS), market intervention, and associated veterinary and phytosanitary regulations; 2. the transfer of competences to the European Commission.

### **3.3 Policy and Temporal Aspects to ‘Europeanisation’ Mechanisms**

However, the EU templates are not absolute. This thesis establishes two categories of mediating factors in the EU templates towards the candidate countries: 1. the differences between policy sectors; and 2. the evolution of the pre-accession template over time. These factors show that for regional policy, the challenge to the macro-institutional configuration can be mediated. This places EU regional policy pressures in the ‘moderate challenge to the domestic institutional configuration’ category. Adoption of agricultural policy constitutes a more ‘fundamental challenge’.

#### **3.3.a Policy Factors**

On point 1, there are three main policy factors in regional and agricultural policy templates:

1. the density and clarity of the ‘acquis’ in the given policy sector<sup>19</sup>;
2. the fact whether the policy is beneficiary-oriented<sup>20</sup> in terms of the specificity of procedures;
3. whether template is cross-sectoral or confined to one sector;

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<sup>19</sup> Jacoby (2002) lists the density of the ‘acquis’ as a factor in how elites in the CEECs attempt to emulate EU policy.

<sup>20</sup> By beneficiaries, I mean parties outside of the central and regional state administration such as municipalities, farmers, railways, and companies among others.

Comparing agricultural policy and regional policy according to this categorisation shows a great deal more discretion in shaping administrative outcomes at the domestic level in regional policy than in agricultural policy. The agricultural ‘acquis’ compared to the regional policy ‘acquis’ is considerably denser. This density means procedures and regulation will be more specific and more extensive. Higher density will mean less domestic discretion to shape administration. Further, a beneficiary-oriented programme will have more specific procedures on management and payment, because of the European Commission’s focus on efficiency and effectiveness in programming. As beneficiaries are more atomised as in agricultural policy, the EU procedures also tend to be more dense and extensive. Third, a cross-sectoral programme implies a greater number of administrative actors involved both at the European level and within the domestic administration. In a cross-sectoral policy environment such as regional policy, the template would be less specific and more diverse with different stakeholders and implementation possibilities than agricultural policy, which is largely confined to one sector. This diversity would again increase the domestic discretion to shape the administrative outcomes.

### **3.3.b Temporal Factors**

Secondly temporal factors mediate the EU challenge. The pre-accession templates had a dual focus: 1. administration-building; and 2. administrative compliance. This duality indicates a potential for a clash of priorities. In certain cases, the European Commission and its Delegations in the candidate countries sought less to address compliance in administrative structure and policy, but rather boost the domestic administrative capacity or the efficiency of absorption and implementation. As accession neared, ‘administration-building’ often meant relying on administration in the candidate countries that had expertise and capacity to implement (Interview with Etienne Claeys: Brussels, October 25 2001). This could change the challenge the EU poses the domestic institutional configuration.

There are two temporal factors in the EU templates:

4. the transition periods and other transitional measures;



## 5. continuity of the pre-accession template.

Transition periods mostly occur where the 'acquis' is dense as in agricultural policy. Derogations allow EU actors to tie in EU policy and to strategically give some domestic discretion in the administrative organisation and policy adaptation.

Transition periods are part of the enlargement bargain. Transitional measures weaken the EU policy templates for a specific time, as in for instance the direct payments of the Common Agricultural Policy (CAP). In the transition period, domestic discretion in the shaping of the management of a policy sector increases. Continuity stresses both the procedural links of the pre-accession template with the 'acquis' and the variability of the EU pre-accession template in the pre-accession period. Lack of continuity is associated with less specific and clear policy requirements, as in regional policy. Reforms of the EU templates and redirections of EU resources tend to be more frequent. This frequency also reflected the freedom of the European Commission to promote absorption and focus less on administrative compliance. Lack of continuity means more domestic discretion in shaping the domestic administrative outcomes. As chapter 4 will show, 'continuity' in the pre-accession period affected the EU regional policy template.

It is important to note that, due to the large degree of homogenisation of the accession process by the EU institutions (see for instance Rowinski in Hunek and Rowinski 2000), most temporal factors are the same for Poland and the Czech Republic across policy areas.

### **3.3.c Stages in the Pre-accession Process**

While looking at temporal factors in the EU mechanisms, it is useful to identify different stages in the pre-accession process. Lippert et al (2001) identify 5 periods of different EU foci with regard to the candidate countries in CEE. I propose three phases in this thesis: 1. the early pre-accession period, where the initial contacts were made and the pre-accession aid had the purpose to aid the transition to democracy and a market economy (1992-1996); 2. the pre-accession period, where the negotiations of accession started and pre-accession aid became acquis-based (1997-2002); 3. the early accession period (2003-), where the negotiations finished and pre-accession

instruments were remodelled to accommodate Structural Funds and agricultural payments. This research, as it concerns the pre-accession period, deals mainly with the second period.

These periods reflect the changes in the prioritisation within European administration. The internalisation of enlargement among the EU actors occurred on two concurrent levels: 1. the reform of the EU pre-accession templates; and 2. the reform of EU policy and institutions. It is important to stress the concurrent nature of internal reform and the reform of the pre-accession templates, because otherwise an additional temporal variance would exist within this research. In regional policy, PHARE reform was synchronised with the reform of Structural Funds. However, the legacy of PHARE as an aid instrument administered by the Directorate-General of Enlargement meant: 1. frequent reforms after 1997 to produce convergence with Structural Funds management; and 2. an end to PHARE after a two-year transition period after accession. In regional policy, a lack of continuity of the EU pre-accession templates was a clear factor in the ‘downloading’ of the templates and the allocation of resources in the different stages of the pre-accession period. In agricultural policy, the reform of the CAP was integrated in both the transition periods and the introduction of SAPARD (Special Accession Programme for Agriculture and Rural development) and was consistent with the rural development policy agreed to in 1999 at the Berlin Council, which was subsequently amplified in the Luxembourg Council of 2003. The pre-accession templates showed clear convergence with CAP and the reform of CAP. Chapter 4 will elaborate on these reform processes.

## **4. Actors in ‘Europeanisation’**

The motivations of actors are important in two ways. First, the preferences of EU actors shape the pre-accession templates and the reform of EU common policy. Secondly, when applying actor-based accounts in the analytical framework, it is important to conceptualise the behaviour of domestic actors.

## 4.1 European Actors

The thesis makes three observations on the behaviour of EU actors: 1. the European Council has an interest to *tie-in* policy areas and maintain current budgetary frameworks<sup>21</sup>; 2. the European Commission has an interest in the pre-accession period in ensuring a degree of preparedness in the candidate countries to safeguard European institutional arrangements and policies; and 3. the widening of the EU meant a redistribution of management competences from the European Commission to the member-states in the given policy areas.

The tendency of the EU to *tie in* policy preferences and templates before accession seems geared to provide continuity in core policy areas such as EMU, regional policy and agricultural policy and ensure the normal functioning of EU institutions, sometimes for lengthy periods. The transition periods in regional policy and agricultural policy have mostly served to preserve the current *modus operandi* or allow for policy and institutional changes only after enlargement (for such an argument on agricultural policy, see for instance Mayhew [2003]). The financial frameworks for both Structural Funds and agricultural funding ensure at least funding at current levels for all the member-states until 2006. This intransigence is also due to the bilateral or ‘nested’ (see Friis 2002) nature of negotiations, the homogenous treatment of the various candidate countries by the European institutions, and the limited cooperation between the CEECs in the pre-accession period.

Secondly, the ‘internalisation’ of accession in the member-states means an ‘anticipation and preparation’ for enlargement (see Friis and Murphy 1999). This internalisation means that both policy and institutional reforms have been undertaken before enlargement. Also, this internalisation meant a process preparation of the candidate countries to lessen the impact these countries could have on the European institutional set-up. Preparation driven and managed by the European Commission produced a focus on administrative compliance and administrative capacity building

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<sup>21</sup> This approach by EU actors is also visible in the European Parliament where the six months before accession saw a record number of co-decision reports. Normal translation delays were avoided through the use of core languages.

to efficiently and effectively implement the 'acquis'<sup>22</sup>. These foci on compliance and capacity building included the development of instruments such as PHARE, ISPA, and SAPARD.

Third, enlargement would also mean a change in the management of EU templates. The role of the European Commission changed after accession. Management would shift from the Directorate-General of Enlargement and the European Delegations to the Directorate-Generals of Regional Affairs and Agriculture. However, this shift was not only intra-institutional. Policy reform before accession had been linked to the preparation for enlargement. Both in regional and agricultural policy the management role of the European Commission towards the member-states has been reduced in several reform processes. The European Commission aimed itself to reduce some competences in CAP, due to lack of capacity to deal with a wave of new member-states (see interview with Alan Wilkinson: Brussels August 29 2001).

For the candidate countries, the behaviour of the European actors meant the candidate countries had limited opportunity to affect budgetary and policy frameworks during the pre-accession period and upon accession. This limited impact on EU policy by the 'periphery' states has also been noted by Featherstone and Kazamias (2001, p. 12) in their volume on the Southern states. Secondly, though the new member-states would be freed from direct and specific European Commission management in the Delegations and Directorate-General of Enlargement upon accession, there were additional responsibilities and adaptive pressures for domestic administration (for CAP see Pezaros 1999a). The transfer of responsibilities to the domestic level and promoting the robustness of domestic administration had already been an integral part of the pre-accession instruments. In the pre-accession period after 1996, the European Commission did not attempt to transfer competences to Brussels or maintain its own management position in these policy sectors, but increasingly promoted 'domestic ownership'.

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<sup>22</sup> This point also reflects on the great pressure in the Commission to increase efficiency and effectiveness in pre-accession aid (for this point see interview with Jean-Marc Trarieux: Warsaw September 27 2001).

## 4.2 Domestic Actors

At the domestic level, there are two levels of actors affected by ‘europeanisation’ of regional and agricultural policy: 1. the national executive level, which includes administrative actors such as the Prime Minister, the Council of Ministers, the line ministries and the central implementation agencies; 2. the sectoral and regional level, which includes the regions, regional development agencies, interest groups, sectoral agencies and sectoral beneficiaries.

As stated in chapter 2, the thesis assumes domestic actors behave rationally. Where the European Union negatively challenges the domestic resources and competences of actors, these actors will aim to avert or reduce the costs of redistribution. Actors will aim to maintain their institutional position. Part of maintaining the respective institutional position is also to control future redistribution of resources and competences. Goetz (2002a) points to the aversion of domestic actors to incurring ‘sunk costs’ in institutionalisation, given that they are likely to achieve a stronger position within the EU after accession. This resistance could be amplified by veto points in the domestic institutional configuration. As stated earlier, such patterns of locked-in behaviour would be consistent with institution-based accounts.

However, two factors mediate the assumption of institutional persistence. First, the EU policy templates do not always challenge the domestic macro-institutional configuration. Secondly, given the incentive of EU funds, there is a willingness in certain parts of domestic administration to participate. This willingness takes into account the overall costs to society of not absorbing EU funds. This point emphasises the importance of funds implementation to politicians, administration and wider society. Non-absorption could affect the prospect of EU accession as well as have direct domestic costs.<sup>23</sup> Further the administrative actors and sectoral bodies have a direct incentive to participate in EU funds and can enhance their institutional position.

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<sup>23</sup> Kaczorowska (Warsaw Voice, 16/12/2001) comments on the pressure on the administration in Poland to improve PHARE implementation. Both lack of uptake in PHARE and SAPARD was angering potential beneficiaries. Improving absorption was not only a focus for the European Commission but became a salient political issue.

This more 'agency-based' approach shows how the domestic actor constellation can influence the process of institutional change.

## **5. The Substance of 'Europeanisation'**

Finally, in establishing an analytical framework for looking at institutional change, it is important to determine what the likely impact of 'europeanisation' on domestic administration in regional and agricultural policy would be.

The thesis splits institutional change in two categories: 1. the degree and magnitude of institutional change; and 2. the cross-sectoral and cross-country comparative 'europeanisation' effects.

First, it is not sufficient to say that the effects of the EU are limited or substantial. Following Radaelli (2003), an analysis of 'europeanisation' requires not only an attribution of the effects to certain mechanisms and intermediate variables, but careful definitions of what adaptation means. First it is important to see how administrative responsibilities are integrated in domestic administration. To borrow from Heritier (2001) and Borzel and Risse (2000; 2003) or similar to Radaelli (2003), are EU-related administrative procedures absorbed within existing administration as they are indeed similar to domestic procedures; are such procedures accommodated within existing administration next to domestic administrative procedures; is administration transformed as a result of the new administrative tasks or indeed created specifically to perform them; or has administration refused to change and adopt new EU-related procedures or frameworks (retrenchment).

Further, it is important to look at the magnitude of institutional change. It is important to see whether 'europeanisation' has affected the vertical and horizontal organisation of the executive or whether 'europeanisation' has more marginal effects. These effects can relate to sectoral administrative changes that do not affect the organisation of the executive. Sectoral adjustments could be changes in the distribution of sectoral administrative competences and in how policy is administered.

Finally, the research attempts to establish whether on a comparative basis cross-sectoral and cross-national convergence takes place in administrative outcomes. Here, the research tests whether national administrations operating in a similar supra-national environment will eventually look alike, or whether domestic institutional persistence will point more to divergence. Again, it is important in this analysis to distinguish between the national executive and sectoral levels.

## **6. Research Methodology**

The administrative requirements stemming from EU regional and agricultural policy are the same for both the Czech Republic and Poland. The pre-accession process has produced a noticeable homogenisation of EU approaches to the candidate countries. For agricultural policy, Janusz Rowinski commented that the opinions of the candidate countries were completely ignored (Rowinski in Hunek and Rowinski 2000). The EU preferred to treat candidate countries as a homogenous bloc regardless of the systemic features of respective agricultural and regional sectors and timing of accession. This homogenisation was strengthened by the absence of inter-country coordination and cooperation among the candidate countries of CEE. It was also a function of the asymmetry of power between the candidate countries and the Presidency of the European Union, which presided over negotiations. Rather, these countries more often than not competed for an advantage in the process of accession negotiations and monitoring of accession progress by the European Commission. Their common positions with perhaps the exception of the final agricultural negotiations in the Copenhagen and Brussels Summits of 2002 were largely absent.

A comparison can take place on two levels. On the one hand, one could take the European template as a given and compare the impact of the template and process of adaptation between countries. On the other, one could take two or more different policies and compare the impact of the administrative requirements of such policies on a specific country. This is a comparison between policies. In this research, I undertake a comparison between policy sectors and between countries. One of the problems of 'europeanisation' studies has been the small number of cases in the analysis (Schimmelfennig and Sedelmeier 2002b). The reason seems to be that

‘europeanisation’ researchers prefer an in-depth analysis instead of more extensive models that require a greater degree of abstraction and generalisation at the expense of the particularities of the specific case. The weakness of the approach with fewer cases might be that such studies over-determine the results and provide a poor base for generalisation about the impact of the EU or the process or mechanism of ‘europeanisation’. This work would fall into the last category. How do we then address the concerns associated with small numbers in this approach? Przeworski and Teune (1970, chapter 2) propose the ‘most similar case’ design. The selection of Poland and the Czech Republic involves two first-wave post-communist candidate countries. These countries are undergoing similar processes of domestic transformation including institution-building. During the pre-accession process, they face identical EU approaches that occur in the same timeframes. In terms of domestic transition, these processes included democratisation, privatisation and economic liberalisation and stabilisation. Poland and the Czech Republic started the process of transformation from similar socio-economic (economic ‘zero hour’) and political conditions (communist leadership with a degree of civil society opposition) and initially pursued similar economic policies in transition<sup>24</sup>. In this way, Poland and the Czech Republic provide a level of similarity.

Moreover, there are important similarities between the Czech Republic and Poland in the administrative organisation. In the executive set-up, the Czech Republic and Poland both had a decentralised executive after accession. In terms of regional policy, Poland’s legacy of limited decentralisation stands against the Czech Republic’s experiences as part of a federal structure. Nonetheless, both countries had a strongly centralised polity in which regions had a limited role in implementation and regional policy coordination. The study of these candidate countries can therefore also show comparisons between post-communist first-wave candidate countries and groups of member-states. On the other hand, Poland and the Czech Republic also differ in terms of administrative arrangements in the post-transition institutional framework, both on the level of the development of the executive and sectoral arrangements of implementation. This variation is important in explaining patterns of adaptation.

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<sup>24</sup> For an overview structural reform in response to structural deficiencies see for instance Gomulka 1994; Kornai 1994; Blanchard 1996; Blanchard et al 1992; Schliefer and Vishny 1994.



Further, the thesis tries to overcome the issue of the small number of cases by discussing two EU policy sectors. These policy sectors are similar. Both policy sectors are core policy sectors, have re-distributive effects, and include pre-accession instruments. As explained earlier, these pre-accession instruments are important in the examination, as they provide a continuous interaction across the pre-accession period after 1996. This interaction does not exist in other policy sectors. In this way, the policy sectors are 'extreme cases'. The degree of institutional adaptation in these core policy areas at the domestic level would likely be 'different' for EU policy areas, which either lack such interaction or have requirements that are less extensive. The analysis here could be informative for EU policy sectors such as EMU where interaction starts later.

However, these policy areas do not produce the same types of challenges to the domestic administrative actors. The main difference lies in comparatively different density of the 'acquis', different paths of reform of policy within the European Union (continuity), different paths in negotiations (transition periods and derogations), and different conceptions by the European Commission of templates in the pre-accession period (beneficiary-oriented or not; cross-sectoral or sectoral).

By choosing two policy sectors with different administrative requirements, the research increases the number of cases. Seeing how different policies impact a candidate country, also fits into the case analysis put forward by Collier (1991). The analysis works on two levels. First, the analysis in our country comparison should reveal which explanatory factors in administrative arrangements for implementation for the same European policies drive domestic adaptation or persistence. Secondly, one can look at how policies with different administrative requirements produce different patterns of adaptation within a specific candidate country.

The qualitative analysis in this research uses a wide range of primary sources including publicly available government documents, internal government documents, independent research and evaluations, structured interviews with key officials, surveys of implementation and coordination administration, newspapers and magazines. Secondary literature was used to build a context for the empirics and check evidence emerging from empirical evidence. The period studied in this work

runs from approximately 1992 to 2003. However, the weight of the thesis concerns the period from 1996 to 2003, the period after Agenda 2000. In all, I conducted close to 90 interviews with public officials, academics, and development officials attached to regions and municipalities of which 62 are referenced in the thesis and listed in the bibliography. In all, about 30 of these interviews were with Commission officials inclusive of national 'twinning' advisers and members of the European delegations in Prague and Warsaw, 40 interviews with national officials including members of the respective missions to the European Commission in Brussels and some academics, and 20 interviews with regional officials. All interviews were conducted in either English or German. Transcripts and qualitative analysis are based on notes taken during the interviews. This analysis also aimed to verify comments and trends indicated in the interviews through statements made by an additional source. Interviews with European Commission officials took place from September 2000 to October 2001, with some follow-up interviews in October 2003. Interviews with Polish and Czech officials took place between September 2001 and August 2002. The main scope of this fieldwork was to cover central coordination units, ministerial units, implementation agencies, regional government, regional state authorities, and regional development agencies. In Poland, this interview work took place primarily in Warsaw, Lublin, and Krakow. In the Czech Republic, I visited Prague, Plzen, and Ostrava. In terms of choice of regions, the Eastern regions of both countries received special attention under PHARE as they had the largest cohesion deficits. In such areas, the implementation and patterns of implementation of pre-accession instruments were easier to determine. Though Plzen is in the West of the Czech Republic, it again had direct interaction with pre-accession instruments through PHARE Cross Border Cooperation. Nonetheless, the narrative will not go into detail about specific regional developments, but draw out a general dynamic from these regional observations for the policy management in the country.

As developments in the EU and the post-communist candidate countries are continuing rapidly, I have made a concerted effort to keep the work as actual as possible. However, I cannot fully account for some effects that might prove transitional in the future, once structures have consolidated further. Similarly, I have used the conclusion of accession negotiations at the end of 2002 and the signing of the Accession Treaty in July of 2003 as the cut-off points for the research.

## Chapter 4: The European Union and Pre-accession Programming

### 1. Introduction to the Pre-accession Period

In this chapter, I will look at the requirements and preferences of European actors in the pre-accession templates over time. This analysis will also draw conclusions on the temporal factors in the EU templates, namely the continuity of the template and transition periods within the templates. I will look at these topics in terms of ‘proceduralisation’ and allocation of resources, the two components of the EU approach outlined in chapter 3. I use the three stages in the pre-accession process, mentioned in chapter 3, to differentiate between stages of EU interaction: 1. *the early pre-accession period (1992-1996)*; 2. *the pre-accession period (1997-2002)*; and 3. *the early accession period (2003-)*. This research, as explained earlier, focuses on the second period.

The role of EU actors is important in the evolution of these EU templates. This chapter does not aim to explain how and why the agenda is set in the Commission, nor how member-states ‘upload’ national preferences to the supra-national level. Rather, this chapter aims to show patterns in the preferences of the European Commission that shaped the pre-accession process and additionally the internal reform processes that shaped EU templates. These preferences of EU actors are derived from elite interviews, official primary documents, and secondary sources.

Section 2 deals with the evolution of thinking on pre-accession instruments within the European Commission. This evolution took the European Commission from a system of fragmented and diffuse implementation under PHARE before 1997, which was also based on a desire in the European Commission to push for territorial decentralisation, to a far more centralised management system after the PHARE Reforms. Territorial decentralisation would increasingly take a backseat to these PHARE Reforms, which were aimed at improving efficiency in the pre-accession programming, increasing the absorption of funds, and the preparation for the arrival of Structural Funds. Both the procedures for the management of funds (see section 2.1) and the allocation of

resources were redirected (see section 2.3). Though there was a general push from all Commission actors towards vertical and horizontal centralisation in the management of EU funds, disagreements existed between the European Commission and its Delegations on the ground on the way domestic administration should be organised. For instance, the Commission in Brussels favoured the use of a limited number of independent implementation agencies, which at accession would have to be integrated in the national executive. The Delegations favoured the use of ministerial agencies, a set-up more consistent with Structural Funds implementation in the member-states. This tension between 'administrative compliance' and 'administration-building' to promote the absorption of funds was important in the formation of EU templates. It also comes out in the frequent changes in the management of PHARE and changes in the direction of the allocation of funds (see section 2.3). Moreover, whereas the agricultural and the cohesion components of the pre-accession instruments had successor funds after accession, PHARE would disappear and be replaced by Structural Funds. Thus, the management of PHARE, in a short period of time, would have to evolve to the structures required for the implementation of Structural Funds. Ultimately, the domestic set-up that would emerge from these reforms would form the basis for the implementation of Structural Funds (see section 2.2). The European Commission needed to make sure that the domestic administration could do the job of absorption and comply with Structural Funds regulations at the same time.

Secondly, both the reform of regional and agricultural policy reduced the role of the European Commission in policy management and increased the role and discretion of national governments in the management of policy. In regional policy, the role of the European Commission had only been established in 1988. This process was an ongoing reform, but was hastened close to accession, as the member-states anticipated the impact of accession on European institutions and policy. These reforms outline what kind of European Union the candidate countries would be joining and under which budgetary conditions. Importantly, the reform of EU policy ran parallel to the reform of the pre-accession templates. In other words, the reform of pre-accession instruments was compatible with the reform of EU policy.

In the next sections, I will look at the evolution of the pre-accession funds through: a. the Management Reform of the pre-accession programmes in 1997-1998; and b. the

adjustment of the procedures of the pre-accession instruments to the point of accession. Secondly, I will look at the allocation of resources and foci in the pre-accession templates over time. Third, I will look at how member-states tie in policy areas through the evolution of the financial and institutional framework for EU policies in light of enlargement, and the outcome of negotiations.

## **2. The Evolution of the Pre-accession Funds from ‘Pre-accession’ to ‘Early Accession’**

The first two sections serve to give an overview of the reforms of the pre-accession instruments. A third part of section 2 will focus on the allocation of pre-accession funds.

### **2.1 PHARE Management Reforms of 1997-1998**

#### **2.1.a Introduction**

Starting in 1993, subsequent European councils began outlining the pre-accession strategies and the accession criteria.<sup>25</sup> The Copenhagen European Council of 1993 produced two important results. The first was the establishment of the criteria for accession (the so called Copenhagen criteria<sup>26</sup>). Secondly, the result of the Copenhagen summit was the impetus towards the pre-accession focus developed in the Council of Essen of 1994. The objective of the Council of Essen was to develop a pre-accession strategy. The strategy focused on processes aimed at associated countries joining the internal market, the development of assistance, and a plan for the

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<sup>25</sup> The enlargement process has its base in the ‘Europe Agreements’ proposed and signed in 1991 (in the Czech case in 1993). These agreements were however far more instruments of association rather than membership, as they incorporated only parts of the ‘acquis’. The initial ‘Association Agreements’ focused on issues such as free trade, economic and technical assistance, and political and cultural co-operation to develop among other things infrastructure and to promote democratic consolidation and economic reform (Senior Nello and Smith 1997, annex 1).

<sup>26</sup> The Copenhagen criteria as set out by the European Council in 1993 state:

- “stability of institutions guaranteeing democracy, the rule of law, human rights, and respect for and the protection of minorities”
- “the existence of a functioning market economy, as well as the ability to cope with competitive pressures and market forces within the Union”
- “the ability to take on the obligations of membership, including adherence to the aims of political, economic, and monetary union” ([www.europa.eu.int](http://www.europa.eu.int))

incorporation of the three pillars of the Maastricht Treaty (education and environmental policy, Justice and Home Affairs, and the Common Security and Foreign Policy) (Mayhew 1998, p. 165). The initial process for accession would be set out in 1995 and 1996 by the 'White Paper on the integration of the CEECs in the internal market' (Cannes European Council) and 'Agenda 2000'. In addition, the Madrid summit in late 1995 established a reporting system, whereby the European Commission had to systematically assess candidate countries through 'monitoring' and verification (Mayhew 1998). This summit also was the starting point for the opening of the negotiations. Whereas the Copenhagen criteria and the European Council at Essen had given the broad framework for enlargement and the pre-accession strategy, the chapter by chapter negotiations<sup>27</sup> and the national programmes, started officially on March 31 of 1998, aimed at the adoption of the 'acquis communautaire'.<sup>28</sup> This procedural path was also stressed in the 'Accession Partnerships', which were signed between the European Union and Poland and the Czech Republic in 1998 and 1999 respectively (Cox and Chapman 1999, Ch. 6). The partnerships obliged the candidates to draw up National Programmes aimed at the Adoption of the 'Acquis' (NPAA). The countries were asked to address deficiencies outlined in the opinions of the Commission and the 'Accession Partnerships'.

The new focus in 1997 meant that the pre-accession instruments would be 'acquis'-based programmes (see EC 1997b; EC, 1997c updated in SEC[1999] 1596 final). Initially, PHARE was designed to offer support in the economic restructuring and political change occurring in Poland and Hungary. In the period from 1989-1991, PHARE offered mainly humanitarian aid. From 1991-1993, the assistance focused on training and consulting. In 1993, following the Copenhagen Council, PHARE support was re-oriented, with a particular increase in EU support for infrastructure and regional investments. The focus of PHARE in 1997-1999 aimed to support the implementation of the 'acquis' in the accession countries and was divided in an Economic and Social Cohesion component (also included was Cross Border Cooperation [CBC]), support for investments in regulatory infrastructure required to ensure compliance with the 'acquis', and institution-building ('Twinning' and

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<sup>27</sup> For an overview of the 31 chapters and the conclusion of negotiations of specific chapters in specific candidate countries see [http://www.europa.eu.int/comm/enlargement/negotiations/ach\\_en.html#5](http://www.europa.eu.int/comm/enlargement/negotiations/ach_en.html#5) (March 2004). Negotiations were concluded at the end of 2002.

<sup>28</sup> The Czech Republic had in 1996 officially applied for Accession. Poland had applied in 1994.

technical regulatory investment) components. John O' Rourke states that programming after the PHARE Management Reforms were 'defined in detail' and 'procedural' rather than loosely phrased ideas or programmes, which existed before 1997. Moreover, the European Commission would place less emphasis on territorial decentralisation in the candidate countries (Interview with John O'Rourke: Warsaw, January 21 2002). PHARE programming after 1997 had 7 main conditions: 1. it has to be a catalyst for change; 2. it can only co-finance up to 75%; 3. it has to be co-ordinated with other aid and EU programmes; 4. it cannot replace domestic funding of programmes; 5. projects come at a minimum of 2 million euro; 6. a project must be sustainable beyond the date of accession; and 7. all projects must be tendered in a competitive process (EC 2002b).

A final component of the PHARE Management Reforms was the development in 1999 of specific instruments by the European Commission in particular policy areas such as environment and transport (ISPA) and agriculture (SAPARD).

In part, this change of focus during the pre-accession period was a reaction to what Hellman (1998) would dub the problem of 'partial reform' in the post-communist societies. However, the programmatic adjustment was meant more to address an omission in the strategy of the European Union. Preston commented in 2000 on the need for a wider involvement of the European Union in the pre-accession process:

'The *acquis communautaire* does not guide applicants on how to integrate EU priorities into their own domestic reform programmes. Thus, while legal harmonisation work is well advanced issues of implementation and enforcement still remain to be tackled in the context of administrative and institutional reform (Preston in Gower and Redmond 2000, p. 41).'

The absorption of pre-accession aid had become a major focal point for administrative reform (see e.g. EC 1997b). The impact of programming became more important closer to accession (Interview with Etienne Claeys: Brussels, October 25 2001). However, the impetus for change did not solely come out of an identification of the need for more focused programmes. The Commission was unhappy about the efficiency and management of its programmes (Interview with Etienne Claeys: Brussels, October 25 2001). Moreover, the European Court of Auditors (ECA) had for

the period of 1994-1998 found a very limited impact of CBC programmes in the candidate countries, mainly due to the 'limited harmonisation' with the Community Initiative, INTERREG (DG Enlargement PHARE 2000 Review 2000, p. 3).

Efficiency, impact, and absorption became keywords dominating the EU pre-accession publications.

The PHARE Management Reforms had the following components: 1. increasing the efficiency and effectiveness of the programmes through the rationalisation of administration and the emphasis on financial control; 2. new programmatic impulses such as institution-building; and 3. the creation of domestic ownership and the priority of making domestic administration more 'robust'.

### **2.1.b Efficiency and Effectiveness**

The rationalisation of the domestic 'partner' administration started with the management of the project cycle. The project cycle consists broadly of programming, tendering, evaluation, monitoring and audit. Each ministry had a Project Management Unit (PMU), which would select projects relevant to their competences, check them against the requirements of Brussels, present them to Brussels in the PHARE Management Committee, and decide on the implementation path (which agencies). Monitoring and evaluation would happen in the European integration sections of the line ministries, at the European Commission in Brussels, in the Management Committees of the Commission, and at the European Court of Auditors in Brussels. In 1995, the Commission was working with several line ministries and a large number of different implementation agencies in each country. The sectoral approach to programming through the line ministries had led to a fragmentation of coordination and implementation.

This fragmentation had basically brought three main problems. First, there was a lack of administrative capacity in terms of personnel and expertise in the programme management units of the ministries and in the implementation agencies to deal with the demands from Brussels (Interview with Etienne Claeys, PHARE Coordinator and Deputy Head of Unit of Poland Team of DG of Enlargement: Brussels, October 25 2001). Secondly, fragmentation often meant no single body existed on the national or



regional level to control, administer, and coordinate programmes between the ministries and the implementation agencies (Interview with Pawel Samecki: Warsaw September 28, 2001). Finally, the decentralised way of disbursing funds also meant financial control was difficult on the side of the European Union and on the side of the core executive in situ. Consequently, the monitoring and auditing of financial flows became fragmented in the ministries. In this sense, the overall direction and strategy of the European Union programmes suffered. Furthermore, there were widespread rumours of misuse of funds and corruption, both of which became sore spots for the European Commission in the administration of foreign aid programmes (Interview with Etienne Claeys: Brussels, October 25 2001). For the European Commission, this situation was crucial, given the internal emphasis on the soundness of its financing (Interview with Dirk Swillens: Brussels, April 11 2001).

The reform addressed this fragmentation. In terms of project management, the project cycle was organised in central implementation agencies, rather than the line ministries. The idea behind the reform was to improve coordination, improve specialist capacity, and reduce the number of administrative actors involved. Line ministries still identify projects through programme agents within the ministries for institution-building programmes. However, implementation agencies have taken over the management functions, in terms of processing, monitoring and evaluation. In most cases, the payment agency, in control of flows from the agency to the project, and the management agency are under one roof in one agency.

The EU templates tried to maintain a balance between promoting the absorption of funds and efficient programming and ensuring that pre-accession requirements would form a base for Structural Funds. This balance was not easy, mostly because of differing conceptions within the European Commission on what kind of partner administration for funds implementation should exist within the candidate countries. Also, problems with the absorption of funds persisted.

John O'Rourke comments that the reduction of the role of the line ministries programmes produced a lack of executive ownership over programming (in his case the Polish bureaucracy). Moreover, even though central agencies can pay higher salaries, a reduction in implementation capacity occurred as no new central agencies

were created for the programmes in Poland (Interview with John O'Rourke: Warsaw, January 21 2002). A problem was that the increased size and responsibilities of the new agencies created 'bottle necks' in EU funds implementation (Interview with Etienne Claeys: Brussels, October 25 2001).

John O'Rourke further comments that the European Delegations in the candidate countries preferred the implementation agencies within the line ministries as a way to build up specialist knowledge within the ministries towards the implementation of Structural Funds. The line ministries were expected to play a substantial role in the management of Structural Funds. Some European Union officials in the candidate countries feared that the rationalisation of administration would reduce the overall capacity in the ministries (Interview with David Hudson: Brussels, August 29 2001). Some involvement by the line ministries in programming would also address the possible drop-off in the participation of the line ministries in the project cycle after the reform. The European Commission in Brussels decided against this option, because the European Commission wanted implementation in the candidate countries to be independent of the executive or direct political control. This approach meant a reliance in the implementation of EU programmes on the existing special-purpose administration in these candidate countries. Considering many of these types administration operated partially outside of the national budget, it also produced an inconsistency in the EU approach. Co-financing requirements (see section 2.1.d of this chapter), which re-classified EU funds as national items, meant that these agencies would have to be funded by the national budget. In this case, there existed a contradictory view inside the European Commission, which reflected the tension between compliance and efficient absorption. The integration of these implementation agencies in the executive or national budgetary resources, which was subsequently required, would become a salient point in administrative reform in agricultural policy (see chapters 7 and 8).

The number of implementation agencies was significantly reduced overall. In the case of PHARE in Poland, this shift has meant a reduction from around 40 agencies to just 3 (Interview with Etienne Claeys: Brussels, October 25 2001). In Poland, a recent re-organisation after the elections of September 2001 has created a new larger implementation agency, the Polish Agency for Enterprise Development (PAED). The

PAED includes two previous agencies and centralises the implementation of the Economic and Social Cohesion component of PHARE under one roof. The other two agencies are the Central Finance and Coordinating Unit (CFCU) in the Cooperation Fund and the Agency for Cross Border Cooperation. In the case of the Czech Republic, the overall number of implementation units has been reduced from 21 programme management units to broadly speaking 6 implementation agencies, namely the CFCU for institution-building, the Centre for Regional Development for economic and social cohesion programming, and the National Training Fund for labour issues and the development of small to medium-size enterprises (SMEs), with some roles for Czechinvest, Czechtrade and the Independent Foundation for the Development of Civil Society (NROS) (Interview with Howard Harding: Prague, April 26 2002).

The drive for efficiency also affected financial control procedures. The transfer of funds from the European to the national level was centrally negotiated between the European Commission and the national governments (with almost no input from the regions), which then dispersed the funds to the ministries, agencies and regional administrations. In Poland, PHARE funds became part of the state budget in 1998. In terms of financial control, the European Union in 1998 mandated the creation of a specific unit in the ministry of finance in all candidate countries with a separate manual accredited by the European Commission (Czech MoF, PHARE National Programme, 2001). This unit, called the National Fund, controls all present and future financial flows between the European Union and the candidate country. This move was significant given the ministry of finance had had no strong coordination role in programming up to this point. Structural aid in the form of Cohesion Funds and Structural Funds under the statutes of the European Regional Development Fund (ERDF), the European Social Fund (ESF), the European Agricultural Guidance and Guarantee Fund (EAGGF) will flow through the National Fund upon accession.<sup>29</sup>

In monitoring, the European Court of Auditors, the European Commission, and the national governments maintained their roles. The evaluation process of these funded

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<sup>29</sup> The ERDF promotes economic and social cohesion. The ESF aims at strategic objectives in employment policy. The EAGGF promotes structural reform of the agricultural sector. Similar to the EAGGF, the Financial Instrument for Fisheries Guidance (FIFG) aims at the structural reform of the fisheries sector.

programme centres on the impact of programming. Monitoring was formalised in the Joint Monitoring Committee in which representatives of national stakeholders and the EC sit (EC, Evaluation of Funded Public Administration Programmes March 1999, p. 14). National and regional monitoring committees were formalised in the programming documents.

### **2.1.c Institution-building**

In 1997, PHARE also developed a new focus on institution-building. PHARE 1999 aimed to build the administrative capacity required in the candidate countries to absorb the pre-accession funds, while programming in PHARE 2000-2002 aimed to build the administrative capacity required to absorb Structural Funds. Though the administrative effects of ‘Twinning’ programming are hard to determine (see Papadimitriou 2002), its management structure followed the patterns for the management of pre-accession aid, set out in the PHARE Reform of 1997.

### **2.1.d Domestic Ownership**

The promotion of domestic ownership in PHARE consisted of: a. domestic co-financing and continuity of financing; b. the deconcentration of European programmatic involvement; c. partnership; and d. decentralised implementation.

In terms of co-financing, the candidate countries were required to finance on average 25% of the total value of funding. This brought the pre-accession funds more in line with the financing practices of the Structural Funds. This co-financing and ‘additionality’<sup>30</sup> aside from having a budgetary significance for the candidate countries transferred ownership in programming. Whereas before ownership of the programmes and subsequently financing were primarily considered by the national administration to be ‘European’, the 25% co-financing rule meant the national administration or regional administration became a stakeholder in programming. It also meant that part of the risk of programming was transferred from the EU to the national level. Moreover, as stated earlier, these requirements also meant a public

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<sup>30</sup> Additionality in programming means the pre-accession funding cannot displace domestic funding, which might be or have been in place. In essence, the budgetary requirements for EU programming, especially in regional policy, meant national resources would focus increasingly on EU programming.

finance reform in the candidate countries, as EU funds would have to be classified in a similar way to national funds (for an overview in the Czech Republic see section 2.2.a of chapter 5; for an overview on Poland see section 2.3 of chapter 6) .This was part of an overall reform of EU funding that focused on financial control and transparent procedures. This reform was also in line with the Maastricht Framework on public finance. The creation of the National Fund, as explained in section 2.1.a, was part of this reform.

New financial statutes were included in the new multi-annual financing agreements for SAPARD to regulate the financial flows between the candidate countries and Brussels. Multi-annual financing agreements meant that programmes and projects in rural development were agreed on for several years based on a development plan, rather than these programmes being subject to annual renewal (and the risk of abandonment). This change in the financing agreement meant that the candidate countries could rely on longer-term projects and did not have to run the risk that the reforms undertaken would be revised after the annual review (see e.g. EC 1997d and EC 1997e). Though PHARE and ISPA programming still operate on Financing Memoranda based on specific projects or clusters of projects, which have to be signed between the candidate country and the European Commission on an annual basis, there exist multi-annual indicative financial tables agreed by both parties anticipating needs and the allocation of funds.<sup>31</sup> Policy documents, such as the National Development Plan (NDP) and the NPAA, form the basis for the extension of multi-annual programming and the Community Support Framework (CSF) after accession.

On the side of the European Union, a process called ‘deconcentration’ occurred in the management reforms. Delegations of the European Commission within the candidate countries became responsible for monitoring during the project cycle and for the implementation of projects. Some ex-post evaluation functions were also transferred to the Delegation from Brussels. Programming and the approval of projects (ex-ante or ex-post) still occurred in Brussels. Nonetheless, this ‘deconcentration’ brought European Union policy makers much closer to the project cycle and improved the

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<sup>31</sup> Multi-annual programming is not undertaken in Twinning and investments in institution-building given the impossibility of forecasting all future needs ( see EC, ‘What is Phare?’, February 2003)

cooperation and interaction between domestic actors and European Union officials (Interview with Dirk Swillens: Brussels, April 11 2001).

Two specific concepts have become central to the management reforms, namely 'partnership' and 'decentralised implementation'. 'Partnership' means that during the project cycle parties affected by the programming should be consulted, included, and involved in implementation (Interview with Etienne Claeys, PHARE Coordinator and Deputy Head of Unit of Poland Team of DG of Enlargement: Brussels, October 25 2001).

Another dimension of 'partnership' is the identification of regional needs and projects by the regional and local self-government bodies. These linkages are to some extent formalised in the Regional and National Steering Committees (see e.g. EC 2000c and EC 2000d). Upon identification of the projects and consultation with regional partners, these project fiches are then forwarded to the implementation units, which give an opinion on them and upon consultation with the national ministries and coordination bodies forward them to Brussels for an ex-ante approval. This system operates for PHARE with the exception of institution-building and ISPA. Though consultation seemed formalised in the EU template, implementation afforded the candidate countries with discretion to organise consultation and involve regional partners (Interview with Marie Stankova: Prague April 26, 2002). Moreover, SAPARD has its own regional executive network and limits the role of the regional self-government in consultation. 'Partnership' therefore had clear limitations.

Decentralised implementation signified the European Commission's desire to limit its role in the implementation process with an eye on the introduction of Structural and Cohesion Funds. The Decentralised Implementation System (DIS) introduced in 1990 and revised in 1998 meant that the structure of implementation consisted of an ex-ante approval of the project cycle and then an ex-post control by Commission officials. Commission officials from Brussels and the delegation would also monitor during the project cycle. PHARE and ISPA<sup>32</sup> work according to these principles. The Extended

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<sup>32</sup> The set-up of ISPA follows the structure of European Union Cohesion Fund. After the identification of projects using a standard project application form and process (for these standards see DG Regional Affairs ISPA Manual, 2000) by the countries through the relevant implementation agencies, DG

Decentralised Implementation System (EDIS) relies on ex-post approval of projects. SAPARD functions according to this system.<sup>33</sup> EDIS is compatible with the requirements for Structural Funds implementation and is supposed to be the stepping stone to the actual administration of Structural and Cohesion Funds (see EC DG Regional Affairs and DG Enlargement, 2001 and EC DG Regional Affairs and DG Enlargement 2002). There are nine steps to EDIS (EC, 'What is PHARE?', February 2003):

1. 'Framework Agreements will be revised and will spell out a clear separation of responsibilities between candidate country and Commission to underpin the decentralisation;
2. after Financing Memorandum signature, full financial responsibility will be transferred to the National Authorising Officer (NAO) for the implementation of funds and for the approval of all intermediate documents;

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Regional Affairs prepares a financing proposal, which is then put in an inter-service consultation in the ISPA Management Committee. Upon the Committee Decision, funds are allocated and a financing memorandum is signed, whereupon an initial 10% of the funds are released (see EC, General Report on Pre-Accession Assistance in 2000, 2002). Furthermore, funds are released throughout the project cycle. Like Cohesion Funds, ISPA co-financed more than any pre-accession instruments and Structural funds at 85 to 90%. The European Union aims to decentralise the ex-ante approval of the implementation decision to the Delegations. The ex-post control function remains in Brussels through the ISPA Management Committee and the ECA. This decentralisation is contingent upon a certain degree of institutional development and administrative capacity (DG Regional Affairs ISPA Report 2000, pg. 5). Decentralisation is conditional. Conditionality in ISPA means the following (DG Regional Affairs, ISPA Mandate, Programming, and Implementation 2000, pg. 5):

- 'Demonstration of effective internal control including an independent audit function and an effective accounting and financial reporting system which meets internationally accepted accounting standards;
- A reliable national financial control system over the Implementing Agency;
- Procurement rules which are endorsed by the Commission as meeting requirements of Title 9 of the Financial Regulation applicable to the general budget of the European Communities;
- Commitment by National Authorising officer to bear the full financial responsibility and liability for the funds'

<sup>33</sup> Implementation agencies in SAPARD are responsible for: a. ensuring that calls for proposals have been made; b. checking that applications are eligible; c. carrying out spot checks; d. checking payment claims; e. ensuring timely payments to beneficiaries. The National Fund ensures the agency meets internationally accepted standards in administrative, payment and control, and accounting procedures. A monitoring committee oversees the execution of the programme (EC, SAPARD Annual Report 2000, 2000 pg. 5). SAPARD financing is based on three principles: a. full decentralisation of programme management; b. the application of EAGGF clearance of accounts procedure (This procedure provides for an independent body to check the accuracy of the financial accounts during implementation.); and c. differentiated appropriations. 'Differentiated appropriations' is a term used to denote that payments do not have to be made and entered in the accounts, when appropriations are committed. Thus, funding can be taken up until two years after appropriation (similar to Structural Funds rules). SAPARD programming is based on a single agriculture and rural development plan covering the period 2000-2006. This plan is first evaluated through inter-service consultations with input from the candidate country before it is presented to the STAR (Committee on Agricultural Structures and Rural Development) Management Committee. Upon approval, a Commission Decision authorises the signing of a multi-annual financing agreement plus an annual financing agreement releasing the funds. After the management authorities or implementation agencies have been accredited, a first payment of up to 49% of total allocation is released to the country (also see EC, General Report on Pre-Accession Assistance in 2000, 2002 pg. 11).

3. management and paying functions will be clearly separated inside the National Fund and Implementing Agencies. This will include appointing managing and paying authorities in line with the approach followed for Structural Funds;
4. after a 20% advance on each annual programme, the NAO will request interim replenishments against actual payments made on the contracts financed by the Financing Memorandum. The last 10% will be paid only after the Commission has verified the accounts and discharged the NAO of his/her delegated financial responsibilities;
5. internal financial control will be assured by the National Fund and Implementing Agencies which will monitor, control and report on the use of PHARE and national funds down to the contract level;
6. audit will be undertaken by an independent body and an annual report will be produced by that independent body on the use of PHARE funds;
7. Commission controls will be exercised on an ex post basis through verification of accounts and operational evaluations. Any non-compliance with established rules – individual irregularity or systematic errors - will result in financial corrections;
8. national procurement procedures will be used where consistent with the procurement provisions of Council Regulation (EC) 1266/99. However, if a country's procurement system is not compliant in this regard, decentralisation can still occur but the Commission will require the recently updated DIS procedures and contract forms to be used;
9. the national monitoring and evaluation system must be able to provide reliable operational details of PHARE implementation.'

To summarise, the ex-post approval of the projects occurs within the relevant Management Committee of the European Commission. Once the implementation agency is accredited<sup>34</sup>, the onus of finding projects that will be approved (ex-post) by Brussels is on the national administration. Initially, Brussels releases only a small amount of financing (20%). Project financing has to come out of the national budget, until ex-post project approval in Brussels is granted. Then, the remainder of the European Union funds is gradually released until the expiry of the Financing Memorandum.

Some observers have noted that EDIS truly put the implementation structures in the candidate countries to the test and might prove a platform from which wider administrative changes occur, as these candidate countries take on the full

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<sup>34</sup> There are four stages to the accreditation process: 1. the identification of gaps in preparation for EDIS; 2. the filling of the gaps; 3. the compliance assessment which allows national authorities to make sure all pre-conditions are met for the application; and 4. the preparation for commission decision, which includes a verification and audit of the EDIS request by the National Authorising Officer (see EC 2002c, pg 10).



responsibilities of the project cycle (Interview with Howard Harding: April 26 2002). Alan Wilkinson outlines that SAPARD was meant as a system to counterbalance the limitations at the domestic level in developing and designing administration, while giving the countries the political and administrative freedom to disperse funds with only ex-post controls (Interview with Alan Wilkinson: August 29 2001). This emancipation of domestic administration aimed to give domestic actors some flexibility in the administrative organisation of the EU funds and secondly transfer budgetary risk from the European Commission to the candidate country. There is a significant budgetary risk at the national level for not gaining ex-post European Commission approval. Therefore, officials wonder if an emphasis on emancipation and budgetary responsibility will not undermine programming and accession itself. As John O' Rourke in early 2002 pointed out, the regions' capability for implementation of DIS had not yet been tested (Interview with John O' Rourke: Warsaw, January 21 2002). EDIS and DIS requirements might jolt national administration in the medium-term but might make implementation more difficult in the short-term. Moreover, these requirements might only encourage a particular type of administrative response in the candidate countries, namely the utilisation of administrative capacity where it exists at the central level, rather than actual administration-building in the regions. In fact, Jean-Marc Trarieux points out that many Commission officials were taking a more practical view. In his view, 'making implementation work' and improving absorption became the key priority areas (Interview with Jean-Marc Trarieux: Warsaw, September 27 2001). As Hausner and Marody (2000) comment, the procedures of EDIS and the focus on the absorption of funds might undermine the eventual distribution of Structural Funds at the regional level.

## **2.2 The Future of Pre-accession Programmes**

Continuity was the main issue in the evolution of funds from the pre-accession period to the accession stage. Both SAPARD and ISPA showed continuity in their institutional set-ups. PHARE did not have a successor fund. After much internal wrangling between directorates, a platform emerged to use PHARE as a bridge to the management of the Structural Funds.

The question is how the pre-accession templates change after accession or whether continuity in the templates is present. As the Commission in an internal review states, ISPA and SAPARD will after some light transitional measures be replaced by respectively the Cohesion Fund and the EAGGF, but 'PHARE does not have a clear and direct successor (EC Communication on The Phasing-out of PHARE in Acceding Countries 2002, p. 2).' PHARE 2003 with programmes until 2006 will be the last programming cycle. PHARE, though paving the way for the Structural Funds in the shape of the ESF and the ERDF, operates a different financial support system in terms of audit, financial controls and the system of co-financing (the budget of DG Enlargement rather than Structural Funds) from both Structural Funds. The managing authority over PHARE, the Directorate General (DG) for Enlargement, will not have a role in the future administration of funds beyond a transition phase after accession. Further, the DG for Enlargement does not have a Community fund under its management, which it could link PHARE as a programme to.<sup>35</sup> The Commission has decided to phase out PHARE in the period of 2003-2006 in an 'effective', 'efficient' and 'administratively simple' way, compatible with the revised guidelines drawn up for PHARE (for an overview of the revised guidelines see EC, EC 'Decision on the Review of The Guidelines for Implementation of the PHARE Programme in Candidate Countries for The Period 2000-2006', 2002).

The option that the European Commission has chosen in this phasing-out process touches on four elements (for an overview on the phasing out plan see EC, 'EC Communication on The Phasing-out of PHARE in Acceding Countries 2002', p. 2). First, all the implementation agencies in the candidate countries will in the period of 2003-2006 of PHARE programming adopt the EDIS mechanism rather than DIS. This adoption is verified through an accreditation process. Secondly, the EDIS mechanisms allow the European Commission to familiarise the administrations of the candidate countries with the Structural Funds procedures. The transitional PHARE programming period seems particularly aimed to increase the robustness of the

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<sup>35</sup> Among the discussed options, were the switching of PHARE ESC and CBC programmes from the DG for Enlargement to the Structural Funds DGs after accession and the switching of the PHARE 2003 budget for ESC and CBC to early Structural Funds initiatives. Both options were discarded in favour of switching from DIS to EDIS under the management of the DG for Enlargement. Structural Funds projects were discarded, because it would require a re-visitation of the Financial Perspectives established at the Berlin Council of 1999 (EC Communication on The Phasing-out of PHARE in Acceding Countries 2002, pg. 8).

PHARE implementation agencies. Third, the transition facility proposed the placement of management authorities closer to the ministries, which oversee operational programmes. This move is consistent with the administration of Structural Funds in the member-states, but a break with the pre-accession management where the central implementation units often combined their payment and management functions in the implementation of funds.<sup>36</sup> Fourth, EDIS also requires less support staff on the ground in the European delegations.

For rural development and indeed the transition from SAPARD to Structural Funds under the EAGGF, the European Commission has decided for the period of 2004 to 2006 on a new Temporary Rural Development Instrument (TRDI), funded by the Guarantee section of the EAGGF. This facility will run under the guidelines and regulations of the EAGGF and CAP. There are two components to this new facility. There are the negotiated transitional rural development measures in the Accession Treaty and the items available to the new member-states under the EAGGF, which were not available to them under SAPARD<sup>37</sup> (EC, Guidelines for the Switch from SAPARD to Postaccession Rural Development Initiatives, 2003 p. 14). These measures are part of 29 measures in rural development planning, rather than the 15 under SAPARD. That total is 7 more than for existing member-states (the difference is equal to the negotiated rural transition measures). John Loughheed (2003) comments on these new measures: 1. that it would be good to integrate this rural development strategy in the various programming documents; 2. that these measures may be too many and that the SAPARD objective 1 measures should be continued until 2006; and 3. that SAPARD has pre-defined measures and an included annual financing plan per measure, whereas operational programmes under the EAGGF outline priorities on which financing takes place. In terms of policy continuity, the results were that; 1. operational programmes give a greater discretion to the new member-states to shape policy; and 2. a proliferation of measures. In this sense, SAPARD was more 'prescriptive' than normal operational programmes.

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<sup>36</sup> It is important to note that for management functions, management authorities can devolve some management responsibilities to intermediate bodies, the old implementation agencies.

<sup>37</sup> After the Berlin Summit of 1999, the Guidance section financed Objective 1 programmes and the Guarantee section funded programmes outside Objective 1 in rural development for member-states.

On the administrative level, the transitional facility, given its short implementation cycle of two years from SAPARD to the EAGGF, attempts to build on the structures and programmes of SAPARD. At the moment, the SAPARD Agency fulfils three functions: programme implementation; payment; and control. Under the EAGGF, these functions would have to be expanded and split between the Guarantee and Guidance sections. Both the managing authority and payment authority will be running two systems. A main difference with SAPARD is the re-nationalisation of the certification of accounts. Under the EAGGF, the member-states are responsible for the accreditation of the payment agencies and the management agencies. Most acceding countries have chosen a centralised structure for the EAGGF implementation of their sectoral operation programme, whereby the Ministry of Finance is responsible for payment of all Structural Funds. Alternatively, payment authorities can be assigned for each programme. The responsibility of the SAPARD Agency, in the case of the regional operational programme, is as paying agency or final beneficiary and in the case of the sectoral operational programme, as implementing and intermediate body<sup>38</sup>. The intermediate body can be responsible for the specific programming, the selection of projects, or the organisation of monitoring (EC, Guidelines for the Switch from SAPARD to Postaccession Rural Development Initiatives, 2003). The Czech Republic has decided to consolidate the payment authority for both sections of the EAGGF and operate a combined monitoring committee.

The main differences between the EAGGF and SAPARD implementation is a potential shift of payment and management authorities of the SAPARD Agency to the Ministry of Agriculture. This shift concerns especially the SAPARD Agency's role in the selection of projects, its role in the payments to beneficiaries, and the potential setting up of payment authorities outside of the National Fund of the Ministry of Finance. Nonetheless, through its role as intermediate body domestic policy-makers have wide discretion to use the SAPARD set-up to support EAGGF implementation. In short, as the Report on 'Guidelines for the Switch from SAPARD to Postaccession Rural Development Initiatives' of 2003 says, 'only minor adjustments to the existing SAPARD circuits will be necessary for operating the new rural development

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<sup>38</sup> An intermediate body is a body that takes on either part of the management of programming or payment of programming.

Programmes' (EC, Guidelines for the Switch from SAPARD to Postaccession Rural Development Initiatives, 2003 p. 23). In terms of financial procedures, the main difference between SAPARD and EAGGF is the financial corrections system, whereby the member-state assumes all responsibility for any systemic irregularities and the subsequent recovery of funds.

For ISPA, the transition period is relatively easy. ISPA 2003 is the last programming cycle. After accession, all ISPA projects will be integrated in the Cohesion Fund. ISPA regulations forbid any more funding after accession. So, the European Commission was obliged to include ISPA measures after accession in the Cohesion Fund regulations. Some differences remain: 1. the Cohesion Fund will mean on average a threefold increase in the Community funding for the new member-states; 2. ISPA provided 75% Community co-financing (higher in special cases), whereas the Cohesion Fund typically co-finances between 80 and 85% of the total project; 3. ISPA has a minimum of 5 million euro for projects, whereas the Cohesion Fund has a minimum of 11 million euro; 4. under the Cohesion Fund, the funding is eligible upon receipt of the application, whereas with ISPA eligibility is upon signing the Financing Memorandum; and 5. in ISPA, the European Commission has ex-ante control and can transpose EU preferences in the selection and administration of the projects, whereas with the Cohesion Fund this is an ex-post control supported by a national law on EU procurement directives (compiled from Walker 2003). It seems clear that given these differences, the transition from ISPA to the Cohesion Fund will demand a regulatory transition phase in the Cohesion Fund regulations on assistance, expenditure, and payments to deal with those ISPA projects implemented up until 2006. However, the administrative structure remains the same from ISPA to the Cohesion Fund. The main issues outstanding are the great increase in funds available for investment and the greater programmatic responsibility under EDIS.

### **2.3. Pre-accession Programmes: Focus and Allocation of Resources**

The direction of programming, especially in the case of PHARE 2000-2002, tended to be changed often and per project cycle by the European Commission in the run-up to the accession of the candidate countries (Interview with Milena Vicenova: Prague, September 19 2001). This changeability was also a function of the various different

bodies and directorates in the European Commission that were involved with the pre-accession process. Both Iwona Lisztwan and Martijn Quinn in interviews commented on the difficulties of inter-departmental coordination within the European Commission, which leads to funds overlapping in programming or programming being poorly integrated into the priorities set out in the development plans (Interview with Martijn Quinn, Brussels: December 21 2000; Interview with Iwona Lisztwan, Brussels: October 15 2003).

These redirections, often consistent with overall institutional changes in the management system, also produce changes in the allocation of resources over time. The allocation of resources influences the budgets and consequently the involvement of certain administrative units, ministries, and regions. This redirection was especially important, given the ceilings placed on EU expenditure by the budgetary frameworks in 1997. The allocation of resources in ISPA and SAPARD tended to be more stable. In programming, the EC addressed not only the traditional EU focus areas (transport, environment, regional development, agriculture), but also had to take problems into account in the domestic absorption of funds, as in ISPA. Problems in this absorption could mean a redirection of resources outside of the intended allocation. This allocation favoured administration with the capacity to absorb. Another noticeable effect was the reduction of investment support for regional administration, which seems to indicate the more central approach taken after 1997.

### **2.3.a PHARE ESC and CBC**

The main aims for PHARE in the pre-accession period are to: 1. support institution-building; 2. provide investments to strengthen the regulatory framework, and 3. direct investment towards social and economic cohesion (EC, Regular Report on Progress Towards Accession of the Czech Republic November 2000, p. 9). Underlying these aims, are further foci to implement or align to the 'acquis', to lower the deficit in Gross Domestic Product per capita (cohesion deficit) between the candidate countries and the EU average, and to prepare for EU Structural Funds (see for instance DG for Enlargement, 2002a; DG for Enlargement, 2002b). There are four components in PHARE programming: 1. Cross Border Cooperation; 2. Economic and Social Cohesion (ESC); 3. ESC pilot programmes; and 4. institution-building. In the period

of 2000-2006, 35% of the budget would go to building of regulatory infrastructure, 35% to investments in ESC, and 30% to institution-building (EC 1997<sup>e</sup>).

PHARE ESC pilot projects in PHARE 2000 focus on Structural Funds projects.

PHARE ESC first focused on micro-regions in 1997. PHARE ESC underwent some important changes from 2000 to 2002. PHARE ESC 2000 and 2001 addressed regional operational programmes and targeted the most disadvantaged regions in the candidate countries. PHARE ESC 2002 and 2003, in line with Structural Funds, focused more on sectoral programmes and addressed only a joint regional operational programme. This focus on sectoral programmes from 2002 onwards was a significant departure from programmes that had previously been more region-based in the drafting of operational programmes and had specifically targeted regions.

It is the intention that from PHARE 2003 onwards all programmes will be cohesion programmes (Interview with Howard Harding: April 2002). For the period of 2000-2006, PHARE would aim in view of the Structural Funds to: a. reinforce the administrative and budgetary structures for Structural Funds; b. support initiatives in ESC that emulated Structural Funds initiatives; c. introduce National Development Plans; d. pilot grant schemes, which would familiarise the implementation agencies with Structural Funds; and e. test the capacity of implementation agencies and align CBC with the various INTERREG Community initiatives of the European Commission ( EC, Communication to the Commission on the Phasing-out of PHARE in Acceding Countries 2002, p. 7; EC, Decision on the Review of Guidelines for Implementation of the PHARE Programme in Candidate Countries for the Period 2000-2006, 2002 p. 7).

The priorities of the post-1997 PHARE programming are reflected in table 1 for both the Czech Republic and Poland. These lists are compiled from the 'Regular Reports of Poland and the Czech Republic on Progress towards Accession' of the European Commission (various years, p. 8-11). The expansion of the budget in the Czech Republic from 1999 to 2001 was a reaction to the poor marks the Czech Republic received in its Progress Reports. Additionally, the weight for agricultural projects and ESC in Poland in overall PHARE spending is greater than in the Czech Republic. This difference is a reflection on the greater and wider sectoral problems in Poland.

Overall funding, in accordance with the Berlin Framework of 1999, seems to be levelling off in 2002, after the high points in 2001. For both Poland and the Czech Republic, total PHARE funding decreased. The European Commission redirects priority areas within an existing budget, rather than expanding the budget for funding as a whole. This redirection was also linked to difficulties in the absorption of funds.

Another interesting point is the absence of funding for regional policy after 1999. Though ISPA in some ways filled a void in regional development policy, this absence also clearly shows the diminished importance of support for the regional administrations within the European Commission after 1997. Rather, this type of investment was directed towards SME development.



Table 1: PHARE Annual Allocation per Country 1999-2002

MEUR in 1999 Prices	Poland 1999	Poland 2000	Poland 2001	Poland 2002	CR 1999	CR 2000	CR 2001	CR 2002
The reinforcement of institutional and administrative capacity	20.5	65	45	61	5.8	7	4.75	2.7
Support for the capability of applying Internal Market rules and regulations	10.4	21	34	25		5.6	6.5	18.3
Establishment of the institutional arrangements required to implement the environmental norms of the 'acquis' <sup>39</sup>	26.2	7	22	14		4.3	5.1	7.4
Restructuring of state industry and alleviation of social costs	31							
Institution-building in agriculture to prepare for the adoption of the Common Agricultural Policy (CAP) (examples are phytosanitary and veterinary controls, registration systems, CAP preparation, and food safety)	27.55	42	33	35		6.2	8.28	12.4
The strengthening of cooperation in the fields of Justice and Home Affairs (border controls, organised crime, etc.)	17.5	89	50		4	12.6	13.25	18.7
Development of social and economic cohesion (examples are employment regulations, small to medium size enterprises [SME] development)		130	170	170	5.35	17.5	13.55	6.3
Programmes aimed at strengthening the democratic system (examples are civil society development, minority protection, establishment of human rights)		6			0.5		3	3
Participation in various community programmes such as Leonardo, Youth, and Socrates (cultural and scholarly exchange)	21.2	31	42	24	5	6.52	7	7.9
Regional Policy	12.15							
Ensuring compliance with occupational health and safety standards of the 'acquis communautaire'							1.75	7.4
Co-operation in various funded multilateral programmes and horizontal programmes (also Technical Assistance Information Exchange Office).	For all years and countries an amount is set aside each year							
Transport (support for investments)	64						2	0.7
Total Excl. CBC	230	428	396	342.2	21	59	101	86.6
CBC	32	55	56	56	29.4	10	19	19

Source: EC Regular Reports various years for both countries, Own compilation.

<sup>39</sup> Environment and transport projects implemented under PHARE would increasingly be replaced by ISPA programmes as well as coordinated with ISPA projects.

### 2.3.b Twinning and Administrative Capacity Building

Institution-building included few projects directed at the regional administrations. Prioritisation and problems of absorption<sup>40</sup> have meant a bias towards projects in the national executive. Regional projects, instead, have taken on the form of workshops.

Table 2 shows the number of projects in Poland and the Czech Republic in broad compiled categories. A larger weight of projects resides in agriculture, regional policy, and environment and transport. This weighting was linked to the importance of these sectors in the EU budget and the structural problems in these sectors. For regional policy, it is important to note that about 80% of the projects supported the administration of SME projects, rather than regional administration. In fact, very few projects supporting regional administration seemed to take place. Workshops seemed to be the preferred tool to inform regional administration (Interview with Marta von Mauberg: Warsaw, January 23 2002). Again, this stresses the bias and the choice within the wider Commission to work with national partners.

On a more general level, the years 2000 and 2001 seem to be the high points of projects implemented, as the candidate countries lowered resistance to ‘Twinning’ and became more familiar with programming. A recent drop-off can be explained by the debate over the future of ‘Twinning’, the end of the role of the Delegation after accession, a stabilisation of the pre-accession budget, and the more limited and focused approach taken in ‘Twinning’ after 2000 (Interview with Marta von Mauberg: Warsaw, January 23 2002). Poland tends to have a slightly higher budget per project at 1.1 million euro per project, whereas with a budget of 72 million euro over 90 completed projects the Czech Republic had an average project size of 0.8 million euro (own compilation from information provided by Marta van Mauberg of the European Delegation in the Czech Republic).

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<sup>40</sup> James Hunt and Martha von Mauberg point out that problems with absorption range from funding through to finding adequate projects (Interview with Marta von Mauberg: Warsaw, January 23 2002; Interview with James Hunt: Prague April 24, 2002).

Table 2: Number of Twinning Projects (including light) per Country and Sector (1998-2003)  
[2003 not available for Poland]

<b>Twinning</b>	<b>General Public Administration</b>	<b>Labour</b>	<b>Environment/Transport</b>	<b>Agriculture</b>	<b>Regional Policy/SME</b>	<b>JHA</b>	<b>Public Finance</b>
<b>Poland (total per year)</b>							
# of projects 1998 (12)	0	0	1	3	6	2	0
# of projects 1999 (16)	2	3	2	3	0	3	3
# of projects 2000 (43)	6	2	4	9	17	4	1
# of projects 2001 (33)	8	0	6	7	2	3	7
# of projects 2002 (8)	1	0	1	3	0	2	1
# of projects 2003 (-)	-	-	-	-	-	-	-
Total: 112	17	5	14	25	25	14	12
Total EU Budget (MioE)	22.128	4.31	19.448	30.906	26.665	22.051	14.335
<b>Czech Republic</b>							
# of projects 1998 (6)	1	0	1	1	2	1	0
# of projects 1999 (13)	2	2	1	1	2	3	2
# of projects 2000 (20)	7	2	3	1	2	5	0
# of projects 2001 (25)	4	2	3	4	3	7	2
# of projects 2002 (24)	4	1	5	1	4	5	4
# of projects 2003 (16)	4	2	3	1	1	4	1
Total: 104	22	9	16	9	14	25	9

Source: Own Compilation from Ministry of Foreign Affairs Italy(2000); EC Delegation Warsaw (April 2004): <http://www.europa.delpol.pl/index.php?id=&samSession=f6d19f37b1d1163ca596e60d2ebf3011> ; EC Delegation Czech Republic (April 2004): [http://www.evropska-unie.cz/download/eng/Linked/Twinning\\_CR\\_since\\_1998.pdf](http://www.evropska-unie.cz/download/eng/Linked/Twinning_CR_since_1998.pdf)

### 2.3.c ISPA

Problems with absorption in ISPA programming would influence the direction of funds. In the environment sector, applications come mainly from the municipalities or municipal agencies, whereas in the transport sector the beneficiaries are the central implementation agencies, such as the highway agencies and national railroads. Applications for transport projects tended to be better prepared than environmental projects. Moreover, they had a better prospect of successful implementation (Interview with Ctibor Kocman: Prague April 23, 2002). Though the European Commission mandates the even distribution of total funds (not number of projects) between transport and environmental projects, the allocation rule was changed. This amounted to a redirection of funds from environmental projects to transport projects.

An additional reason for this redirection was the fact that it was easier for the European Commission to administer transport projects. The bias within the Commission for transport projects had two reasons. First, the EU would get better

value for money in transport projects, as the rate of EU co-financing was lower. For environmental projects, the European Commission would fund up to 85% of the cost of programming. For transport projects, co-financing is only 75%. Secondly, transport projects had a greater budget per project compared to environmental projects. This meant the European Commission had to oversee and monitor fewer projects (derived from an interview with Michal Lehocky: Prague April 24 2002).

Table 3 shows a budgetary allocation policy of 60/40 % in favour of transport projects, regardless of the number of projects that the EC has pursued (DG Regional Affairs ISPA Report 2000, 2001 annex 1). In general, ISPA programmes, in budget and scope, tend to be much larger than average PHARE or SAPARD projects. ISPA also provides technical assistance for the preparation and the management of projects in Poland and the Czech Republic. The total funding was 997 million euro for 75 projects in 2000 at about an average of 13 million euro each (DG Regional Affairs, ISPA Report 2000, 2001). The indicative annual allocation for Poland is between 312 and 348.8 million euro. The Czech Republic is in a range between 57.2 and 83.2 million euro per annum.

**Table 3: Total ISPA Projects per Country between 1/1/2000 and 31/12/2001**

Total Projects/Budget (MEUR)	Czech Republic (% of Total)	Poland (% of Total)
# Projects in Environment (ENV)	6 (46%)	21 (62%)
# of Projects in Transport (TR)	7 (54%)	13 (38%)
Total:	13	34
EU ISPA Contribution ENV	67.38 (39%)	545.14 (39%)
EU ISPA Contribution TR	103.34 (61%)	855.243 (61%)
Total	171.40	1402.01

Source: DG Regional Affairs (ISPA: Projects Signed) 2002

### **2.3.d SAPARD**

The SAPARD annual allocations are rather modest considering the weight of agricultural funds in EU funding (see table 2.2.c.1). Poland stands to receive about 171.6 million euro annually (in 2000 prices). The Czech Republic stands to possibly receive 22.45 million euro annually out of a total programme value of 539.65 million euro (DG Agriculture, SAPARD Annual Report 2001, 2001 p. 8).

Table 4: Indicative Annual Allocations for Pre-accession Funds from 2000-2006 in Poland and the Czech Republic

In million euro and 2000 prices	PHARE Indicative Annual Allocation	SAPARD Indicative Annual Allocation	ISPA Minimum Indicative Annual Allocation	Total
Poland	398	170	312	880
Czech Republic	79	22.1	57.2	158.3

Source: EC 2003, 'Conclusions of Copenhagen Council', and Own Compilation

### 3. Reform of EU Policies, the Development of a Financial Framework, and the Outcome of Negotiations in 'Early Accession'

Whereas the previous section outlined the reform of the pre-accession template, concurrently the member-states had to accommodate accession within the policy, institutional, and financial frameworks of the European Union. The next section outlines policy reform in regional and agricultural policy and the framework for the allocation of finances. This is important in seeing what kind of EU the member-states would be joining. A final point is the outcome of the negotiations. These points are relevant to see what policy requirements the accession countries had to adopt and under which financial and procedural frameworks.

#### 3.1 Reform and Structure of EU Funds before Accession

Structural Funds<sup>41</sup> were reformed in 1988, 1993, and 1999. The main gist of the reforms has been the balance of partnership between the Commission, the member-state governments, and the regions. In 1988, the European Commission extended its

<sup>41</sup> Structural Funds can be given out on the five following areas: 1. Business Support; 2. Human Resources Development; 3. Infrastructure Development; 4. Improvement of the environment; 5. Agriculture and rural development. All funds are available in NUTS (Nomenclature des Unites Territoriales Statistiques) terms to the Objective 1 areas. These are areas with a development below 75% of the EU average. ERDF and ESF are also available to Objective 2 areas. These are areas facing structural difficulties be it urban, industrial, or rural normally characterised by high unemployment. ESF is also applicable to Objective 3 areas. These are areas with human resource problems. Funds are also embedded in special initiatives such as the ERDF in Interreg 3 and Urban 2. These are Community initiatives that respectively strengthen inter-regional development and promote development of troubled urban districts. The EAGGF has LEADER, an initiative aimed at encouraging the 'implementation of integrated, high-quality and original strategies for sustainable development'. The ESF funds a Community Initiative called Equal tackling discrimination and inequality in the workplace.

role in regional policy-making. Whereas formally Community aid<sup>42</sup> went to areas designated by the member-states, now the Commission gained a say in designating the eligible regions (Objective 2 and 5b), over how money was spent, and over the management of projects under the newly installed Community initiatives. The ‘partnership’ principle drew in regional sub-national actors, who for the first time could apply for funds outside of their respective national governments and found a consultative role in the project cycle. In programming, the multi-annual financing increased the continuity of programming. Nonetheless, given the limited means for redistribution at the EU level and the discretion of central governments in shaping concepts such as ‘partnership’ and ‘additionality’, these national governments could determine the type of regionalisation, control Objective 1 funding, and retain control over the Commission in terms of the oversight and national discretion in policy-making.

The 1993 reforms aimed to consolidate a rather diffuse Community policy. Reform of the designation of the objective areas meant the consolidation of these areas. The Community initiatives were scaled back in budget (from 10% of the total EU budget in 1989-1993 to 9% in 1993-1997) and number (Sutcliffe 2000). The initiatives would also be supervised by a management committee, consisting of member-state

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<sup>42</sup> ERDF supports:

- productive investment leading to the creation or maintenance of jobs;
- infrastructure;
- local development initiatives and the business activities (see Council Regulation (EC) No 1783/1999 of the European Parliament and of the Council of 12 June 1999 on the European Regional Development Fund [Official Journal L 213, 13.08.1999]).

ESF supports:

- development of active labour market policies to combat and prevent unemployment, to avoid long-term unemployment, to facilitate the reintegration of the long-term unemployed and to support integration into the labour market of young people;
- promotion of equal opportunities for all in terms of access to the labour market, with particular attention to persons at risk of social exclusion;
- promotion and improvement of vocational training, education in the context of a lifelong learning policy;
- promotion of a skilled, well-trained and flexible workforce, innovative and adaptable forms of work organisation, and entrepreneurship;
- specific measures to improve access and active participation of women in the labour market (see Regulation (EC) No 1784/1999 of the European Parliament and of the Council of 12 July 1999 on the European Social Fund)

representatives monitoring the Commission's work. However, as Pollack (1995) points out, this move did not effectively alter the role of the Commission in policy-making. This role consisted of: the administration of Community initiatives; the verification of 'additionality'; a role in the drafting of 'single programming documents'; the drafting of 'operational programmes'; and a role in the designation (based on population) and selection of the regions. The Commission encouraged sub-national participation, but acknowledged that the central governments could select the regions to participate within the policy.

The 1999 reforms further consolidated Community initiatives in number from 13 to 4 and limited the budget to 6% of total structural funding. Further, the designation of objective areas was simplified from 5 to 3 (DG Regio, Regional Policy and Enlargement, 2002). The aim of the 1999 reforms, also with enlargement in mind, was to clarify the roles of the various institutional actors in the administration of funds. It was decided that the Commission would increase its role in the 'setting of the overall priorities for structural funds assistance', the member-states and regions would assume a role in monitoring and the implementation of funds, and the Commission would perform the ex-post evaluation with the member-states performing the ex-ante assessment (Sutcliffe 2000, p. 302). 'Partnership' was expanded to include regional organisations, but national discretion in the selection of regional partners was retained. These reforms were also aimed to raise the impact of programming and to produce a wider redistribution of Community Funds to address the 'cohesion deficit' across the EU (see De Rynck and McAleavey 2001). The drive towards creating specific national administration and fostering domestic ownership in the PHARE reforms seems consistent with the Structural Funds' reforms of 1999.

### **3.2 A Financial Framework for Funds**

A second aspect of the internalisation of enlargement was the determination of a financial framework. The Berlin financial framework for the period of 2000-2006 aimed to keep the overall spending under control and maintain levels of spending on the existing member-states. This meant only a gradual reduction of expenditure on the

‘old’ member-states until 2006<sup>43</sup> (see table 7). The Council set several spending limits. Spending on Structural Funds should not exceed 0.46% of total EU GDP<sup>44</sup>. Total commitments for enlargement were about 40 billion euro, with total payments to the candidate countries at 25 billion euro (EC, Reform of Structural Funds 2000-2006 1999). Total expenditure for the EU should not exceed 1.27% of EU GDP. The Berlin framework aimed to stay well below this level. From 2004, about a third of total structural spending would apply to the new member-states, or 13.7% of total EU spending in 2006 (see table 7). Pre-accession aid over this period would be doubled to about 3 billion euro on an annual basis. The total transfer of EU funds to a member-state should not exceed 4% of domestic GDP, a level historically never attained for any member-state. Payments would evolve from 1.95% of average candidate country GDP in 2004 to 2.2% in 2005 and 2.7% in 2006 (Swinnen 2003). The Council’s enlargement funds would be ring-fenced (no additional transfer of funds from another heading could take place). The candidate countries were also expected to contribute as members upon accession. Subsequently, the European Commission moderated this position within the Berlin Framework by seeking extra financing for rural development initiatives, limiting the amount of domestic co-financing<sup>45</sup>, declaring that no candidate country should be a net contributor to the EU budget upon accession, and the creation of a budgetary compensation reserve (Mayhew 2003).

It was necessary to stick to the Berlin framework in the negotiations with the candidate countries as a deviation would require unanimity from the Council of Ministers and the European Parliament. The Brussels and Copenhagen Councils in 2002 remained within the Berlin framework. Brussels slightly lowered the funds available for structural action from 25.5 billion to 23 billion euro, mostly thought of as a tactical move in the last months of negotiations (Mayhew 2003). Copenhagen at the conclusion of negotiations produced three important budgetary results (European Council 2002): 1. the possibility of undetermined lump-sum transfers to specific candidate countries in order to alleviate the obvious budgetary problems in the candidate countries (to add to temporary compensations); 2. a concession to both Poland and the Czech Republic, which allowed them the option of transferring

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<sup>43</sup> There was also a Commission proposal to eliminate structural spending completely on areas with per capita GDP above 75%.

<sup>44</sup> Agriculture has its own agricultural spending guidelines.

<sup>45</sup> This made cohesion funds more prominent in Structural Funds (33% of structural action).



Structural Funds monies to national budgetary subsidies in 2005-2006 (1 billion and 300 million euro respectively from 2004-2006); and 3. extra-budgetary resources for border strengthening (for a breakdown of the payments and contributions of Poland and The Czech Republic see Table 5). In all, the Copenhagen framework was more modest and cautious than the Berlin framework with total payment commitments down several billion (see table 7), though discretionary transfers added some flexibility (the payments minus the contributions mean net payments from the EU to acceding countries of 13 billion euro).

Table 5: EU Appropriations of Payments to Czech Republic and Poland/ Domestic Contributions to EU Budget 2004-2006

<b>EU Appropriations MEUR 1999 prices</b>	<b>Agriculture</b>	<b>Structural Funds<sup>46</sup></b>	<b>Internal Policies</b>	<b>Budgetary Compensation</b>	<b>Payment to EU Budget</b>
Czech Republic	975.1	950.4	247	746.3	2571
Poland	9804.6	3871.3	1190.8	1442.8	6500

European Council (2003), 'Act on Conditions of Accession'; European Delegation in the Czech Republic (2004)

The preference of the core member-states was clearly to continue under the same spending limits, with a similar distribution between the existing member-states and the acceding countries. So, until 2006, most candidate countries will continue under similar financial frameworks as before accession.

The cautious post-accession financial framework has three effects. First, the limited transfers put pressure on the domestic budget in the candidate countries. Rollo (2003) points out that full implementation of the acquis would cost the new member-states on average 5-9% of existing government expenditure, without even the addition of the co-financing requirement in EU programming. An additional factor was the structural delay in the transfers to the national budget of both Structural Funds (there is a 7% advance for Structural Funds and a 20% advance for Cohesion Funds-complete transfers are normally made within 2 years), of the direct payments (up to a year), and of the market intervention instruments (2 months). Secondly, as table 5 indicates, EU membership implies a redistribution of national budgetary resources to the agricultural and regional development sectors under a limited overall improvement of the domestic budgetary situation. Third, relevant to the period after accession, the

<sup>46</sup> In the Czech Case 20% was appropriated for Cohesion Funds with the rest for Structural Funds. In the Polish Case this ration was 18% to 82%.

cautious financial framework questions the continuity of the current CAP and regional policy frameworks under current expenditure levels (see Hughes, Sasse, and Gordon 2004, p. 9; Grosse and Olbrycht 2003b). Section 3.3 discusses the reform of CAP and the inclusion of the candidate countries within CAP.

### **3.3 The Evolution of CAP and Agricultural Funds**

For CAP, the debate between European actors centred on how to reduce the overall costs of agricultural policy and include the candidate countries within CAP. These discussions intensified from the Berlin Council in 1999 onwards.

The MacSharry reforms of 1992 formed a basis for further reform.<sup>47</sup> In 1997 after the Madrid Summit paved the way for enlargement, the Commission submitted a new series of guidelines to the Council focusing on: 1. the improvement of the competitiveness of European agriculture; 2. the reduction of the risk of expensive surpluses; 3. food safety and environmental concerns; 4. integrating rural development policy within CAP and within the agricultural budget; 5. the defence of the EU mode of agriculture in the next round of the WTO; and 6. the accommodation of new members within the existing regulations and budget (Pezaros, 1999).

However, the main factor in the proposals was a move started by MacSharry for further price cuts and a shift from a price support system towards a system of compensatory and production-linked direct payments. The argument between the Council and Commission was over the extent of the price cuts and indeed the levels of direct support.

The Berlin Summit of 1999 adopted the spirit of these proposals but limited the price cuts (especially in the arable crops, dairy, and beef sectors). It proposed to save by limiting subsidies to farmers' incomes in the shape of compensatory payments (CP)<sup>48</sup>. These CP came from the EAGGF. A proposal to have the member-states co-finance these payments was rejected. The Summit also did not cut the overall budget for CAP,

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<sup>47</sup> For further reading on the working and history of CAP and the MacSharry reforms see for instance Pelkmans 1997. On future reforms see for instance Swales 2002 and Thurston 2002. On CAP and development policy see Schmieg 1997

<sup>48</sup> CP were given out to subsidise farmers' income affected by price cuts in his particular production area. CP take up 50% of the EAGGF budget.

but decided on the concept of stabilisation, whereby the agricultural budget remained stable adjusted for inflation until 2006<sup>49</sup>. The candidate countries under this proposal would not receive any CP. The argument was that considering prices are lower in the candidate countries, such payments would not apply. It has to be noted that the amounts set aside for market measures and rural development during Berlin in the accession countries were rather small. Janusz Rowniski commented that the opinions of the candidate countries were completely ignored (Rowinski in Hunek and Rowinski 2000). The EU preferred to treat the candidate countries as a homogenous bloc, regardless of the systemic features of the respective agricultural sectors and the timing of accession. It also hardened the negotiating stance of the CEECs. Poland in particular stated that the 'readiness to implement [CAP] ...depends on providing Polish Agriculture with access to all Common Agricultural Policy Instruments (including direct payments) (Chancellery of the Prime Minister of the Republic of Poland 2000a, p. 94)'. This was a specification of the unconditional adaptation and harmonisation proposed by the Polish Government in 1998.

An innovation in Berlin was the introduction of national envelopes, which represented a decentralisation of the disbursement of CP to the member-states. The member-states could also pick priorities and their criteria for disbursement within EC regulations. This has also been called a potential re-nationalisation of agricultural policy. The idea is to give the member-states and farmers incentives by linking CP to environmental goals (cross-compliance) and rural employment targets (modulation). Modulation will mean the gradual reduction of direct payments to larger farms. Modulation will begin in 2005 at 3% and rise to 5% in 2007. Pezaros (1999) notes that the administrative requirements for this new system in the member-states are extensive.

In rural development, the Berlin Summit made rural development policy applicable in all rural areas of the EU and it brought together the previous nine instruments into a single legal framework for rural development (Council Regulation(EC) No 1257/1999). The increased financial resources would primarily come from the resources in the budget that are saved through cutbacks in CP and through modulation. The EU aims to use the funds saved by this modulation to support a new

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<sup>49</sup> Before enlargement market intervention takes up 12% of the total EU budget, direct payments 30%, and rural development 5% (source: DG Agriculture 2003).

and strengthened rural development initiative, agreed to in the Luxemburg Council of June 2003 (see EC, CAP Reform: Presidency Compromise, 10961/03 2003).

Moreover, the funding guidelines and monitoring were 'simplified' by 50%, so the member-states could adjust programming in the middle of a cycle (DG Agriculture 2003). An important ramification of this development was the increased discretion of the member-states in agricultural funds distribution. The member-states draw up their rural development programmes and are responsible for their implementation and co-financing, depending on the type of region and type of measure. The Commission and the member-states then cooperate in ensuring the monitoring of the implementation of rural development policy (DG Agriculture 2003).

Though the Berlin Summit proposed some major philosophical departures from the basic price support under CAP, the outcomes were disappointing in terms of the cuts in support and the preparation for enlargement. The current Mid-Term Review for CAP reform, first proposed by the European Commission in July of 2002 and ratified in June of 2003, set out a common negotiating position for the introduction of direct payments in the candidate countries in terms of the system, the allocation, and the phasing-in of payments. The Review also broke the link between payments and production that the Berlin Summit had evaded (see EC, Cap Reform: Presidency Compromise, 10961/03 2003)<sup>50</sup>. The CAP Reform of June 2003 introduces single payments to the EU farmers that are not linked to production. It is a decouplement initiative, styled by the European Commission to give incentives to farmers to produce for the market rather than for a direct payment. Rollo (2003, p. 5) points out such decoupling is changing subsidies from 'workfare' to 'welfare'. The new system will be introduced on 1 January 2005, but the member-states will have until 2007 to gradually decouple. Aside from single payments, there will be more emphasis on cross-compliance and modulation, as introduced in the Berlin Summit.

This latest CAP reform had direct implications for the candidate countries. First, the process for the phasing-in of direct aid was established in the Copenhagen Council, after being agreed to in principle at the Brussels Council (for amounts see table 6). Though Berlin eliminated direct payments for farmers in the candidate countries, the

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<sup>50</sup> The Mid-Term Review was a concession gained by the European Commission in Berlin and affirmed in Thessalonica in June 2003 over French objections.

position proved untenable after further Commission analysis. The debate on the extension of the direct payments in the Brussels Council of 2004 pit the chief architects of reform in the CAP and perversely the major supporters of enlargement (the Netherlands, the UK and Sweden) against the major recipients of funds, France, Germany, and Spain (Mayhew 2003). A minimum target of 25% of EU payments given to the member-states was affirmed for 2004. This payment increases 5% of total payments per year until 2013 (see table 8). The candidate countries can top this amount up by 30% of the total EU payments to the 'old' member-states per year through either topping-up out of their EU rural development allocation and/or the national budget. However, this support cannot exceed on average 20% of the overall rural development funds allocated to a specific 'new' member-state. Similarly, the candidate countries can top these amounts up through their national budget, as long as support does not exceed the maximum direct payment under CAP in the EU (expressed as % of EU support average). From 2006, all top-up amounts in the 'new' member-states will be from the national budget. The candidate countries will be immediately eligible for market measures in CAP, such as intervention buying.

This system addressed the questions on how enlargement would be facilitated left unanswered in Berlin. However, both the Berlin and Copenhagen Summits evaded the exact breakdown of allocations to the member-states after the 2006 period. Also, it does not account for the escalation of direct payments to the acceding countries. Enlargement had to fit into the Berlin financial framework. It means, despite the budgetary margin shown in table 7 until 2006, that without an expansionary budget from 2006 ( $\geq 1.27\%$  of EU GDP) CAP will have to be reformed either through: 1. an extended modulation linking payments to farm size (continued from the proposals at the Berlin Summit); 2. increasing or introducing co-financing requirements for the member-states; or 3. a 'degressivity' or reduction of existing support (Swinnen 2003). In this sense, the limits on direct payments to the new member-states are not only a result of a restrictive financial framework and a lack of 'fairness' in the negotiations with the acceding countries but also an anticipation of future reforms aimed at capping these direct payments driven by the Netherlands, Sweden, and the United Kingdom in particular. Both 'degressivity' and co-financing are in the transitional periods already applied to the acceding countries. In this sense, policy to the new

member countries is a forerunner for CAP reform, much like similar correlated reform of pre-accession funds and regional funds.

Secondly, the CAP adjustment for the candidate countries built on proposals in the Berlin Summit that devolved many responsibilities for the administration of CAP and even financing to the national and regional levels. For the candidate countries, the option existed, instead of applying the standard direct payment system, to grant their farmers a decoupled area payment as a transition measure. Guba notes on the difference between the schemes that:

‘Under the standard system currently applied in the EU, the level of direct payments depends on the arable land area, head of cattle and production volume. Under the simplified system, the overall financial envelope negotiated for the entire country would be divided between farms proportionally to the size of arable land, regardless of the type of agricultural production carried out thereon. A farm would not have to be engaged in production to receive simplified payments and neither would there be a requirement to set aside a part of arable land (currently 10%) by large farms (with over 92 tonnes of potential cereal output) (Guba 2002, p. 1).’

In the candidate countries, more discretion for the national governments places more emphasis on the control of physical lands and financial control through the Internal Accounting and Control System (IACS) and the direct payment initiatives. This is similar to the EDIS mechanisms discussed earlier. Any direct payments scheme needs to be assessed initially after three years to ensure compliance with EU standards with the option of annual renewal for two more years.

Table 6: Allocation per Country in mio euro under Conclusions of Copenhagen Summit

<b>Poland</b>	<b>Direct Payment</b>	<b>Market Measures</b>	<b>Rural Development Policy</b>
2004		135.2	781.2
2005	557	349.8	853.6
2006	675	376.5	908.2
<b>Czech Republic</b>	<b>Direct Payment</b>	<b>Market Measures</b>	<b>Rural Development Policy</b>
2004		45	147.9
2005	169	109	161.6
2006	204	111	172

Source: EC 2002

Table 7: Total Expenditures under Berlin Framework (in 1999 prices)

<b>Appropriations (in bio. euro)</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>
Direct Payments and Market Intervention	39.430	38.410	37.570	37.290
Rural Development	4.340	4.350	4.360	4.370
Structural Funds	27.670	27.080	27.080	26.660
Cohesion Funds	2.615	2.515	2.515	2.515
Pre-Accession Aid	3.120	3.120	3.120	3.120
Total Accession Payments to Accession Countries	6.710	9.090	11.440	14.220
Agriculture Commitment for Accession		1.890	3.746	4.145
Structural Commitment for Accession		6.123	6.984	8.882
Administration Commitment for Accession		1.471	1.441	1.385
Budgetary Compensation		1.273	1.173	9.39
<b>Total Payments (total EU budget)</b>	<b>101.450</b>	<b>100.610</b>	<b>101.350</b>	<b>103.530</b>
Ceiling on Payments (% of GDP)	1.19	1.15	1.13	1.10
Overall Ceiling (% of GDP)	1.27	1.27	1.27	1.27
Margin (% of GDP)	0.08	0.12	0.14	0.17

Source: EC 2003, 'Conclusions of Copenhagen Council', and Own Compilation

Table 8: Schedule for Direct Payments in CEEC-8 after Accession

<b>Year</b>	<b>EU Budget</b>	<b>From National Budget(maximum top-up)</b>	<b>Total</b>
2004	25%	30%	55%
2005	30%	30%	60%
2006	35%	30%	65%
2007	40%	30%	70%
2008	50%	30%	80%
2009	60%	30%	90%
2010	70%	30%	100%
2011	80%	20%	100%
2012	90%	10%	100%
2013	100%	0	100%

Source: European Commission 2003

### 3.4 The Outcome of Negotiations on Enlargement

As stated earlier, an important outcome of negotiations was the direct payment scheme. This scheme also had to be consistent with the conclusions of the Presidency and the internal considerations of the Council of Ministers. Reference quantities of agricultural production based on recent production were agreed upon focusing on reference yields, quotas, national guaranteed quantities, compensation aid, processing aid, premiums. For rural development, a temporary rural development measure from

2004-2006 would mean (Compiled from EC Report on the Results of the Negotiations 2003):

- Differentiated appropriations to allow more time between rural development commitments and payments on the model of structural funds;
- Increased co-financing in Objective 1 areas up to a maximum of 80%;
- A temporary income support for semi-subsistence farms (a maximum of 1000 euro per farm-in Poland 1250 euro). Eligibility will be dependent on the submission of a business plan (aid up to 5 years with a review after 3);
- Support to encourage the setting-up, and to facilitate the administrative operation of producer groups (5 years);
- A temporary measure to aid farmers for the period 2004-2006 to meet EU environmental, hygiene, welfare, food safety, and occupational safety standards;
- Technical assistance under EAGGF to ensure a smooth transition from SAPARD to the rural development 'acquis';
- A slow escalation of payments to allow for better absorption;
- Certain rural development measures will be adapted for new Member- States (such as LEADER).

For regional policy and Structural Funds, negotiations determined which areas were eligible under which EU classification. These negotiations had no transitional periods and determined only the approximate percentages of commitments available to the acceding countries. The negotiations did mention specifically that the distribution of funds was contingent on these countries meeting the administrative capacity requirements of the EU (EC Report on the Results of the Negotiations 2003, p. 41; EC, Accession Treaty, 2003).

## **4. Conclusion**

What do the reforms of the pre-accession templates mean in terms of the EU challenge to the domestic administration in regional and agricultural policy? To answer this question, it is first important to look at the patterns in the administrative requirements within the EU templates and the allocation and the direction of



resources. Secondly, it is important to look at pre-accession templates, in terms of their continuity over time and their consistency with ongoing reform of policy in the EU.

### **Administrative Requirements and the Direction of Funding**

Before 1997, PHARE was predominantly an aid programme. The European Commission had emphasised a wide involvement of national and regional partners in programming. This approach meant that national actors, such as line ministries and regional development agencies, could apply to the European Commission for funding, and upon approval these funds would be distributed directly to them (see for instance interview with John O'Rourke: Warsaw, January 21 2002). This approach meant that coordination and implementation of programming were fragmented in the executive and across the territorial administration. Furthermore, the European Commission still favoured territorial decentralisation in Central and Eastern Europe. To this end, many pilot projects focused on 'bottom-up' initiatives, which relied on regional partners.

The PHARE Reforms of 1997 involved a programmatic and financial proceduralisation of implementation (see also Glowacki 2002; interview with David Hudson: Brussels August 29 2001). This reform in the European Commission, as stated earlier, was driven by: a. efficiency and effectiveness considerations to decrease waste and raise the impact of programming; b. a focus on increasing the 'robustness' of administrative capacity and absorption rates of funds in the candidate countries; and c. an emphasis in the pre-accession period on building specific procedural and administrative links to CAP and Structural Funds.

The PHARE Management Reforms would mean the horizontal and vertical centralisation of the management of EU pre-accession instruments. First, in 1997, the European Commission mandated the reduction of implementation agencies, changed the involvement of line ministries in implementation, and instituted stricter systems of financial control and monitoring. Secondly, The European Commission promoted 'domestic ownership'. Though the transfer of management responsibilities to the domestic level at first sight would seem to increase the domestic discretion in the organisation of the management of EU funds, EU requirements on co-financing and

overall management limited the type of administrative bodies that could participate in EU funds management. Moreover, these requirements were a hurdle for participation of domestic administration in EU funds, in terms of the capacity required to deal with the complex EU management systems that controlled the transfer of competences to the domestic level (for instance DIS and EDIS).<sup>51</sup>

In terms of co-financing, the national co-financing requirement (on average 25%) created direct domestic ownership over programming. Aside from the demands of programming on the national budget, the co-financing requirement placed some operational risk with the national executive. This raised the stakes at the domestic level to improve financial management of programmes and the system of public finance as a whole, given the strained national budgets in the Czech Republic and Poland. Moreover, the irregularity report and financial corrections system, required under Structural Funds and operated in SAPARD, further increased the operational risk of programming at the domestic level. Thus, it was paramount to the domestic executive to have capable administrative units that performed financial control and implementation. This mostly meant a centralisation of management competences in central units like the National Fund, central coordination units, and a select number of implementation agencies. Finally, the co-financing requirement limited the type of administrative bodies that can implement to those funded by the national budget or affiliated to networks supported by budget-funded agencies, regional self-government, and the ministries.

In terms of the overall management of EU pre-accession funds, the European Commission relied on management systems such as DIS and EDIS. The complexity of these systems, in terms of the management and payment procedures, would test the robustness of domestic administration and consequently would limit the administrative bodies that could participate. This was especially the case in policy areas that used EDIS before accession, such as SAPARD, or had complex administrative requirements like IACS, such as CAP.

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<sup>51</sup> These systems also meant that the European Commission retained control over the project cycle on an ex- ante and/or ex-post basis through monitoring, steering, and final audit.

The stated preference in the European Commission to rationalise domestic administration and to rely on specific domestic administration with a capacity to implement was not always consistent with its own financial requirements. As stated in section 2.1.b, differing opinions in the European Commission highlighted the difficulty in finding a balance between improving absorption (administration-building) and compliance. The reliance on special-purpose administration would put pressure on domestic executives to integrate these administrations in the national budget. This would be a major challenge to the executive set-ups in the Czech Republic and Poland.

In terms of the involvement of regions in programming, the EU's preferences in programming show that monitoring, control functions, and payment procedures have to be performed at the national level. As Kazmierczak explains European officers prefer centralised reporting on programming and the control of programming (Interview with Agnieszka Kazmierczak: Warsaw, January 22 2002). Listzwan (2003, p. 258) comments on the Directorate General for Agriculture as 'having a primary interest in simplicity, financial accountability and the compliance of the programme with the *acquis*, especially [with] [considering] the views of the Member-states. Although, strictly speaking regionally-neutral, the Commission's emphasis on "simplicity", financial accountability and transparency of procedures tends to favour central solutions'. In short, from a relatively diffuse implementation in the early pre-accession period, from 1997 onwards the organisation of both implementation and coordination was increasingly shaped by the national executive. Moreover, the notion of 'partnership', aside from project identification, was vague on the involvement of regions in implementation. This role became more consultative. Though PHARE programming would still require regional structures and input, PHARE Reforms had mediated the initial EU pressure on the candidate countries to decentralise territorial administration.

The allocation of resources seems to confirm the pattern of centralisation noted above. First, the allocation of finances showed a rigid overall framework. This rigidity meant that for Poland and the Czech Republic budgetary problems would remain after accession. Lump-sum payments and advances on Structural Funds are probably too limited to offset the additional administrative demands and difficult domestic

budgetary situation. Given the overall ceiling on EU expenditure, the effective targeting and efficient absorption of existing resources became even more crucial. The focus under PHARE ESC starting with PHARE 2001 and PHARE 2002 was on SME development, the development of human resources, and training (through Twinning). These programmes favoured those types of central administrative units with experience in these types of activities. Straightforward regional policy initiatives were scaled back under PHARE 2000 (see table 1). PHARE 2002 would reduce regional programmes into one joint operational programme and rely more heavily on sectoral programmes to be administered by the national executive. Similarly, there was a limited provision of funds for the regional administration in both PHARE and ‘Twinning’. Aside from a bias towards centrally administered projects, the Commission would also favour projects with a higher prospect of implementation in ISPA. The ISPA Management Committee agreed the up to 60% of resources allocated to the candidate countries would go to transport projects, due to the poor quality of environmental projects (see table 3).

#### **Continuity over Time and Consistency with Ongoing Reform of EU Policy**

The strength of the EU challenge to the domestic polity also depends on the continuity of the EU templates over time and their compatibility with ongoing reform of EU policy.

The continuity of the pre-accession template over time was a factor in the implementation of EU funds and especially PHARE. The domestic administration had to cope with new institutional templates associated with the agricultural payments, Cohesion Funds, and Structural Funds. The 1999 ‘sector letter’ on PHARE by the Court of Auditors criticised the disruption caused in the candidate countries and the Commission by the frequent changes in PHARE management and in the direction of programming. Some of which had not been worked out in advance and limited the impact of programming (cited in DG Enlargement, PHARE 2000 Review, 2000). This situation was also a function of the institutional set-up at the European level. The research has mentioned the sometimes poor coordination within the European Commission before. The EU guidelines in this way could be changeable, vague, and paradoxical.

However, steps were also taken to address this weakness. For instance, the introduction of the multi-annual indication in pre-accession programming aimed to limit the provisionality of programming, which was previously conditional on annual renewal. The absorption of ISPA into the Cohesion Fund upon accession without a transition facility is the most direct example of linked programming. SAPARD also shows a great continuity in its administrative set-up from the pre-accession period to CAP via a transition facility. Further, SAPARD programming is even more prescriptive than the operational programmes in CAP (see section 2.2). Only, in ‘twinning’ and PHARE was there no clear continuity between the pre-accession and the post-accession templates (see section 2.2). Clearly, this was also a function of a less dense ‘acquis’ in regional policy compared to agricultural policy. However, CAP with a dense ‘acquis’, as described in section 3.3, produced more transition periods than regional policy, offering national actors some flexibility. The system for direct payments is an obvious example. A lack of continuity or the presence of some flexibility in the template gave the domestic administration discretion, as chapters 5-8 will show, to avert EU pressure to adapt or shape the administrative organisation.

The reform of the pre-accession templates was compatible with the reform of Structural Funds and CAP in 1999. These reforms aimed to resolve the multi-level division of competences in the administration of funds. This meant devolving certain competences associated with its supra-national governance back to the national level. Modulation and cross-compliance in CAP are examples of this point, as are increasing rates of domestic co-financing in Structural Funds after the reforms of Funds in 1999. Much of this reform was ongoing, but the imminent enlargement clearly sped up reform. This enlargement not only heightened the debate on the capacity of the Commission to deal with the complex programming of EU funds, but also led directly to new procedures in which the Commission performs ex-post control. EDIS also gives flexibility in how member-states organise implementation. Programming became even more region-based (national), with less emphasis on the Community Initiative. Rural development policy, such as SAPARD, would become far more prominent in CAP (Interview with Etienne Claeys: Brussels October 25 2001). Reforms of CAP, rural development, and Structural Funds seemed to assign fewer competences to the European Commission and asserted the role of national

governments in the management, the payment procedures, and the direct national financing of traditional EU policy areas. However, similar to PHARE, the transfer of management competences to the domestic level (or ‘domestic ownership’) would also increase the administrative and regulatory burden on the member-states.

# **Chapter 5: The Management of Regional Policy and the Administration of the EU Pre-accession Instruments in the Czech Republic**

## **1. Regional Policy in the Czech Republic**

The European pre-accession process after 1997 would challenge the Czech state in terms of three ‘misfits’: 1. the formation of a regional policy; 2. the introduction of a middle-tier of administration; and 3. the presence of effective administration capable of coordinating and implementing regional policy. The first point implies an important change to sectoral institutional arrangements (high ‘misfit’). The last two points are instances, where sectoral adoption of EU regional policy provides challenges to the macro-institutional context. Territorial decentralisation is a challenge to the vertically centralised executive in the Czech Republic. Point 3 could imply an assertion of central coordination units in an executive system in which ministerial autonomy was high.

However, the EU requirements based on a shallow ‘acquis’ and through temporal factors such as the PHARE Reforms allowed considerable discretion to the domestic administrative actors to avert the costs of adaptation and shape the domestic polity. The first section of this chapter will look at reform of administration from 1992 to 2002, the formation of regional policy, and the financing of the regions. The second part of the chapter will look at the implementation of the pre-accession funds.

### **1.1 Initial Reforms in 1989 and the Early 1990s**

Communism had produced a strongly centralised planning system dominated by single national plans. These plans were administered by hierarchically organised National Committees, which represented the state power at the district and municipal level (Blazek and Kara 1992; Sykora 1999). Adjustments in the system were made in the 1960s and 1970s, as the focus shifted away from wholemeal industrialisation, the centralisation of the distribution of resources and economic growth targets.

The implementation of this decentralisation ended when the political transformation occurred in 1989. In 1990 under the Pithart government dominated by Civic Forum, the 'Municipalities Act and District Office Act' created a new system of local government by which the Regional National Committees were abolished. Ministerial offices remained at the sub-national levels of territorial administration. Reschova (1993, p. 1) comments on the proposals that the 'reform was undertaken hastily and the original concept of local/central relations was unbalanced.' Although the reforms reflected a political desire to establish liberal self-government at the municipal level, it was difficult to identify the balance between the autonomous and delegated powers of the municipalities in the absence of intermediate levels of self-government and due to the authorities of the state in the region (Reschova, 1993). District National Committees were replaced by District Offices, which became the extensions of the state (under the Ministry of the Interior with district departments under the respective line ministries). On the sub-regional level, municipalities became the basic units of self-government (Dostal and Kara 1992). Regional self-government consisting of 7 regions had been abandoned by the republican government.

In regional policy, the 'Municipal and District Office Act' seemed to signify an abandonment of planning (MRD 1999c). The end of communism had bred a widespread contempt for economic planning. Nonetheless, the essence of intervention stayed the same. State intervention continued to be considered the best solution for the transformation of the Czech economy into a market economy (Cernoch and Jacoby, 2002). Regional problems would fit into the larger economic policy. The 'Regional Policy Act from 1991' is an example of this approach.

The neglect of regional policy has a variety of causes<sup>52</sup>. First, Blazek points out that regional disparities at the time of transition were relatively low (Blazek 2000).

Czechoslovakia in effect was a country that had a relatively even regional development. This situation changed in the middle of the 1990s. Interregional disparities had been growing since the start of economic transition (Blazek, 1997;

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<sup>52</sup> Leo Paul (1995, pg. 40) argues in looking at regional policy in Central and Eastern Europe that the 'interrelativeness of economic, legal, and political reforms' should be kept in mind. He sees seven groups as influencing regional development policy: the political context, international organisations, macroeconomic reforms, foreign investors, local initiatives, regional policy and geographical location'.



Blazek 2000, p. 373). Rising unemployment was a potentially debilitating political problem for the national political actors in a budding democracy. In certain areas such as North Bohemia and Northeast Moravia, regional actors started to put pressure on the government to address regional development and especially job creation. Blazek's argument that regional disparities might have significantly contributed to the break-up of Czechoslovakia shows to some extent the grave consequences regional imbalances could have (Blazek, 1996). Ironically, the Czech government's response to the growing regional problems was to increasingly rely on the 'old socialist logic' of state intervention (Cernoch and Jacoby 2002). Regional development policy would take a backseat to industrial policy at the national level (MRD 1999c).

Secondly, regional offices as an extension of the centralist former communist government were seen as centres of influence of the communist cadres. Blazek (1997, p 43) points out that the elimination of regional structures was mainly justified by 'the profiles of the regional leaders and the majority of its staff'. Such elimination fit into a process of reducing the size of government as a whole, an important point on the agenda of the Klaus government after 1992.

Third, regional policy suffered under what Cernoch and Jacoby label 'the uncertainty about the durability of the state' (Cernoch and Jacoby, 2002). The events leading up to the 'velvet divorce' in 1993 meant no government would systematically design a regional policy as long as question marks existed over the future of the Czechoslovak federation. Vaclav Klaus' 'one country' idea fit right into the centralist thinking of the political elite in 1993.

## **1.2 The Klaus Years: 1992 to 1997**

The coalition governments under Prime Minister, Vaclav Klaus, consisting of his Civic-Democratic Party (ODS), The Christian Democratic Party (KDS)<sup>53</sup>, the Christian and Democratic Union and Czechoslovak People's Party (KDU/CSL) and the Civic Democratic Alliance (ODA) continued on the path of centralisation. This path had two main characteristics. First the prevention or undermining of the

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<sup>53</sup> The KDS would merge with the ODS in 1995.

formation of bodies on the regional and central levels, which could coordinate and administer regional policy, meant an incomplete institution-building at the regional level (Cernoch and Jacoby 2002, p. 5) and lack of coordination among ministries on the central level (MRD 1999c). Secondly, the inflation of the numbers of bodies engaged in regional policy at the central level undermined and fragmented the authority of regional bodies and in particular municipal self-government.

The attitude of the Klaus government also was in violation of the spirit of Article 99 of the Czech Constitution of 1992, which included a reference to the creation of a middle-tier of regional government in the territorial administration of the Czech Republic. This 'new' layer of government went beyond the already existing district offices, which represented the state government on the district level. The idea behind Article 99 of the Constitution was to loosen the grip of the central authorities and produce diffusion of authority through the regional governments, as well as to create additional implementation infrastructure to promote the integration of the Czech Republic in the European Union. However, the attitude of the ODS to territorial reform was summed up by Klaus in 1996: "After having successfully abolished regions in 1990, do we really want a new regional bureaucracy?" (Klaus quoted in Beckman 1999) Further, in 1992, the 'Act on Principles of Government Economic Policy' strengthened the notion that regional policy was seen mostly in support of the development of a market economy.

After the re-election of the ODS-led coalition government under Klaus in 1996, a cabinet reshuffle produced the abolition of the Ministry of Economy. A quite minor Ministry for Economic Competition was also abolished. There were a variety of reasons to break up the Ministry of Economy. The exclusive central role for the Ministry of Economy in economic policy was a product of the consolidation of economic policy in the early 1990s driven by the de-federalisation of Czechoslovakia, the abolition of communist-era central planning structures such as the State Planning Commission, and the needs of economic transition. In 1996, at a time of economic crisis, Klaus proposed a more diversified economic policy. There existed a desire for specialised ministries to deal with industry and trade policy. Also, splitting the Ministry of Economy would inadvertently strengthen the hand of the Ministry of Finance, a ministry crucial to the neo-liberal reforms and largely designed by Klaus

after 1989. The incorporation into the Ministry of Finance of the Ministry of National Property Administration signified a trend towards the consolidation of specific privatisation competences established at transition in one ministry. Authorities over economic policy were divided among the Ministry for Industry and Trade, the Ministry of Transport and Telecommunications, the Ministry of Finance, and a newly created Ministry for Regional Development.

The Ministry for Regional Development was charged in the 'Powers and Functions' Law No. 272/1996 Coll. with the coordination of the implementation of state regional policy and the administration of funds. However, the ministry for Regional Development was seen as a junior player in the cabinet<sup>54</sup>. The existence of the Ministry for Regional Development owed more to Klaus' desire to break up the Ministry of Economy than to a newly found interest in regional policy. The only policy area the Ministry for Regional Development had any authority over was housing. It quickly was dubbed the 'housing ministry' (Cernoch and Jacoby 2002, p. 8). Secondly, the ministry did not design or apply any regional policy programmes until 1999 (Sykora 1999). Its 1997 policy draft on the principles of regional government was not adopted by the government. The Ministry neither managed to fulfil its original mandate in administering funds (MRD 2002). Its limited budget basically meant few regional investments on behalf of the ministry could be made. In essence, regional policy remained an 'ad hoc response' to economic crises and provided limited support to small to medium-size companies (Sykora, 1999).

The management of regional development policy shows the importance of policy coordination in the cabinet. This coordination is directly related to the role of the Prime Minister in the executive. According to the Constitution, the Prime Minister organises government activities, acts on its behalf and coordinates the ministries. The Prime Minister does nominate the ministers in the cabinet, but does not have formal powers to control their ministerial work. They are appointed and dismissed, as is the Prime Minister, by the President. The ministries themselves are established and their competences determined by an Act of Parliament (SIGMA 1999, p. 8). Ministries are also responsible for the determination of their own internal organisation. Similarly,

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<sup>54</sup> The post of Minister of Regional Development was given to a junior coalition partner, the KDU-CSL.

the Prime Minister does not have any direct control over coordination committees, councils, and advisory bodies. The post of Prime Minister remains under-institutionalised. This weak institutionalisation can lead to either a strong Prime Minister with much executive discretion in policy areas as in the case of Klaus, who dominated economic management and abolished Deputy Prime Ministers in 1993 or a weaker one as in the case of Milos Zeman, who needed to be more consultative with his party and cabinet. Similarly, ministerial and prime ministerial discretion can increase the centralisation of policy coordination. Under the Zeman and Spidla administrations, coordination would be decentralised in what SIGMA categorises as advisory, consultative, and truly inter-ministerial committees (SIGMA 1999, p. 11; OECD 2001). The members of the advisory bodies are appointed by a government resolution signed by the Prime Minister. The consultative bodies are mostly ad hoc committees chaired by a respective minister, who also appoints the members of the committee. Inter-ministerial coordination is normally conducted on Deputy Minister level. The committees are chaired by the Deputy Minister of the leading ministry and incorporate all Deputy Ministers and heads of central state agencies. These bodies coordinate and prepare cabinet decisions.

At the core executive level under Klaus, the government's office supported the Prime Minister and provided technical and administrative support for the cabinet. Under the government of Prime Minister Zeman, the government's office pursuant the 'Act of Competencies' was expanded to include the secretariats of the newly appointed four Deputy Prime Ministers and the organisation of councils and committees. This appointment in a way acknowledged the ministerial autonomy in its relationship to the core executive. The nomination of these Deputy Prime Minister also had effects for the management of relations with the EU. After an initial experiment with a Deputy Prime Minister responsible for the overall coordination of the preparation for EU membership reporting to the Prime Minister, these plans were abandoned. The Minister of Foreign Affairs retained overall responsibility for the relationship with the EU. The Minister of Foreign Affairs was subsequently upgraded to Deputy Prime Minister. Brusis and Dimitrov (2001, p. 903) point out the reintroduction of Deputy Prime Ministers 'served to weaken rather than strengthen the Prime Minister, as the Prime Minister had to balance rivalries between these Deputy Prime Ministers'. This

weakening also served to increase the discretion of the line ministries in economic management.

## **1.3 European Union and the Zeman Administration from 1998 to 2002**

### **1.3.a A New Regional Policy**

Two main changes occurred in the year from 1996 to 1997. In January 1996, the Czech Republic applied for European Union membership. European scrutiny exposed the ‘misfit’ between the EU template and Czech template in regional policy, namely the highly centralised approach in policy administration and the lack of territorial decentralisation. The European Commission first pressurised the Czech government to formulate a regional policy and set out regional development priorities. Secondly, the Czech government needed to find regional partners to draw up these priorities and implement them. The first European Commission opinion on the Czech Republic’s application for membership of the European Union was quite frank. It stated ‘the Czech Republic lacks an independent regional policy’ and ‘financial resources at the disposal of regional policy should be increased and efficient instruments need to be created’ (EC, Regular Report 1997, p. 84). This point particularly addresses the weakness of the Ministry of Regional Development as a national coordinator and also criticises the practice of dividing regional policy according to sectoral lines, rather than developing an integrated approach with direct operational input from the regions. On the topic of creating a framework, the European Commission mentions ‘the Czech Republic needs to establish a legal, administrative, and budgetary framework for an integrated regional policy and ensure its compliance with EU rules’ (EC, Regular Report 1997, p. 84).

The second component to the changing dynamic was the resignation of the Klaus government in November of 1997. There were three main factors behind this resignation. First, the re-emergence of the Social Democrats (CSSD) as a party-political force in the elections of 1996 meant that the broad Klaus coalition had a minority by one seat in the lower chamber, whose chairman in a complicated co-

existence with the executive was the CSSD chairman. Secondly, the 1997 currency and economic crisis played in the hands of opposition parties, as it undermined Klaus' reputation on economic management. Thirdly, a scandal emerged concerning ODS' party financing. Consequently, the KDU-CSL and ODA resigned from the ruling coalition in November 1997. A caretaker government under Josef Tosovsky, governor of the Czech National Bank, was appointed by President Vaclav Havel until the general elections in April 1998. This government set out to manage some reforms in regional policy and public administration. The main accomplishment at the end of 1997 was the 'Constitutional Act no. 347 on the Formation of Higher Territorial Units'. This act was very much in line with Article 99 of the constitution and set out to form a middle-tier of government, which would be the higher regional tier of government. As Illner (1998) points out, without this level any reform of territorial administration was incomplete. The Act, passed by both houses of parliament, would come into effect on January 1, 2000.

The election in June of 1998 produced a Social Democratic minority government led by the CSSD chairman, Milos Zeman. The CSSD would govern the Czech Republic in an unexpected 'opposition pact' with the ODS of Vaclav Klaus until May 2002. The ODS agreed to tolerate a minority government and gained the chairmanship of both houses of parliament (Kosteletzky 2002). Zeman directly linked the establishment of a middle-tier administration to the EU by stating in parliament that the EU requirement was the logic behind the creation of the regions (Beckman 1999). Moreover in the Zeman government, as Rovna (2002, p. 201) notes, 'Europe' became a domestic issue rather than a 'foreign policy question'.

The logic for territorial reform further grew out of the constraints placed on the minority government. Territorial reform was not only a product of the CSSD election platform to fulfil the Constitution, but also a way, as a bulletin of the Ministry of the Interior points out, to improve the management of socio-economic development (see C A R O L I N A report No 298, Friday, July 31, 1998 and Beckman, 1999). Further, it was one of the few policy areas in which the government could follow its own agenda for reform. The opposition pact with the fiscally conservative ODS limited the

budget deficit the government could run at a time of budgetary crisis.<sup>55 56</sup> Also, there was pressure from the European Commission to moderate fiscal policy. These factors constrained spending policy and investments within the ministries at a time of economic downturn. Additionally, the CSSD was internally split between the left leaning Minister for Labour and Social Affairs, Vladimir Spidla and the more fiscally conservative Minister of Finance, Pawel Mertlik. They were both Deputy Prime Ministers in the administration. Spidla<sup>57</sup> was in favour of expanding social spending, whereas Mertlik<sup>58</sup> was strengthened by, but at the same time beholden to, the agreement with the opposition.

### **1.3.b Territorial Administration and Public Administration Reform**

The first step was to formally set out to change the territorial administration to provide an organisation consistent with the requirements for the implementation of EU Structural Funds. This reform would increasingly run parallel to the changes in territorial administration envisioned in Article 99 of the Constitution and the Constitutional Act of late 1997. The ODS had repeatedly vetoed such a bill since the initial proposal in 1994 citing its lack of limits on regulations the regional assemblies might impose on the core executive and the creation of unnecessary administrative divisions in the country (Pitkin, 2000)<sup>59</sup>.

#### **The Formation of Krajs**

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<sup>55</sup> The Pact also meant a say for the ODS in reform of the constitution and electoral law. The ODS and CSSD had undertaken that 'long-term political stability' required changes in the constitution to lower the power of the president and a change in electoral law by reducing the role of smaller parties in the lower house (Hanley, Election Briefing 2002).

<sup>56</sup> In 1999, the opposition agreement was amended to produce more collaboration on EU accession, mostly in response to criticisms on progress in the 'Regular Reports' (Rovna 2002).

<sup>57</sup> Vladimir Spidla replaced Milos Zeman as chairman of the CSSD in April of 2001 and became Prime Minister of a CSSD and KDU/CSL coalition government in May 2002 (see Pehe RFE/RL 21/8/2002).

<sup>58</sup> Mertlik, under pressure from the left in the CSSD and Opposition Pact, would resign in April 2001. For an overview of the fiscal executive configuration, see Brusis and Dimitrov (2001).

<sup>59</sup> Beckman (1999) argues that most parties in parliament had been lukewarm on devolution, either on how the regions should be constituted or what kind of competences they should have. This also included the KDU-CSL, traditionally a promoter of civil society and decentralisation of the state.

The Constitutional Act of 1997<sup>60</sup> established 14 regional self-governments (krajs<sup>61</sup>) within the Czech Republic<sup>62</sup>. There were two components in the establishment of the competences of regional administration: 1. a 'top-down' decentralisation of administration from the national executive level; and 2. a 'bottom-up' disbandment of district offices. The Ministry of Regional Development (MRD) comments the 'regional bodies will constitute the basic unit for planning and implementing regional development in the CR, coordinate the development of their territories, cooperate with central administration authorities, and coordinate the interests of municipalities' (MRD 2002, p. 19). Two main forces shaped decentralisation. First, the national ministries, with great autonomy in the executive configuration, sought to maintain their competences and power. Secondly, the choice of 14 regions had been basically pushed through by the major cities, which wanted to cement their place at the centre of local government (Interview with Pavel Cernoch: Prague April 22 2002). The formation of regions around urban centres was also a process driven by the ODS in opposition.<sup>63</sup>

From a top-down perspective, a decentralisation of competences occurred. The MRD, the Ministry of Agriculture and the Ministry of Environment closed their sub-national offices, and the Ministry of Labour and Social Affairs was due to do so in 2001. Their territorial competences were changed to be in line with the newly created regions. In

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<sup>60</sup> In 2000, the Constitutional Act no. 347 of 1997 on the Formation of Higher Territorial Administration Units was implemented. The 'Act on the Regions' (no. 129) of 2000 outlined the establishment of the regions as basic units of regional development. The Act also divides the powers between municipal councils and the regions' assemblies. Art 104(2) of the Constitution subrogates the authority from the municipal council to the regional assembly and outlines the independence of regions in managing its budget and assets. The regional assembly has authority in a. co-ordination of development of territory, programming, and monitoring b. approval of zoning document c. election of representatives to regional councils in cohesion regions (NUTS 2) d. definition of scope of transport services to provide e. decisions on cooperation with other regions e. approval of the regional budget (MRD 2002, pg. 28).

<sup>61</sup> The kraj structure was first introduced in 1919 to balance the influence of the Slovaks and Sudeten Germans in the Czechoslovak federation (Interview with Pavel Cernoch: Prague, April 2002).

<sup>62</sup> 15 if you include the capital city area of Prague as a self-governing area.

<sup>63</sup> Suggestions have been made that the decentralisation of government was pursued by the CSSD to produce electoral gains. Evidence does not seem to suggest this point. The ODS took the regional election by winning seven out of 13 contested electoral regions and winning 27.41% of the total mandates contested (Czech Electoral Commission 2002). This also reflects on the ODS strategy in the regional reform of 1998 of basing regions around major urban centres. The KDU-CSL won in five regions with an average share of mandates close to 23%. The Communist Party (KCSM) won the remaining region and came second in seven others. The CSSD won about 16 to 17% of the mandates. The defeat in the 2000 regional elections can directly be linked to two main factors: 1. the low turnout between 20 to 40% in most regions favouring the KDU-CSL and the communist party; and 2. the electorate's growing disaffection of the 'opposition pact' the CSSD had signed in 1998 with the ODS (see also Pitkin 2000; Horakova and Hrobsky in Radio Prague, 4/11/2002).



terms of staffing, the regions recruited one half of their new public servants. The other half came from transfers of the 'deconcentrated' central administration (OECD 2001). However, this decentralisation was checked. The Constitution stipulated that the central government through the Ministry of Interior and the relevant sectoral ministry can influence regions' activities to safeguard its statutory rights and obligations. In terms of delegated competences, the regions remained subordinate to the sectoral central ministries. The Ministry of Interior coordinated and controlled issues of delegation. As section 1.3.d shows, the line ministries also maintained control over the decentralisation of resources.

From a bottom-up perspective, the elimination of the district offices under Government Resolutions No. 258 of 1999 and no. 511 of 1999, can be seen as a transfer of state competences to the local and regional levels. The district offices were the state offices on the district level. District offices were very popular among Czechs. Cernoch calls them 'one aspect of Czech administration that works' (Interview with Pavel Cernoch: Prague April 22 2002). In the process of distributing the authorities of district offices, mostly to municipalities (80% of competences of districts would be transferred to the municipal level [Josef Postranecky, Deputy Minister of the Interior in Czech in MRD 2003]), the ability of municipalities to implement is dubious (see also Filip de Rynck in Czech MRD 2003). In 1989, due to the aversion of the centralised form of administration under the communist regime, some 2000 new municipalities were introduced under the Municipal Act of 1990, of which a substantial number have a population under 200 (Blazek 1997, p. 43). Many of these municipalities are too small to provide effective local government, with problems in financing and poor management of public services.

The transfer of the competences of the district authorities, as stipulated in Act no. 147 of May 2000 on District Authorities, has at the time of publication not been concluded. With a deadline of January 1, 2003 having passed, it appears the government is looking for a triple structure in terms of the organisation of municipalities. To counter the problem of ineffective municipal administration, the government proposes to have municipalities with different authorisation. This authorisation is based on size, geographic criteria and also the opinion of the municipal authorities. The idea behind this structure is to have the larger

municipalities take over the functions of the district offices and distribute some authorities to the second degree municipalities (Interview with Jiri Blazek: Prague April 23 2002)<sup>64</sup>. However, the transfer of responsibilities to Land Register Offices is mostly seen as way to maintain certain competences on the district level under the supervision of the central state. It is also still unclear where the functions of verification and expert activities of districts in pre-accession programming such as SAPARD will take place (Kamila Matouskova in Czech MRD 2003). Still, the abandonment of district offices is mostly seen as a victory for the larger municipalities or provincial cities, which form the geographic basis for krajs (Interview with Pavel Cernoch: Prague April 22 2002). Thus, such 'krajs' strengthened their competences. However, the line ministries through their agencies and regional offices indirectly took over competences, as newly created self-government bodies on the kraj level were often incapable of guaranteeing the full functioning of their regional authorities (MRD, 2002).

### **Cohesion Regions**

Due to the lack of capacity in the regions, a thin EU regional policy, the constitutional control on delegation and fluid distribution of competences, the line ministries could maintain or enhance their competences in territorial administration (Interview with Pavel Cernoch: Prague April 22 2002). This statement would also be a characteristic of how the implementation of Structural Funds was organised and specifically how the 'cohesion regions' were set up. The set-up for Structural Funds at the regional level in terms of the 'cohesion regions' was provisional. These regions would only operate for the duration of the Czech Republic maintaining objective 1 status. The line ministries would retain most operational responsibilities in implementation. Moreover, the 'cohesion regions' would suffer from krajs trying to assert themselves in the institutional set-up. The 'cohesion regions' functioned mostly on a consultative level and had a role in project selection.

Government Resolutions no. 417 of June 1998 no. 707 of October 1998 aimed to provide the organisational changes required for Structural Funds. These changes

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<sup>64</sup> Illner (1998) argues that middle-tier regional reform was difficult without the stabilisation and amalgamation of local government.

involved setting up overall coordination on the central state level in the shape of National Programming Committees and Monitoring Committee for Economic and Social Cohesion, and constituting territorial units according to NUTS (la Nomenclature des Unites Territoriales Statistiques) at the regional level. Moreover, committees consisting of the respective departments within the ministries would prepare the most important programming documents such as the sectoral operational programmes and the regional development plan (RDP).

On the NUTS requirement, it was important for the Czech government to design territorial statistics in compliance with EUROSTAT requirements<sup>65</sup>. The classification of NUTS areas is based on the number of inhabitants and the square area of a region. These 14 regions or krajs however were too small according to EUROSTAT requirements<sup>66</sup> for 'cohesion region' designation on which structural funds are based. The solution was to amalgamate several of the 14 provinces or krajs into the NUTS 2 'cohesion regions'. The results were that Karlovarsky and Ustecky Krajs would form the Northwest cohesion region, the Plzensky and Jihocesky Krajs would form the Southwest cohesion region, Vysocina and Jihomoravsky Krajs would form the Southeast cohesion region, the Liberecky, Kralovehradecky, and Pardubicky Krajs formed the Northeast cohesion region, and the Olomoucky and Zlinsky Krajs formed the Central Moravia cohesion region. Only the Stredocesky Kraj and Moravska-Slezsky Krajs are compatible with the requirements for cohesion regions. They would form the Central Bohemia and Moravia-Silesia cohesion regions respectively.

The relative newness of the regional self-governments in 2000 and the emergence of 8 'cohesion regions' put forward the idea that parallel regional structures would develop, rather than a structure in which the 'cohesion regions' channelled the interests of the 14 krajs incorporated within them. This idea was further strengthened in 1999, when the 14 Regional Coordination Committees set up to programme and

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<sup>65</sup> Though Hughes, Sasse and Gordon (2004) question the firmness of such requirements by naming adoption the fulfilment of a 'gentleman's agreement', certain criteria on size were indeed firm.

<sup>66</sup> The whole of the Czech Republic would be the NUTS 1 area and objective 1. Objective 1 means an area with a GDP below 75% of the European Union average. The 'cohesion regions' would be NUTS 2 areas. The new regions (krajs) devised by the Constitutional Act of 1997 would be the NUTS 3 areas with the districts NUTS 4 areas and the municipalities NUTS 5 areas. The role of the state at NUTS 1 level is policy-making and to support regional development including the provision of the state budget and adequate legislative measures (MRD, 2002). The 'cohesion regions' prepare the regional programmes.

monitor regional development policy in the Czech Republic under the principles of Structural Funds would be replaced by 8 Regional Management and Monitoring Committees (MRD 1999c). Interviews with Jiri Eisenhammer and Jiri Blazek show some confusion at the state level over the actual distribution of responsibilities between the state and the regions and between the 'cohesion regions' and the 14 self-government regions (Interviews with Jiri Eisenhammer: Prague April 23 2002, and Jiri Blazek: Prague, April 23, 2002). However, the interviewees both feel that the development of parallel structures on NUTS 2 and NUTS 3 levels is less likely than the line ministries asserting more authority over the Structural Funds implementation set-up.

In the cases where the cohesion region is compatible in size and area with the kraj or 'region', there is no noticeable problem in agenda-setting in the Regional Council. The Regional Council of the cohesion region would consist of 10 to 12 representatives elected by the regional assembly on NUTS 3 level (Interview with Jiri Blazek: Prague April 23 2002). In the case of Ostrava and the Central Bohemia, the NUTS 2 area is identical to the NUTS 3 area and the regional authorities fulfil the role of the Regional Council (this is the general rule in the 'Act on Support for Regional Development') (Interview with Jiri Blazek: Prague, April 23 2002). However, there are indications that potentially the Regional Councils consisting of 2 to the 3 krajs (here the 12 seats would be divided over the 2 or 3 krajs with every kraj receiving even representation [so 6 each in the event of 2 krajs or 4 each in the event of 3 krajs]) might become deadlocked over certain issues. Conflicts over a major road artery in the North-East cohesion region consisting of the Liberecky, Kralovehradecky, Pardubicky Krajs potentially shows a situation where a necessary transport connection in Liberec is held up by the objections of the two Krajs not benefiting from such a transport connection directly (Interview with Michal Lehocky: Prague April 24 2002).

### **1.3.c Drafting Regional Development Policy**

Regional development planning in the early 1990s remained in a culture of ad hoc state intervention in terms of regional development policy and systems of solidarity

and ‘equalisation’ in terms of financing (see section 1.3.d).<sup>67</sup> In 1998, the Czech government produced Resolution no 235 on the new principles of regional policy. This resolution outlined the principles of regional policy, the need for programming, the role of regional public administration in the implementation of regional policy, and explicit coordination and funds administration roles for the Ministry of Regional Development. The new principles build on the sectoral approach, administered by the ministries. However, they emphasise that the national sectoral programmes need to address directly regional disparities and contribute to accomplishing the objectives of regional policy. The aim of the resolution was to remedy the defects of the previous incomplete regional policy of 1992 and incorporate the basic elements of European Union regional policy. This regional policy consisted of: the programming aspect; partnership; deconcentration; and subsidiarity (MRD 2002, p. 18). This represented a major shift in domestic policy planning and implementation among domestic actors, driven both by domestic conditions and domestic support at most levels of territorial administration to participate in EU funds.

One of the foremost effects of the European Union accession process and indeed the PHARE programme before 1997 was the programming aspect. Economic and social cohesion programmes required the drafting of regional development plans, which would outline the regional development priorities. Based on these priorities, programming could take place. The first such exercise encapsulated in Government Resolution no. 40 of January 11 of 1999 and Government Resolution no. 714 of July 14 of 1999 was to set out a regional development plan. Government resolution no. 40 was aimed specifically at building a financial, administrative, planning, and programmatic platform for the utilisation of European Union structural and cohesion funds (MRD 2001, NDP p. 5). Advances to come out of these national approaches are tools to support regional development such as subsidies, low-interest loans, and returnable financial support and definitions of the areas to be supported.

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<sup>67</sup> By 2002 the Czech government had developed three main tools to support regional development. These tools were to support business activities and support to the public sector in selected regions. The tools are: 1. subsidies (including labour subsidies); 2. low interest loans or loans with privileged maturity; 3. returnable financial support. Subsidies are mostly done on a case to case basis (MRD 2002, pg. 20).

The National Development Plan of the Czech Republic outlines the overall Czech strategy based on the identification of regional needs. It follows from the resolutions mentioned earlier and is a prerequisite set by the European Commission for European Union programming. Resolution no. 714 outlined the sectoral and regional priorities of the Czech Republic for the period of 2000 to 2006. The priorities had been grouped according to six priority 'axes':

- Support for the development of the economic base and competitiveness;
- Development of technical infrastructure;
- Human resource development;
- Protecting and improving the quality of the environment;
- Rural development, and development of multi-functional agriculture;
- Specific priorities of NUTS 2 regions (i.e. cohesion regions)' (MRD 1999b, p. 9).

Two aspects of regional development planning since 1998 in the Czech Republic stand out. First, there is a clear emphasis on planning based on an identification of needs, the development of a strategy, and programming. EU regional policy was mostly adopted. Secondly, a strong sectoral dimension to regional policy planning was introduced. The National Development Plan, the main programming document for Structural Funds, consists of 5 sectoral axes. The line ministries not only profiled themselves in implementation, but also in the drafting of policy. These sectoral plans have also taken resources away from the regional plans. The Regional Development Programmes per 'region' should give the 'regions' a direct input in the formulation of regional development on their territory and national development policy affecting the 'regions'. However, regions have been very ineffectual in identifying their needs, which has hampered national development policy and especially the functioning of the cohesion regions (Interview with Jiri Blazek: Prague April 23 2002).

### **1.3.d Regional Financing**

The centralisation of territorial administration up until 2000 basically meant any financial autonomy and consistency in the procurement of finances from the central level were difficult for the municipalities and regions to attain. Also, budgetary crises

on the central level filtered down to the local and regional levels. Local and regional financing show: 1. state control through ministries and districts; 2. a continued reliance on state grants; 3. incentives for municipalities to amalgamate to improve basic services provision. This last factor mostly favoured larger urban centres that made up the 'krajs'.

After 1989, when municipalities gained a level of self-government, newly elected local officials made a concerted effort to decentralise part of the tax revenues and indeed transfer competences from the central government to the municipal level. On the other hand, the central state authorities were often intent on keeping control over competences and revenues of the municipalities by funding municipalities through direct state grants administered by the districts. At the district level, representatives of the municipalities then would have to find an allocation rule in the district assembly to distribute the funds (Blazek, 2002). Only major urban centres had some direct say in the allocation and use of funds (Surazska and Blazek 1996, p.11). Between 1993 and 1995, two measures were taken to assure better 'equalisation' between municipalities. One was to have municipalities take a share of the personal income tax (state grants were cut to the same amount), but assure equalisation and redistribution at the district level. The second was to allow small government grants to equalise between districts, which had fundamentally different tax bases. However, the continuation of disparities and the rise of expenditures for the local administration led to further reform (Blazek, 1999). These disparities were undermining the basic equal provision of public services across the Czech Republic. In 1996, the government decided to change the allocation criteria of various taxes between municipalities. The government also changed the revenue generating structure by switching part of the revenues of municipalities from the personal income tax to the business tax.

The latest reform in 2001 had two main novelties. First, the funding of the 14 new regions or 'krajs' would first come through the generation of ill-defined 'regional revenues', but has up to this point been financed through special government grants directed by the Ministry of the Interior (Interview with Howard Harding; Prague April 26 2002). The second novelty was a programme of equalisation, which would give about 20.59% (in the case of personal income tax paid by small entrepreneurs living in the municipality in question 30%) of selected national taxation consisting of the

value added tax, personal income tax, business tax to the municipalities on a per capita basis (Act on Allocation of Tax Revenues, no. 243 of 2000). This incentive system gives small municipalities less taxation than in the previous arrangement and favours larger urban centres (Blazek 2000). This arrangement gives them an incentive to amalgamate. This amalgamation was a Czech policy aimed at both the improvement of services and preparing municipalities to take over the competences of district offices.

Central control over budgets allowed the central state to shape the territorial administration through tax and grant incentives. Further, central control through state grants meant discretion of national actors over the resources and competences of the 'regions'. This observation was also true for the newly founded 'cohesion regions'. These regions, at the time of publication, depend largely on government grants awarded by the respective line ministries to finance the Czech contribution to regional programming (Interview with Jiri Blazek: Prague April 23 2002).

## **2. Pre-accession Instruments and Implementation of Regional Policy**

### **2.1 Introduction**

The intention of the following sections is to look at: 1. the development of specific implementation channels, coordination, and control in the regional policy field associated with the pre-accession instruments over time; and 2. how these implementation channels fit into the domestic macro-institutional framework.

### **2.2 PHARE ESC Implementation**

The institutional set-up in the Czech Republic in ESC is characterised by: 1. a centralisation of financial control procedures in the National Fund; 2. weak coordination mechanisms in the core executive, which have traditionally meant greater autonomy to the line ministries; 3. the weakness of the Ministry for Regional Development (MRD), which has a coordinating role in the set-up of regional



development, the PHARE ESC programmes, and the preparation for Structural Funds; 4. a prominent role in implementation of ministerial agencies; and 5. the limited role of regional partners in the cohesion regions and Krajs. On this last point, regional partners feel increasingly bypassed in regional development planning, as the MRD draws planning and decision-making to the central level and in implementation where line ministries bypass the regional self-government bodies (Interview with Jiri Eisenhammer: Prague April 23 2002).

This next section focuses on four main aspects of the design and implementation of PHARE ESC. The first section focuses on the control of funds distribution. The second section looks at the coordination of PHARE ESC and the overall pre-accession process, and particularly the role of the MRD in this coordination. The third section deals with the implementation channels and particularly the role of the line ministries in implementation. A fourth part focuses on the role of regional structures in PHARE ESC.

## **2.2.a Financial Control**

The system for the financing of the pre-accession programmes before 1998 relied on transfers to the line ministries implementing PHARE through their Programme Management Units (PMUs). In 1998, the re-orientation of PHARE changed the system. A single flow of funds would flow into the state budget and be distributed from there. The infrastructure in the Ministry of Finance has developed since this time. The National Fund department within the Ministry of Finance was created in 1998 as a final account department and has its procedures tested under a self-assessment process and the EU accreditation. The audit of its systems is performed by external auditors and by the Internal Control Department of the Ministry of Finance. Jan Gregor acknowledges that the National Fund is a practical centralisation of funds control (Interview with Jan Gregor: Prague September 21, 2001). The institutionalisation of the National Fund occurred in the new Budget Law of 2000, which replaced the Budget Law of 1990. The new budget law attempted to harmonise state budgetary procedures with EU legislation on state aid and pre-accession programming. The basic harmonisation consisted of EU funds being treated as state budgetary items rather than 'extra-budgetary' funds. The National Fund manages the

payment requirements set out in the Finance Memoranda of PHARE and ISPA, and the Multi-Annual Financing Agreement of SAPARD.

In terms of managing implementation, the National Fund asks the implementation agencies quarterly to provide reports (surveys) monitoring the transfer of funds. Jan Gregor points out that the latest EU programmes have become far more demanding in terms of audit in light of the nearing accession date (Interview with Jan Gregor: Prague September 21, 2001). The audit procedures under the Multi-Annual Financing Agreement mandate internal audits in the payment agencies and ministries. This requirement has proved to be a significant drain on resources in the relevant ministries and agencies. The information on financial flows would then be centrally collected and transferred to the European Commission.

The future role of the National Fund after accession is not entirely clear. Part of the responsibilities for financial flows could be devolved back to the ministries, leaving the Ministry of Finance to concentrate on the management of the state budget (Interview with Jan Gregor: Prague September 21, 2001). However, the National Fund is a key element in the attempts to consolidate payment functions in pre-accession implementation. Jan Gregor underlines that proposals exist to limit the four or five payment agencies reporting to the MRD to one agency close to the National Fund, whereby the Centre for Regional Development (CRD) would remain the management authority. Similarly, the seven to eight regional management authorities could be reduced to one management authority within the CRD in a bid to harmonise the MRD (Interview with Jan Gregor: Prague September 21, 2001). Such moves to produce centralisation, especially those proposed by the MRD, are strongly opposed by the line ministries and regions

## **2.2.b Pre-accession Coordination**

At the core executive level, there are several coordination committees for dealing with European integration issues. The Government Committee for European Integration (GCEI) established in accordance with Government Resolution No. 631/1994 in November 1994 (MRD NDP CR 2001, p. 156) consists of the line ministries with the Prime Minister as chairman and Minister of Foreign Affairs as vice-chairman. The

Committee addresses issues concerning the preparation for European Union membership and sets out the overall strategy for preparation. It set out a broad strategy within the 'Priorities for the Implementation of the White Paper in the Czech Republic' to: a. promote administrative reform; b. create environmental policy; c. reform direct and indirect taxation; and d. address social policy (Rovna 2002). The Working Committee for the Integration of the Czech Republic in the European Union (WCICREU) consists of authorised employees of all the central institutions such as the line ministries and central agencies. They have partial responsibility for the coordination of adaptation to and implementation of European Union requirements in their administrative units. The members of the WCICREU of the Czech Republic also made up the delegation during the negotiations on the Agreement on the Accession.

The effectiveness of these committees seems limited and agenda-setting was largely dependent on the line ministries and particular ministerial units. The secretariat of the GCEI is divided between the offices of the Prime Minister and the Minister for Foreign Affairs. The description of the WCICREU clearly stresses the consultative nature of the body and its partial authority. The WCICREU did seem to play a role in the negotiations with the European Union. Still, the negotiations with the EU Presidency were mostly run by the Ministry of Foreign Affairs.<sup>68</sup>

In terms of pre-accession funds, The Joint Monitoring Committee (JMC) evaluates all the pre-accession aid programmes against the goals stipulated in the Financial Memoranda, which formed the base for the pre-accession instruments. Its chairman is the National Aid Coordinator, who is based in the Centre of Foreign Assistance (CFA) in the Ministry of Finance. The CFA within the Ministry of Finance coordinated the inputs from the subcommittees, which set the agenda of the JMC (Interview with Jana Hendrichova: Prague September 19 2001). Thus, coordination occurs below the core executive level in semi-autonomous ministerial units such as the CFA or by deputy ministers. This was a clear characteristic of the overall executive coordination in the Czech Republic (see also Smejkal 1998).

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<sup>68</sup> The Czech institutional set-up actually relied on the Ministry of Foreign Affairs and the Ministry of Finance to coordinate the EU pre-accession process. These coordination positions were strengthened by nomination of the Foreign Minister and Finance Minister as Deputy Prime Ministers in 1998.

The coordination of funds also shows a lack of continuity between the pre-accession coordination in the CFA and the proposed Structural Funds coordination in the MRD. The CFA in the Ministry of Finance was responsible for the overall coordination of the pre-accession instruments, as stipulated in Government Resolution No. 275/2000 from March 2000 (MRD NDP 2001, p. 153). The MRD would be the responsible for the coordination and management of Structural Funds after accession (MRD NDP 2003).

However, the MRD's powers in coordination were constrained by the process of policy drafting and the effectiveness of the coordination committees it chaired. In terms of regional development policy, the MRD is responsible for drafting the documents on social and economic cohesion policy (Government Resolution No. 158 of 1998) and cooperation with the European Communities (Act on Support for Regional Development in January of 2000). This social and economic cohesion policy concerns the 8 NUTS 2 'cohesion' regions identified by the Czech Act No. 248/2000 and Government Resolution No. 707/1998. The MRD drafts the regional development strategy of the Czech government, a regional development plan, and the NDP upon which Structural Funds programming takes place. The NDP is coordinated by a department under a deputy minister in the MRD consisting of operational programmes drawn from regional priorities and the line ministries<sup>69</sup>. The sectoral operational programmes gave the line ministries a great say over regional policy development before accession, both in decision-making and implementation.

Further, the coordination power of the MRD was restrained in the committees it chaired. Though there are a variety of committees under the chairmanship of the MRD, they mostly focus on consultation rather than coordination. These suffered from non-transparent procedures and had little executive power (Interview with Jana Hendrichova: Prague, September 2001). For instance, the Managing and Coordination Committee consists of representatives of the major line ministries and government agencies, officials from towns, districts, and regions, officials from labour unions and universities, and a representative from the European Commission. This Committee

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<sup>69</sup> In the Czech Republic these sectoral programmes are divided in 6 sectoral operational programmes covering: 1. Industry; 2. Transport and Communications; 3. Human Resources Development; 4. Environment; 5. Agriculture and Rural Development; 6. Tourism.

organised in March of 2001 provides a consultative forum from which to receive inputs in European Union assistance. However, its mandate did not extend beyond consultation.

## **2.2.c Implementation**

The organisation and implementation of the PHARE ESC programme reflects the relative power of the line ministries and the MRD's limitations in terms of implementation and coordination. These were exhibited in three ways: 1. the central role of the Ministry of Finance in the management and coordination of the pre-accession instruments; 2. the competition between the agencies over implementation responsibilities; and 3. the dominance of sectoral programmes in terms of budget and scope in overall Structural Funds planning.

The responsibility for the management and payment in the project cycle of PHARE national programmes until accession, is situated in the Central Finance and Contracting Unit (CFCU), which is based in the CFA of the Ministry of Finance (MRD NDP 2001, p. 160) (also see table 9). The CFCU was designed for institution-building programmes such as 'twinning'. However, it plays a crucial role in implementation. The tendering of the projects, the conclusion of the contracts, and payments related to the projects are the responsibility of the CFCU. It also has an audit and financial control function (Interview with Lubomir Madr: Prague, September 20, 2001). The line ministries and government agencies give technical support to the project cycle. The Senior Programme Officers (SPO) based in the line ministries and government agencies select the projects, be it in terms of institution-building projects under 'twinning' or investment-based projects. Further, the CFA plays a coordinating role between the CFCU and the implementation agencies in terms of managing the implementation of the ESC programming (Interview with Jana Hendrichova: Prague, September 2001). These tasks range from communicating with European Commission officials and commenting on the project fiche to consulting on European Communities regulations and procedures. Additionally, the Programme Authorising Officer (PAO) based in the CFA has to authorise all projects. These roles gave the CFA expertise in the management of pre-accession programming and a legacy in programming. The roles also offered the Ministry of Finance the

opportunity to use top-down pressures in financial management to centralise further payment functions, as the management functions of the CFA would be reduced after accession.

Table 9: Implementation in PHARE in the Czech Republic

Implementation	CFCU	CzechInvest	NTF	NROS	CRD
1998	All implementation runs through CFCU with technical partners in ministries and government agencies. Sub-Programmes: 1.Strengthening Democratic System 2. Economic and Social Cohesion 3.Strengthening Institutional Capacity 4. Agriculture 5. Justice and Home Affairs 6. Environment 7. Management of Funds			Democracy and Political criteria projects	
1999	Implementation same as above-Sub-Programmes: Same as Above	Sub-Project Supplier Linkage and Upgrading Programme	Sub-Project Support for Employment and Human Resource Development at Local, Regional, and National Level		
2000	Implementation same as above-Sub-Programmes: Same with new inclusion of 1. Internal Market 2. Employment and Social Affairs			Sustainability of Civil Society Sector	NUTS 2 Northwest Bohemia and North Moravia/Ostrava(grants)
2001	Implementation same as above-Sub-Programmes: Same with new inclusion of 1. Transport 2. Participation in EC Programmes and EEA			Strengthening Civil Society	Small-Scale Business Related Infrastructure Grant Scheme in NUTS 2 regions, Northwest Bohemia and North Moravia/Ostrava
2002	Implementation same as above-Sub-Programmes: Same with new inclusion of 1. Preparations for Structural Funds and the Cohesion Funds which substitutes for ESC		EQUAL Initiative	Political Criteria	Sub-Project Agricultural Veterinary Border Inspections

Source: Ministry of Finance, PHARE National Programmes 1998-2002

A second characteristic of the implementation set-up is the competition at the national level between the line ministries through associated agencies over EU management

and implementation competences.<sup>70</sup> ESC of PHARE shows this dynamic. The implementation agencies for ESC in PHARE 1998, 1999, 2000 were (MRD NDP 2001, p. 160)(see table 9 for implementation responsibilities[1998-2002]):

1. The Centre for Regional Development (CRD) in the MRD;
2. The National Education Fund or National Training Fund in the Ministry for Labour and Social Affairs;
3. CzechInvest, CzechTrade, and the Business Development Agency in the Ministry for Industry and Trade;
4. The Independent Foundation for the Development of Civil Society (NROS).

There were three components to this set-up: 1. the position of the MRD in implementation; 2. the statutory realignment of agencies linked to the line ministries aiming to keep a role in implementation after the PHARE Reforms in 1997; and 3. the introduction of Structural Funds after accession.

First, the MRD was only established in 1996 and the Ministry did not have a defined implementation role in PHARE ESC. Though the NDP envisions coordination responsibilities for the MRD after accession such as the coordination of Structural Funds, the administration of European Regional Development Fund, and the management of the Cohesion Fund (MRD NDP 2001, p. 164), the NDP might involve some wishful thinking on behalf of its drafter, the MRD<sup>71</sup>. The MRD was under a lot of political pressure and its existence is not guaranteed even after the election victory

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<sup>70</sup> This competition could lead to odd implementation arrangements. The nomination of the Ministry of Environment as management authority for infrastructure programming under Structural Funds in the Czech institutional set-up is an example.

<sup>71</sup> The NDP of 2003 sees these roles for the MRD as management authority of the CSF:

- ‘developing and administering an information system for the monitoring of assistance from the SFs (Monitoring System of the Structural Funds – MSSF);
- drawing up a general procedure for the system of project administration within the SFs;
- drawing up and, after obtaining the approval of the Monitoring Committee (MC) of the CSF, submitting to the EC the annual implementation report;
- drawing up a methodology ensuring compliance with the Community policies as stipulated in Article 12 of Council Regulation (EC) No. 1260/1999, explanatory guidelines for those submitting projects and a manual describing the mechanism of control of compliance with the Community policies;
- ensuring compliance with the obligations concerning information and publicity at the CSF level; chairing the MC of the CSF that supervises the implementation of assistance (MRD NDP 2003, pg. 222)’

of Vladimir Spidla of the CSSD in April 2002.<sup>72</sup> Potentially, in a cabinet reshuffle, the MRD might disappear and its responsibilities taken over by the sectoral line ministries (Interview with Jana Hendrichova: Prague September 19 2001). The MRD's search for competences, as will be further described in the SAPARD section of chapter 7 and the ISPA section of this chapter, seems to be a function of the MRD's insecurity about its existence and resources. The CRD, its implementation agency, is still in the process of fully establishing its competences (Interview with Jiri Horacek: Prague September 20 2001). Though the PHARE Management Reforms in 1997 implied consolidated management and the more central role of the MRD is acknowledged in the NDP (MRD NDP 2001, p. 164), the MRD has not developed competences other than the drafting of documents, a general ill-defined coordinating role on the central level, and limited implementation in ESC programming through the CRD. Though the CRD was set up with PHARE support for assistance in CBC, its mission statement is broad (see CRD Mission Statement, 2003). The role of the MRD was limited with respect to both decision-making in regional policy and implementation.

Secondly, implementation responsibility even after 1997 has remained with the more established line ministries and their agencies (Interview with Howard Harding: Prague, April 26 2002). Both the Ministry for Industry and Trade, and the Ministry for Labour and Social Affairs, play a role in ESC implementation through specific implementation agencies. These agencies often think in an expansive way about Structural Funds and the European programmes. Agencies show, in the programming for 2001-2006, a statutory convergence in their aims in order to maintain their respective positions in implementation. CzechInvest lists in its strategy for 2001-2006 a desire, among others, to become a 'development agency', 'apply the potential positive economic benefits of FDI support when articulating an industrial strategy in program documents aimed at the use of EU structural and cohesive funds', 'and assert [industrial] revitalization program[mes] as one of the priorities for co-financing from EU Structural Funds' (CzechInvest Strategy Statement, 2003). The National Training Fund was started in the 1994 with PHARE aid to support human resource development and promote learning, labour market reform and public administration

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<sup>72</sup> In the ODS election platform for the parliamentary elections of 2002, the MRD would have been abolished and its competences devolved to the regional self-government bodies (Hanley Election Briefing 2002).



reform. Among its newer activities, one also finds preparation for Structural Funds and the NTF is involved broadly 'in a whole range of related activities including the direction and coordination of a training programme for individual partners engaged in the preparation and operation of the structural funds' (NTF Activities Statement, 2003). The Business Development Agency provides business advisory services, cooperation mediation between foreign and Czech partners, and consultation, preparation and assessment of economic projects and European Union projects (BDA About us Statement, 2003). Czechtrade also list preparation and assessment for European Union projects, as well as consultancy service cooperation mediation, and advisory services to foreign and Czech partners, in its strategy statement (CzechTrade Strategy Statement, 2003). The CRD also lists among its activities consulting services and information provision to its patrons. In short, agencies adopted similar statutory purposes and mandates around the new focus on SME development in PHARE ESC, namely:

- Advise to business;
- Information distribution;
- Consulting services;
- Training programmes.

It is important to note here that in response the European Commission Delegation in Prague has been lobbying to consolidate CzechTrade, CzechInvest, and the Business Development Agency into one agency. There is a possibility that a new super-agency might be created under a deputy minister, which would simplify ESC implementation (Interview with Howard Harding: Prague April 26 2002). This could also be an important change of the executive structure towards 'consolidation', as this deputy minister could be placed close to the cabinet.

Third, an important factor was a shift from region-based programmes to sectoral programmes in PHARE 2002 programming. The same shift occurred in the planning for Structural Funds. In the National Development Plan, the sectoral programmes exist next to the regional programme (8 regional programmes would be consolidated into one operational programme) and will take up financing over regional programmes at a rate of 65% to 35% in Structural Funds [in 2003 in pre-accession

programming 62% to 38%] (Interview with Jiri Eisenhammer: Prague April 23 2002).

Table 10 shows the various sectoral operational programmes and their weight compared to the regional operational programme. The strong emphasis on sectoral programmes (MRD NDP 2001, p. 155) not only shows an adaptation to a centralised structure more capable of implementing EU Structural Funds, but also seemingly reverts to practices before the Management Reforms of 1997, when line ministries dealt directly with the European Commission. The ministries have almost sole control over these sectoral programmes. The ministries with the greatest involvement are the Ministry for Industry and Trade, the Ministry for Labour and Social Policy, the Ministry of the Environment, and the Ministry of Transport and Communications. This positioning also ties into the allocation of managing authorities over operational programmes for Structural Funds after accession (see box below). This development means that the funds for regional development programming would be divided over the priority axes, with tourism the only sole ‘regional’ priority axis. In total, the joint operational programme amounted to 40% of total resources across priority axes (see table 10). However, the Ministry of Industry and Trade would control about 75% of funds (and the ‘cohesion regions’ 25% in joint operational programme) going towards increasing the competitiveness of industries and services, the Ministry of Labour and Social Affairs about 75% of funds aimed at human resource development, and the Ministry of Agriculture about 60% of funds allocated to rural development. Only in infrastructure and environment, did the joint operational programme have about 60% and 40% of the expendable resources (MRD NDP 2003, p. 224-227).<sup>73</sup> These resource divisions in the joint operational programme across the priority axes made the programme subordinate to the sectoral programmes.

Joint Regional Operational Programme	Ministry for Regional Development
OP Industry	Ministry of Industry and Trade
OP Human Resources Development	Ministry of Labour and Social Affairs
OP Infrastructure	Ministry of the Environment
OP Rural Development and Multi-Functional Agriculture	Ministry of Agriculture

Source: Resolution of the Government of the Czech Republic No. 102/2002 and No. 149/2003

<sup>73</sup> The ERDF accounts for about 65% of projects, the ESF 23%, and the EAGGF and FIFG about 12% in the Czech Republic.

Table 10: Allocation of Structural Funds among Operational Programmes (in 1999 prices)

	%	Currency	2004	2005	2006	Total
OP Industry and Enterprise	15.0%	million EUR	45.889	64.439	81.957	192.285
		million CZK	1,422.556	1,997.603	2,540.676	5,960.835
OP Infrastructure	13.5%	million EUR	41.300	57.995	73.762	173.057
		million CZK	1,280.301	1,797.842	2,286.609	5,364.752
OP HR Development	21.0%	million EUR	64.244	90.214	114.740	269.199
		million CZK	1,991.579	2,796.644	3,556.947	8,345.169
OP Rural Development and Multi-Functional Agriculture	12.0%	million EUR	36.711	51.551	65.566	153.828
		million CZK	1,138.045	1,598.082	2,032.541	4,768.668
Total JROP(Joint Regional Operational Programme)	38,5 %	million EUR	118.855	166.901	212.275	498.032
		million CZK	3,684.519	5,173.929	6,580.528	15,438.977
Total OP	100.0%	million EUR	307.000	431.100	548.300	1,286.400
		million CZK	9,517.000	13,364.100	16,997.300	39,878.400

Source: European Commission data and Ministry for Regional Development calculations, February 2003

## 2.2.d Regional Partnership

In terms of the ‘partnership’ requirements of implementation, national administrative actors resisted wholesale decentralisation. One way of doing so was to limit territorial decentralisation through for instance provisional structures<sup>74</sup>, constitutional controls, or specifically unclear division of territorial competences as mentioned in section 1.3.b. Other avenues, given the lack of capacity in the regions to formulate adequate policy and resist centralisation, were: 1. the development of parallel executive structures at the regional level; and 2. the consolidation of the regional operational programmes.

The lack of regional capacity is a function of the dependence on the central state in terms of resources and competences and the relatively recent territorial reforms, which did not allow institutionalisation of ‘cohesion regions’. At the regional level, the Regional Managing and Monitoring Committees from 1999 until 2000, coordinated the preparation of the regional components of the NDP, prepared the use of Structural Funds at the regional level, and coordinated the ESC component of PHARE at the regional level. They were replaced in the Act No. 248/2000 ( MRD NDP 2001, p. 158) by a Regional Council and Regional Development Committee. The Regional Council manages the implementation of regional programmes while the

<sup>74</sup> The new structure as pointed out has also raised the issue of effectiveness of cohesion regions where 2 or more NUTS 3 regions have to work together and sometimes subordinate their interests to the interest of other regions (Interview with Michal Lehocky: Prague, April 2002).

Committee monitors the implementation. The Act On Regional Development Support of 2000 divided the managing and monitoring component into two units on the NUTS 2 level. The main problem seems to be the ability of the regional governments and specifically the Regional Councils to identify their needs and contribute to the design of a regional strategy (Interview with Jiri Eisenhammer: Prague April 23 2002).

The development of regional ministerial networks has led to the duplication of activities not only among the ministerial agencies but also between the agencies and regional bodies (Interview with Howard Harding: Prague, April 26 2002). The tendency is for the agencies to build up regional networks such as for instance the Business Development Agency with its Regional Advisory and Information Centres (RAIC) and Business Innovation Centres (BIC), which exist next to the regional self-government bodies. Hesse (1995) points out how the government agencies had taken advantage of the absence of intermediary government to build a presence at the regional level. Illner (1998, p. 21) adds that the lack of regional self-government before 2000 also led to the 'excessive etatization of the public sphere'. Some ministries might also see this expansion as a compensation for the loss of their regional offices in the reforms of 2000. The National Training Fund has been noted to be 'clever and tricky' in obtaining access to European Union programmes, finding new competences, and developing regional networks and partners (Interview with Howard Harding: Prague, April 26 2002). Even the newly founded CRD has established regional executive units to establish its competences. It is still unclear whether the Regional Councils and their secretariats will get a supervisory role over these units (Interview with Jiri Eisenhammer: Prague April 23 2002).

A further point is that the proliferation of executive networks in the regions has undermined the position of the Regional Development Agencies (RDA), in which the Krajs or larger municipalities are shareholders and which are bottom-up projects both as beneficiaries of ESC programming, and in the case of Ostrava (The Moravia-Silesia region) as sole implementation agencies. It is now thought the RDAs might fill a preparatory role in the project cycle, rather than perform actual implementation. Support in the PHARE pilot projects had shifted from bottom-up initiatives such as the setting up of the RDA in Ostrava in 1993 to the aiding of RDAs in drafting the regional operational programmes and their input in the joint operational programme.

Jiri Blazek points out that it is even conceivable that the CRD through its experience and good contacts might find a new mission as an ‘umbrella’ organisation over the RDAs (Interview with Jiri Blazek: Prague April 23 2002).

A third factor involves the abandoning of the 8 regional operational programmes in favour of a joint operational programme in PHARE 2002. Regional operational programmes were drawn up for the cohesion regions by specifically established RDAs. There were two options under consideration: 1. to have one programme with the regional operational programmes being sub-programmes; 2. to have a unified programme with input from the regions (Interview with Jiri Eisenhammer: Prague April 23 2002).<sup>75</sup> The Czech Republic chose option number 2, thus eliminating a direct programming role for the regions, thereby also angering regional officials (Interview with Jiri Blazek: Prague April 23, 2002). The Czech Republic, with input of the European Commission, made this choice for two reasons, namely to have a more unified programme addressing the national strategy for regional development and to address the problems the regions were having in terms of co-financing and programming capacity. Table 11 shows the relatively small role of regional and local co-financing (5% of total funding; 22% of total state funding) in the Structural Funds from 2004-2006 compared to the involvement of the private sector at 27% of total funds, state agencies such as the Czech railways (about 3.5% of total funds), and central state contributions at 62% of total state contributions and 14.1% of total funds. This co-financing is also a reason for the strong emphasis on sectoral programmes, as ministries have a greater share of the national budget, which they can use to co-finance the programming. Further, sectoral programmes allow the ministries to maintain resources and competences after accession. The consequence is that for the Regional Councils theory does not correspond to practice and their participation in the pre-accession programmes is minimal (Interview with Marie Stankova: Prague April 26 2002). Moreover, politics also seemed to promote an even distribution of funds

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<sup>75</sup> Pilot projects in PHARE programming also show a desire of the European Commission to move to a ‘one target’ area, whereby the social and economic cohesion component of PHARE becomes more integrated in the requirements of the Structural Funds (MRD NDP CR 2001, pg 84; EC DG for Enlargement 2002b, pg. 3); 2. This integration and consolidation have meant that programmes aimed particularly at the NUTS 2 areas of the Northwest, Moravia around Ostrava, and Central Moravia (as mandated by Government Resolution no. 714 of July 1999) would be drawn up between the MRD, the Ministry for Industry and Trade, and the Ministry for Labour and Social Affairs in cooperation with the Ministry for Education Youth and Sports rather than continuing with separate projects in the various ministries.

between the regions (with the exception of Prague), rather than a focused or needs-based approach.<sup>76</sup> Special attention must be paid to co-financing from the municipal budgets. There might be problems in this area, as the indebtedness of the municipalities at the end of 2001 reached a total of CZK 48 billion. The share of metropolitan cities in the total indebtedness of municipalities accounts for approximately the half of total debt (MRD NDP 2003). This point also refers to the system of regional financing and its implications for implementation given the requirements of EU co-financing.

**Table 11: Perceived Co-financing of EU Structural Funds-operational programmes and joint regional operational programmes combined from 2004-2006**

Priority Axis	Total Funding a+b+g	EU co-Financing a	Czech co-financing b=c+d+e+f	Central Funds c	Regional Funds d	Local Funds e	Other Funds f	Private Funds g
1. Increasing Competitiveness of Industry and Business Services	351,50	115,60	70,65	62,34	4,98	3,33		165,24
2. Development of Transport Infrastructure	138,53	91,59	40,57	5,00	2,57	9,20	23,79	6,38
3. Human Resources Development	186,54	136,53	45,66	37,30	4,01	4,36		4,35
Total ERDF related	25,40	16,97	7,27	2,12	2,47	2,69		1,16
Total ESF related	161,14	119,56	38,39	35,18	1,54	1,67		3,19
4. Protection and Improvement of the Environment	101,16	59,83	29,73	0,55		14,08	15,11	11,59
5. Rural Development and Multi-Functional Agriculture	192,39	91,06	32,87	26,05	2,36	4,45		68,46
6. Development of Tourism	101,57	38,08	23,52	18,06	3,34	2,12		39,97
Technical assistance	21,61	15,67	5,94	5,27	0,28		0,40	
<b>TOTAL CSF</b>	<b>1093,29</b>	<b>548,36</b>	<b>248,94</b>	<b>154,56</b>	<b>17,53</b>	<b>37,54</b>	<b>39,30</b>	<b>295,99</b>
<b>%</b>	<b>100%</b>	<b>50.2%</b>	<b>22.7%</b>	<b>14.1%</b>	<b>1.6%</b>	<b>3.4%</b>	<b>3.5%</b>	<b>27%</b>

Source: Ministry for Regional Development and Ministry of Finance 2003; Own Calculations

<sup>76</sup> The regional divide in the distribution of funds was as follows (MRD, NDP, 2001):

Cohesion Region	% of funds
Northwest	15.7%
Ostrava	15.4%
Southeast	13.7%
Central Moravia	13.7%
Northeast	12.4%
Central Bohemia	12.1%
Southwest	11.7%
Prague	5.4%

## 2.2.e Overview of Implementation Set-up for PHARE ESC

Type of EU program	Implementation Agency	Implementation Task	Link to Ministry	Regional Network	Statutory Purpose
<i>Phare ESC and CBC</i>	Business Development Agency (BDA)	Implementation of PHARE 2000 ESC Production Sector Investment Fund-SME Development	Government Agency of Ministry of Industry and Trade (MIT)	Two Regional Networks -35 Regional Advisory and Information Centres (RAIC) - 5 Business Innovation Centres (BIC) Central body aiming to have branches abroad-some reliance on RDA's for regional partners	(BDA) est. 1995 <b>Advisory services provided by BDA</b> are focused on the following basic areas:  -business advisory services (economic and financial analyses, business plans, controlling); -mediating co-operations between Czech and foreign partners including verification of both parties; -consultation, preparation and assessment of economic projects in cases of applications for bank services including Czech and Moravian Guarantee and Development Bank, a.s.; -consultation, preparation and assessment of EU projects.
	CzechTrade	Implementation of Phare ESC in particular non-financial export support-Goal to become involved in structural funds	Government Agency of MIT	Central Body with reliance on RDA's as regional partners	(CzechTrade) est. 1997 Promotion of trade, consulting services and advise function for domestic as well as foreign firms
	CzechInvest	Co-financing of Phare ESC-specifically support for the development of industrial zones- Goal to become involved in structural funds	Government Agency of MIT	Central Body with reliance on information centres in RDA's	(CzechInvest) est. 1993 Promotion of Czech Republic abroad and specifically to attract foreign direct investment into the country. Services include facilitation, advise, information distribution, incentives, aftercare, and consulting. Goal to transform from marketing agency to development agency.
	National Training Fund (NTF)	Implementation agency for employment and human resource development components of Phare ESC(the vocational, education, and training reform programme) as well as Leonardo da Vinci -strategy to become agency responsible for such programmes in ESF	Foundation established by Ministry for Labour and Social Affairs (MLSA)	Several attached agencies such as NTF Information Centre, Initiative Equal, National Observatory for Training and Employment, Social Welfare Initiative Fund, the Pro-Active Labour Market Intervention Fund .	(NTF). Est. 1994 -to support the transformation of society and the economy through human resource development, particularly by supporting the private sector and industry -contribute to the development of life-long learning through support to all levels of further education -support the process of European Integration with an emphasis on the development of public administration
	CRD	Implementation of Phare CBC and Phare infrastructure projects under Phare ESC and two pilot projects in North Bohemia and South Moravia NUTS 2 areas G-goal implementation agency of European Regional Fund.	Government Agency of Ministry for Regional Development (MRD)	3 regional offices in Olomouc, Chomutov and Ostrava	(CRD) est. 1998 <b>1 a.</b> by providing methodological assistance to Regional Development Agencies and other entities in order to prepare and realise development programmes <b>b.</b> by providing its patrons with information and consulting services(also on Czech companies, business parks etc.) <b>c.</b> acts as the PMU for the Phare-Regional Development Fund and IMU for the Cross-Border Co-operation Phare programme (CBC Phare) of the European Union.

## **2.4 ISPA, Coordination Issues and Division of Competences**

ISPA implementation shows: 1. the involvement of the CRD in implementation; 2. the absence of capacity in the Ministry of Environment; and 3. the problematic coordination role of the MRD.

Three ministries are involved in the administration and implementation of ISPA in the Czech Republic: the Ministry of the Environment (MoE), Ministry of Transport and Communication (MTC) and the MRD. The drafting of the national ISPA strategy and the selection of individual projects by the ISPA Working groups occur in the line ministries (MRD NDP 2001, p. 162). The ISPA national programme also has to address the priorities of the National Development Plan. This is where the coordination role of the MRD starts. The ISPA Coordination Committee, consisting of officials involved with the administration of ISPA on the national and regional levels, coordinates the implementation of projects in both sectors and monitors whether the ISPA national strategies addresses the NDP and the Regional Operational Programmes. The MRD chairs this Committee.

In the MTC, a new implementation unit has been set up to coordinate the identification of projects with the specialist agencies, organise contacts and project cycles with Brussels and the Delegation in Prague, as well as manage the implementation of projects with the specialist agencies. The CRD in the MRD still implemented the environmental projects in the year 2000. The State Environmental Fund (SEF) in the MoE will take over some responsibility over environmental projects in the later programming cycles. The PAOs in the two line ministries (MTC, MoE) provide monitoring over the implementation of ISPA and the management of payment. The State Fund for Transport Infrastructure and the budgets of municipal authorities will provide the 25% co-financing required in ISPA programming for transport. In a similar way, the SEF and the municipal budgets should provide 25% of co-financing for environmental projects. The MRD in this set-up would be the partner for the ISPA Management Committee in Brussels.



The institutional set-up for ISPA in the Czech Republic reflects a degree of horizontal fragmentation of policy competences. The CRD in the MRD, under pressure from sectoral ministries in the PHARE ESC, has been prominently present as an implementation agency in ISPA. There are three main reasons for this presence: 1. the central role as coordinator envisioned for the MRD in the administration of Structural Funds; 2. the fight by the MRD for competences, as its existence is under threat and its role has been diminished by the stronger sectoral line ministries (Interview with Jana Hendrichova: Prague September 19 2001); and 3. the preference by the Commission to work with known administrative units with established contacts in Brussels (Interview with Michal Lehocky: Prague, April 24 2002).

Officials in the MRD stress that the role of the CRD is also temporary (Kapralova, Durovcova, and Pravda, Counsellors in Ministry for Regional Development, Prague September 19 2001). In some ways, the use of the CRD is a way to 'hold down the ISPA fortress', until the other agencies outlined above can familiarise themselves with ISPA procedures (see interviews with Kapralova, Durovcova, and Pravda: Prague, September 19 2001). Arrangements grew out of a context where the Czech Railways, the SEF, and the Directorate for Roads and Highways did not have extensive experience with national or regional development policy, let alone EU pre-accession procedures. Though the CRD, as stated earlier in the section on PHARE ESC, also suffers from administrative weakness, it was designed and developed with PHARE support (Interview with Ctibor Kocman: Prague, April 23 2002). On the other hand, the SEF's relative inexperience with procedures has meant a lack of clarity in setting norms of assessment for project identification and the absence of an overall development strategy (Interview with Ctibor Kocman: Prague, April 23 2002).

Additionally, for the MoE and the SEF, one main problem was that they relied on regional partners to bring in environmental projects. These project fiches were often too poor to be considered in Brussels (Interview with Ctibor Kocman: Prague, April 2002). The ISPA implementation unit in the MTC did not have these problems. It relied on specialised agencies as beneficiaries, which had clearly defined needs. However, problems with the quality of environmental projects meant that the previously agreed distribution of funds, a split of 50% of funds going towards the environment and 50% towards transport, were re-adjusted to 60% of funds going to

transport and 40% towards the environment (Interview with Ctibor Kocman: Prague April 23 2002). This competition over funds is played out in the ISPA Coordinating Committee, which is chaired by the MRD. In the coordination and comparison of projects, the MRD should be a mediator, balancing the MoE and MTC. However, its involvement in implementation through the CRD has meant that the MRD was not a reliable coordinating partner for either the MoE or MTC. This situation has meant increasingly poor relations and indeed problems in the coordination of projects between the MoE and the MTC in terms of the NDP and the national and regional strategies (see both interviews with Ctibor Kocman: Prague April 23 2002 and with Michal Lehocky: Prague, April 24 2002).

### **3. Conclusion**

The adoption of EU regional policy in the Czech Republic shows two patterns of institutional change: the adjustment of sectoral institutional arrangements, and the persistence of the macro-institutional configuration.

On the sectoral level, the 'misfit' between EU regional policy and the conceptualisation in the Czech Republic of regional policy as part of industrial policy has been overcome. The Czech Republic has largely adopted EU regional policy. There were two main reasons why this sectoral 'misfit' was overcome. First, EU regional development policy broadly 'fit' the Czech executive's desire to reduce disparities across the country and more importantly with the EU average. The reduction of these regional disparities had become important after the economic crisis of the mid-1990s. It was even feared in some parts of the executive that the economic problems in Moravia, similar to the break-up of Czechoslovakia, could lead to a secessionist movement there (Interview with Jiri Blazek: Prague April 23 2002). Further, the administration of Zeman, given the 'Opposition Pact' with the ODS, had few options in economics policy. Regional policy was one of them. Aside from the support of the national executive, regions and municipalities lobbied for the adoption of regional policy. The larger provincial cities in particular had lobbied for the development of a regional policy since 1992 (Interview with Pavel Cernoch: Prague April 22, 2002). This support was boosted by the greater budget and wider

distribution of funds, which actors expected from EU funds. Executive actors at the national executive, in terms of the management of EU funds, could expect additional competences and resources. At the regional level, regions, municipalities, and SMEs at the least could expect to be beneficiaries. Secondly, as the next paragraphs will explain, the adoption of EU policy did not substantially change the existing executive structure, or macro-institutional configuration. These two factors help explain the substantial change in the sectoral institutional arrangements. As shown in sections 2.2.a, 2.2.b and 2.2.c, this involved the adoption of financial control procedures, the integration of EU coordination requirements in the executive, and the statutory alignment of implementation agencies.

As claimed in the last paragraph, the EU challenges to the macro-institutional configuration, implied in EU regional policy and the templates for the pre-accession instruments, dissipated and were averted, as the moment of accession came nearer. The Czech Republic averted major shifts in the institutional set-up by continued reliance on sectoral administration and limiting EU-specific regionalisation to ‘provisional’ regions and EU coordination to the relatively weak MRD.

First, the most immediate EU pressure on the executive structure of the Czech Republic was for the creation of a middle-tier level of administration and self-government. Secondly, after the PHARE Management Reforms of 1997, the European Commission in the pre-accession templates challenged the domestic macro-institutional configuration on three further levels: 1. the notion of ‘partnership’, or the need to develop regional partners; 2. a reduced role for the line ministries in implementation; 3. an emphasis on central coordination; and 4. a reduction of the number of implementation agencies. All four could potentially change the domestic macro-institutional set-up, characterised by: 1. a vertically centralised executive system; 2. ministerial autonomy in executive coordination and implementation (fragmentation of implementation); and 3. a legacy of a proliferation of central agencies, involved with development-related policy across most levels of territorial administration.

In the case of the creation of a middle-tier administration, the lack of specificity of the ‘acquis’ allowed executive policy-makers discretion in the reform of territorial

administration. This reform consisted of: 1. the creation of provisional ‘cohesion regions’; 2. limiting the devolution of state competences to the competences of the disbanded district offices; 3. constitutional controls on the delegation of competences; 4. central control over regional budgets and finance; and 5. building ‘smaller’ provinces (krajs) than desired under NUTS qualifications. In this way, the formation of the krajs might have been inspired by the EU, but was very much shaped by domestic executive actors and endogenous reform processes.<sup>77</sup> Krajs and ‘cohesion regions’ had ill-defined competences and lacked resources to establish their place in the institutional configuration. This limited decentralisation can also be understood in the inherent biases of the pre-accession templates (as established in chapter 4). To improve absorption, the European Commission often favoured implementation of EU programmes in established agencies at the national executive level. This preference often superseded the promotion of administrative decentralisation and regional self-government. Moreover, the vague definition of ‘partnership’ allowed national discretion in the organisation of the management of EU funds. The national interpretation of ‘partnership’ could range from an extensive role for regions in the implementation of EU funds to only a consultative role for regions in the project cycle. The Czech Republic chose a limited and provisional regional consultation on NUTS 2 level.

Secondly, the reduction of the role of the line ministries in the implementation of EU funds was averted by the introduction of sectoral programmes in PHARE 2002. For the programming cycle of 2000-2006, these sectoral programmes, administered by line ministries, had a much larger weight in the NDP than the joint regional operational programme. This joint regional programme represented a consolidation of the 8 regional programmes, which before the changes in PHARE 2002 would have formed the base of EU programming. Overall, the regional plan(s) in EU programming became less important. The sectoralisation of programming, agreed to by the European Commission and the Czech government, was a reaction to the need to absorb funds (this Commission priority is also seen in ISPA programming). Sectoral programmes cemented the place of the sectoral line ministries in EU funds management, at least until 2006.

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<sup>77</sup> As stated earlier, the formation of ‘krajs’ was part of the 1992 Constitution of the Czech Republic.

Thirdly, the sectoral approach to EU funds management also mediated the pressure to strengthen central coordination. Coordination of regional policy remained limited. Coordination was characterised by a lack of continuity, from the role of the CFA in the pre-accession period to the coordination responsibility of the MRD in the post-accession period. Moreover, the MRD was a weak ministry. This weakness again stressed the role of other line ministries.

Fourth, the sectoral approach to EU funds management also mediated the European Commission pressure to reduce the number of implementation agencies. Government agencies attached to the better resourced line ministries, such as Czechinvest, the NIF, and the BDA, have been ‘clever and tricky’ in maintaining and gaining competences in EU funds implementation (Interview with Howard Harding, Prague: April 26 2002). This also meant the statutory alignment of their respective missions. This process was further facilitated by the frequent changes in PHARE programming, which had initially allowed these agencies to maintain a role in implementation at the expense of regional structures and the newly formed CRD. The fragmentation of implementation also weakened the MRD, the coordinator of EU funds after accession, still further.

The most pronounced effects in the macro-institutional configuration relate to institutional enhancement. The institutional positions of the sectoral line ministries and their implementation agencies were enhanced. Furthermore, the Ministry of Finance through the CFA and the National Fund managed to use ‘top-down’ EC financial control procedures and the void in funds coordination to enhance its institutional position and build a central role for itself in the administration of funds (Interview with Jana Hendrichova, Prague: September 19 2001).

Finally, as stated in section 2.2.c, the European Commission has maintained pressure on the Czech Republic to reduce the fragmentation in implementation of EU programmes, despite the agreed sectoral approach. A shift away from ‘sectoralisation’ might see the creation of a super-agency close to the Prime Minister’s Office. In this case, the Prime Minister might be asserting himself in the management of EU funds. At this moment, this institutional change of the executive structure is speculative and

should be seen in the context of other (mostly failed) attempts of Prime Ministers Zeman and Spidla to enhance their positions and improve central coordination in the pre-accession process.

# **Chapter 6: The Development of Regional Policy and the Administration of the EU Pre-accession Process in Poland**

## **1.Regional Policy in Poland**

The European pre-accession process would challenge the Polish state, similar to the Czech Republic, in terms of three ‘misfits’: 1. the formation of a regional policy; 2. the introduction of a middle-tier of administration, consistent with the management of Structural Funds; 3. and the need for effective administration capable of coordinating and implementing regional policy. Again, point 1 seems to imply a substantial change in sectoral institutional arrangements, whereas the next two points imply that the sectoral adoption of EU regional policy will challenge the domestic macro-institutional configuration.

The main difference between Poland and the Czech Republic would be the differences in the domestic macro-institutional set-up. This statement pertains particularly to the reform of the core executive, started in 1997. Sections 1.1, 1.2, and 1.3 outline the reforms of territorial administration and national administration until 1998. Section 1.4 will then outline the EU-inspired reform of territorial administration. Section 2 will outline the set-up for the pre-accession funds in Poland.

### **1.1 Communist Legacy and the Reforms of the Early 1990s**

The reform of territorial administration in Poland after the transition in the period of 1989-1990 had its roots in the reform of public administration in 1972 and 1975. In 1972, the gromads or municipalities were amalgamated and re-divided in 247 towns or miasta, 1549 rural communities or gminas and 527 small towns, which were also known as miasta-gminas (Wollman 1998). In 1975, new smaller units were created at the regional level, which was divided in 49 voivodships or regions. In some ways, the creation of smaller-sized sub-national administration was a response to the social unrest of the early 1970s. The socialist regime under Edward Gierek wanted: a. to

bring the administration closer to the people; and b. quash the regional power bases in the voivodship structures of stronger party officials (Kuklinski and Swianiewicz 1993, p. 182). There was never a transfer of political power. In the 1980s, under pressure from Solidarnosc, new acts on local self-government and socio-economic planning such as the 'Law on the System of People's Councils' and the 'Law on Local Self-Government' of 1983 came about. This process acknowledged the competences of elected local councils. Regional planning became a bargaining process between the central and local levels. These concessions did not amount to the end of the dominance of the central party structures over state and society. Regulska (1997) argues that the devolution of power and the decentralisation of administration were used in a calculated way to retain political control at the centre of government.

The negotiations at the roundtable discussions in 1989 between Solidarnosc and the communist regime produced predictable results. Solidarnosc called for greater autonomy of local government<sup>78</sup>. Solidarnosc hoped that stronger local structures would reform the state from the bottom-up. This view was very much in line with a liberal perception that empowering municipalities would be beneficial to local people, who would buy into democratic reform and consequently help to reduce the democratic deficit inherited from communism (Blazek 1997; Zsomboki and Bell 1997; Smith 1985; Dahl 1961; Pateman 1980). On the other hand, communist officials and later communist successor parties wanted to adhere to the centralised administrative structure of the state. The 'Local Self-Government Act' of 1990 granted local autonomy and delegated certain functions to the communes and gminas, such as: property administration and territorial planning; property ownership of communal areas; public order and safety; management of communal infrastructure; organisation of local services such as social assistance; sport, culture etc.; primary school education; and public utilities and tax collection powers (compiled from Grochowski 1997 and Sigma 1999). The communes in 1990 attained, be it on a temporary basis, revenue-raising rights from their own properties, civil law liabilities and tax-raising rights from local taxes such as the property tax and stamp duty. Further, the communes benefited from 15% of the personal income taxes and 2 to 5% of the

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<sup>78</sup> Jerzy Regulski (2003), chief negotiator of Solidarnosc on territorial reform in 1989, provides a definitive overview of the negotiations and the evolution of municipal government from 1990 to the present.



corporate taxes raised in their territory, as well as the possibility of state subsidies (Suraszka and Blazek, 1996). Moreover, though the municipal budgets are strictly regulated in terms of budget deficits [municipalities officially cannot run them] and audited at the central level, general grants were awarded directly to the gmina from the Ministry of Finance. An amendment to the Polish constitution included guarantees to the self-government of localities. The Law reconstituted the original municipalities or the gminas that had been amalgamated in the reforms of the 1970s.

However, the new territorial organisation was basically a single-tier system and did not extend such autonomy to the districts (powiats). Autonomy on the municipal level stood in contrast to the strongly centralised state administration. The institutional legacy of communism meant the continuation of an organisation, consisting of 49 voivodships, in which the Voivod or governor represented the state administration. The Voivod ensures conformity with government policy. Though the municipalities were represented in a council or Sejmik elected by the municipal bodies, the function of the Sejmik was merely consultative. In addition, districts now called rejon were reconstituted based on the pre-1972 powiat organisation. These sub-prefectural units further represented the intent of the central government to work through its own administrative units in the regions rather than with local self-government (Cielicka and Gibson, 1996). In this sense, neither a multi-level system of self-government nor a clear task delineation existed. This vagueness is also present in the 1992 Constitution, which on local and regional self-government merely outlines that local municipalities have a broad range of competences, except those which legally fall under the state administration (SIGMA 1999). In short, the central government dominated territorial administration, and did not extend self-government beyond the municipalities.

Whereas under the Solidarnosc-led coalition of non-communist parties of Prime Minister Mazowiecki regional administrative structures had been further consolidated and a single-tier system of local self-government established, subsequent broad coalition governments, under Bielecki from January 1991 to October 1991, and later the Suchocka coalition, from August 1992 to May 1993, examined proposals for a two-tier system to eliminate the political vacuum between the central and local government levels (Regulska, 1997). Bielecki, a liberal reformer, prioritised economic

reform (liberalisation and stabilisation). His government's view outlined that reform was best produced through strong regional state administration. Under the Olszewski government, which governed from December 1991 to June 1992, and later during the Suchocka government, the reform of territorial administration was taken up. Wollman (1998) lists the creation by Hanna Suchocka of a governmental plenipotentiary for administrative reform as an important component in the debate at the national level.<sup>79</sup> This debate included: how many regions Poland should have; what their functions should be; which functions should be devolved to lower levels of government and government; and whether the administrative functions of the regions should be supported by more extensive self-government at the sub-national level. In September 1993, Suchocka transferred several tasks, such as secondary education, health, and road construction among others, from the rejon and voivodship level to the larger cities as part of a pilot scheme. This decentralisation was funded under a system of VAT compensation and government grants.

After the elections of October 1993, an alliance of former communists, the Democratic Left (SLD) and Peasant Party (PSL), formed a majority government coalition under the leadership of Waldemar Pawlak (PSL). Pilot projects, the re-organisation of territorial administration, and the partial granting of fiscal autonomy to local government (cities), which had occurred during the Suchocka administration, were suspended. This suspension came in the context of continuous bickering over: revenue-sharing between the central administration, the Voivod and the cities, the irregular transfer of state funds to the cities, problems in the procedures and mechanisms of transfer, and the inadequacy of the level of funds available to finance the city administration (Glowacka-Mazur and Zaremba, 1994). Regulska (1997) notes that the coalition partners did not even fully agree on the drafts of the coalition agreement on territorial reform. The PSL was far more pronounced in bypassing territorial administration than the SLD. The SLD took the unexpected move of producing a policy document broadly in favour of regional self-government and the creation of a "citizens' society". However, the intention of the SLD was to reform the territorial administration from the top-down rather than from the bottom-up, thus exposing a fundamental, even ideological difference, with the previous Suchocka

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<sup>79</sup> This plenipotentiary was led by Michal Kulesza, an academic in favour of reforms.

government. Still, despite the earlier suspension of the Suchocka proposals, the transfer of competences from the Voivod to the larger cities, proposed in 1993, was largely implemented in 1994 and 1995. However, the reform of territorial administration did not necessarily transfer autonomy to the regions, cities or municipalities. Under the Minister of Finance and Deputy Prime Minister Kolodko (successor to Marek Borowski in April 1994) in the Pawlak administration<sup>80</sup>, local self-government would be excluded from any role in economic planning and regional development. Larger gminas were basically shut out of VAT compensation and thus lost their fiscal autonomy. Jablonski (2000, p. 139) comments that a lack of political consensus over the shape and degree of devolution hindered further decentralisation of administration.

The internal considerations in the PSL-SLD coalition governments exposed this lack of consensus. The PSL wanted a continuation of the existing system of 49 regions, which would have limited autonomy and be overseen by a Voivod, who was appointed by the central government. It was against the re-introduction of the powiats. The main reason for this position was the local power base of the PSL in the rural communities, which could be threatened by a far-reaching territorial re-organisation (Wollman, 1998). The PSL therefore had traditionally been more favourable to granting more municipal authority (Regulski 2003). The SLD, more in the spirit of reform, wanted a smaller number of voivodships and the reform of the powiats (districts). The formation of districts around the main cities would offer them an administrative base closer to their obvious constituencies. It was clear the PSL would block any reform in this direction, even though the SLD was a coalition partner. Regulska (1997) comments on this period that the short duration in office of most governments, due to the fragmentation of parties in parliament and the existence of coalitions with a highly tenuous parliamentary support, meant an often incomplete implementation of the governments' proposals for territorial reform. This lack of implementation was amplified by the cohabitation between a Prime Minister and President from different political parties. The President could block government proposals for reform. This cohabitation ended in 1995, when President Lech Walesa lost the presidential elections to Aleksander Kwasniewski of the SLD. Lech Walesa

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<sup>80</sup> Kolodko in two subsequent cabinets would stay Minister of Finance until the formation of the Buzek government at the end of 1997.

had in the Solidarnosc tradition lobbied for bottom-up reform of territorial organisation.

## **1.2 Drafting Regional Development Policy**

Blazyca et al (2002, p. 268) paraphrase Gorzelak in saying that the centralisation in regional planning in the 1990s descended into 'voluntarism'. Sectoral policies still dominated regional policy, but the Ministry of Labour and Social Affairs in its attempts to slow unemployment was the only ministry actively involved in regional development policy. The 'Procedural Principles of Regional Restructuring Programmes', prepared by the Central Planning Office (CPO) and approved by the Council of Ministers in 1990, set out a policy to address structural problems at the regional level. Examples of these structural problems are the general economic recession in the North, agrarian unemployment in the Southeast, and industrial restructuring in Katowice (Task Force for Regional Development 1996, p. 32). The document stressed that the identification of regional needs, expressed through regional initiatives, should be the driving force behind regional programming and economic restructuring. The central government in this set-up would be a facilitator, by giving administrative support and disbursing financing to local initiatives, which would exclude state officials at the drafting stage (CPO, 1990). Nonetheless, regional policy was not given priority in the first programme documents of the Mazowiecki government. The relative lack of regional disparities at the outset of transition seemed to undermine regional development policy. However, as the socio-economic impact of transformation processes became clear, there was a need to build the foundations of such a policy (Pyszkowski and Kozak, 1999). In this way, the central government and the sub-national actors became convinced of the benefits of regional development policy.

Three main factors affected bottom-up regional development: 1. the central drafting of policy; 2. the frequent institutional reforms; and 3. the proliferation of government and ministerial agencies. First, the drafting of policy was initiated within the CPO, a body responsible for national economic planning, whose then Director was a cabinet minister. This body, in the 'Law on Spatial Development' in 1994, also became

responsible for regional development policy. Studies, organised by the Minister for Housing and Spatial Economy in the early 1990s, recommended an end to the 'dominance' of the central government and the inclusion of the voivodships in policy planning. However, regional policy initiatives remained top-down. The dominance of the central government in the process of policy planning was also associated with the lack of administrative capacity at the voivodship level. This observation is present in the 'Report on Regional Policy and the Principles of State Regional Policy', prepared by the CPO and approved by the Council of Ministers in 1995. Describing the current situation in regional programming in 1995, the report stresses an increase in regional development activity, with most voivodships commencing programming work. However, a 'systemic vacuum' at the regional level limited bottom-up regional development. This vacuum consisted of: 1. the problematic information exchange between the voivodship and central government; 2. the absence of procedures and a clear reference framework in obtaining central funds; and 3. the absence of the capacity to implement policy at the voivodship level (CPO, 1995). A similar document, adopted in 1994 by the Council of Ministers, seems to stress a more advisory role for the voivodships. It stresses the responsibility of the Voivods or state representatives in the regions to ensure regional programming is compatible with state policy and law. The approval of the Voivod is a precondition for any application by the voivodships for central funds.

Secondly, the repeated re-alignment of the institutions involved with regional development policy, as Pawel Samecki explains, has contributed to a sense of uncertainty over the drafting, programming, and implementation procedures. In some cases, such re-alignment has increased the information barrier between the different levels of territorial administration (Interview with Pawel Samecki: Warsaw September 28, 2001).

Third, the proliferation of administrative units and agencies, within the country, regions and even districts, was a characteristic of the implementation of regional development policy in Poland. This proliferation undermined the role of the voivodships in regional development programming. In the mid-1990s, the Task Force for Regional Development in Poland identified 42 special-purpose administrative units at the national level, 20 at the voivodship level, and 14 at the supra-gmina or

district level (Task Force for Regional Development 1996, p. 40). Of these, 48 are state institutions involved with regional development. The Task Force finds a 'puzzling...lack of effective co-operation between Voivods and special-purpose administration institutions' and concludes that 'the development of special-purpose administrations reflects the centralisation of power and the limitation of the Voivod's responsibility for issues which, by their very nature, should fall within their scope' (Task Force for Regional Development 1996, p. 40). Further, special administrative bodies such as police, courts, and inspectorates had units operating in territories larger than the gmina and smaller than the regions (Glowacki 2002, p. 107). Even after the reform of 1998, the Ombudsman drew attention to the 'lack of transparent legal regulations and efficient instruments of supervision and control of local government authorities' and that 'the changes enacted in 1999 brought to light problems caused both by inconsistency of the provisions regulating the powers of different levels of local government and poor co-operation between the state administration, decentralised state administration and local government bodies' (quoted in OECD 2002, p. 20).

In conclusion, there was a centralised approach to regional policy planning. Implementation was fragmented and occurred mostly in various government agencies and state bodies. Frequent reforms, the dominance of the central government, and the limited capacity of regional administration undermined the role of the voivodships in the management of regional development policy.

### **1.3 The 1996-1997 Reform of National Administration**

A feature of the executive structure was the weakening of presidential powers in the 1992 constitution and the 1997 constitution. This weakening of presidential powers meant an enhancement of prime ministerial competences. The constitution of 1992 reduced the presidential powers to dissolve parliament and those powers pertaining to the presidential discretion in the nomination process during the cabinet formation. The President did retain powers to control the nominations of the Ministers of Defence, Foreign Affairs, and Home Affairs. In 1997, the new constitution took any presidential control over portfolios away and thus the presidential right to influence

cabinet policy-making. The appointment of cabinet ministers became the sole prerogative of the Prime Minister. Equally, the power of the Prime Minister, in relationship to the parliament, was enhanced. The 1992 constitution constrained the way parliament could dismiss the cabinet (Zubek, 2001). The evolving competences of the Prime Minister, in relationship to the President and the parliament during the 1990s, also directly led to the overall reform of national administration in the period of 1996-1997 and the reform of regional development administration.

However, administrative reform had been on the agenda of the government before. Szlachta (1999) comments that the problems in the administration of regional development policy seemed to be addressed by reinforcing the 'negative features of the present institutional set-up'. Szlachta means that reform normally involved tinkering with the institutional set-up, rather than constituting a drastic overhaul of the executive structure. He comments on how problems in the diagnosis of regional development problems in 1995 were seen only in the context of the reform of the Government Economic Centre. In 1996, the CPO, which was part of this Centre, would lose its economic planning responsibilities to the cabinet and the line ministries. The newly established Government Centre for Strategic Studies would be responsible for the support of policy initiatives and studies. This brought regional policy planning to the centre of government (Blazycza et al, 2002). However, as Zubek (2001, p. 922) notes, the Government Centre for Strategic Studies never lived up to the role of policy developer.

Nonetheless, there were two important reforms in the mid-1990s: 1. the creation of regional policy coordination at the core executive level; and 2. the re-alignment of the line ministries.

The establishment of the Sub-committee for Regional Policy and Rural Areas Development in 1995, affiliated to the Economic Committee of the Council of Ministers (KERM), was a clear attempt at the Council of Ministers level to coordinate regional policy issues far more effectively. This Sub-committee included two provisions to prepare Polish regional policy for EU membership and for the management of EU funds. Both could help with the reduction of regional disparities and the transformation of rural areas. In 1998, the Regional Policy and Sustainable

Development Committee became a standing Committee of the Council of Ministers for tasks relating to the preparations for Poland's EU pre-accession process (SIGMA, 1999). Its tasks would be backed up by the Polish Council for Spatial Economy, an advisory body of the Council of Ministers. The Committee was responsible for the drafting of the National Strategy for Regional Development, with as aim to achieve compliance between state regional development policy and the sectoral policies of specific ministries (MRDC, National Strategy for Regional Development 2001-2006, 2000 p. 37). Other signs of the importance of regional development in the national policy setting were the development of the State Council for Regional Policy, the Prime Minister's advisory body on regional development, and the establishment in 1995 of the extraordinary Committee on Regional Policy (later a standing committee) in parliament (Task Force for Regional Development 1996, p. 38).

Combining the functions of the Office of the Council of Ministers headed by a cabinet minister and those of the Prime Minister's Office was an important simplification of the policy advice structure in regional policy. The Office of the Council of Ministers had been an administrative body from communist times, which had survived more or less unchanged through post-communist governments. The Office provided administrative assistance for the Council of Ministers and was responsible for state and local administration. Regional policy advice to the Prime Minister's Office had come from various bodies and in particular the State Council on Regional Policy. The re-organisation eliminated this dual structure and produced an integrated Prime Minister's chancellery in 1996. Under the subsequent Buzek government, the functions of supporting the Council of Ministers and Prime Minister were initially broken up into two pillars, one for the Prime Minister and another for the Council of Ministers. However, a re-integration occurred shortly after. In 1999, these functions were broken apart again into four pillars, serving respectively, the Prime Minister, the Deputy Prime Ministers and ministers without portfolio, the cabinet, and the Council of Ministers. Under the new SLD government of Leszek Miller, these functions were again integrated, as one body serving all respective institutional actors. In this way, Miller finalised a protracted re-organisation of policy coordination close to accession. For regional policy, these re-organisations meant that the Department for Regional Policy, established in 1999 next to the previously existing Economic Affairs Department, was merged again with the Economic Affairs Department.



A concentration of EU competences within the Polish administration also took place in terms of the coordination and negotiation of the accession process. The establishment in 1996 of the inter-ministerial Committee for European Integration (CEI), with its own executive office, was part of the Polish reaction to the EU's Agenda 2000. The Office would have coordinating powers to: a. assist parliament in adjusting Polish legislation to the 'acquis'; b. coordinate the drafting of policy documents required by the EU pre-accession process; and c. coordinate the management and implementation of financial assistance and the pre-accession programmes. The chief negotiator of Poland's accession to the EU was situated in the Office of the Prime Minister, which gave him access to the key ministers and the Prime Minister.

A reconfiguration of the line ministries had been on the political agenda since the administration of Suchocka.<sup>81</sup> However, proposals until 1996 fell short of implementation. Previously, in 1989, a number of ministries had been amalgamated in a move to reduce the number of ministers at the time of transition. The economic problems in the middle of the 1990s gave rise to a further call for a reconfiguration of the ministries involved with economic policy. A new instrument for administrative re-organisation was the power of the Council of Ministers to assign ministerial responsibilities and configure ministries by an executive decision, rather than an act of parliament<sup>82</sup>. The rationalisation, under the Cimoszewicz PSL-SLD coalition government, created a super-ministry in the shape of the Ministry of Economy, which included the former Ministry of Industry and Trade, the Ministry for Foreign Economic Relations, the Ministry for Housing and Spatial Development and the competences of the CPO (Zubek, 2001). The competences of the Ministry of Finance were reduced to the supervision of fiscal and budgetary state policy (Jablonski 2000). Further, responsibilities over state assets were taken away from the line ministries and

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<sup>81</sup> Suchocka's proposals formed the basis of reform. They focused on: 1. administrative reform as a precondition to enhance the efficiency and legitimacy of the state; 2. the establishment of a cohesive centre of government; 3. local government reforms; 4. the reform of the middle-tier of government, through the reduction of the number of regions; 5. the creation of a civil service law (Jablonski 2000, pg. 132).

<sup>82</sup> The new laws also laid out the uniform framework for the functional organisation of ministries, which had to include a European integration unit.

put in the newly created Ministry of the State Treasury, previously located as a unit within the Ministry of Finance.

In 1999, under the 'Law of Government Administration Sections' a 'regional development' section was set up. Regional policy and development competences moved to the Ministry of Economy. These competences remained there until June 2000, when the AWS-UW government of Prime Minister Buzek decided to reverse an earlier decision and place the relevant departments into a newly created Ministry for Regional Development and Construction. It was felt at that time that a dedicated ministry would be better adept at coordinating the implementation of the pre-accession funds and later Structural Funds. However, this process also was a function of the struggle Jerzy Buzek had to establish more effective central coordination. This struggle was visible in the fractious relationship between the Prime Minister and his parliamentary caucus and the relationship between the Prime Minister and the more powerful line ministries, such as the Ministry of Economy. This struggle was also visible in the frequent re-organisations of the chancellery.

The Ministry for Regional Development and Construction was consequently re-organised back into the Ministry of Economy in September of 2001, after the election victory of Leszek Miller of the SLD<sup>83</sup>. Insiders say this amounted to little more than the Department for Regional Development Programming and the later created Department for Voivodship Contracts and Assistance Programmes being moved around and folded back into their old ministry (Interview with Jaroslaw Orlinski: Warsaw July 17 2002 jointly with Iwona Brol and Agnieszka Kapciak). However, Adam Sadownik at the Office for the Committee for European Integration (OCEI) points out that the initial re-organisation did not produce the participation of the then Ministry of Regional Development and Construction in the preparation and programming of the EU pre-accession funds. Many responsibilities fell to the OCEI (Interview with Adam Sadownik: Warsaw September 27, 2001). Wojciech Kowalski seems to corroborate this point. He makes the argument that the low capacity in the Ministry for Regional Development and Construction ultimately led to less

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<sup>83</sup> The Miller government pursued an agenda aimed at limiting non-ministerial administration through consolidating such administration and by placing administration under the control of the Prime Minister or ministries.

programming and that the European delegation was not unhappy about the consolidation (Interview with Wojciech Kowalski: Warsaw, January 23 2002). John O'Rourke further points out that half the budget of the Ministry came from PHARE funds (Interview with John O'Rourke: Warsaw, January 21 2002).

More recently in January of 2003, the Ministry of Economy has merged with the Ministry for Labour and Social Affairs. Moreover, in late 2003 State Treasury functions were temporarily incorporated in the Ministry of Economy to create a super-ministry for economic policy under Minister and Deputy Premier, Jerzy Hausner. This move was not only a response to the immediate economic and budgetary problems in the period of 2002-2003 in the run-up to accession, but also due to clashes between modernisers and traditionalists on social spending within the SLD (See Maksymiuk in RFE/RL 2003a, 2003b, and 2003c). The response of the government was to concentrate powers close to the core executive.

Though the pressure of EU accession sped up executive reform, this reform was an endogenous process. It had been an agenda point since the administration of Suchocka. The most immediate reason for the start of reform had been the economic crisis in the middle of the 1990s. This reform involved the consolidation of coordination competences at the core executive level and the concentration of ministerial authority. In the late 1990s and in 2001, both Jerzy Buzek and Leszek Miller would use the management requirements of EU funds to legitimate and enhance the reform process. Buzek, on one hand, created a specific ministry for regional development policy to reduce the power of the Ministry of Economy and allow him a greater say in funds administration. Miller, on the other hand, concentrated competences within the Ministry of Economy and strengthened the core executive. The Ministry of Economy became the dominant player in economic management, including regional development policy and indeed Structural Funds preparation. The prime-ministerialisation in Poland allowed such concentration. EU requirements enhanced this concentration.

## 1.4 The 1998-1999 Reform of Territorial Administration

The parliamentary election in September 1997 was won by a tentative conglomerate of groups centred around the Solidarity Trade Union, namely the Solidarity Electoral Action (AWS). This group comprised of the main parties to have emerged on the post-Solidarity right, including the Christian National Union, the two factions of the Confederation for an Independent Poland, the Centre Agreement and after January of 1997 a new conservative group, the Conservative People's Party, which was formed by defectors from the Freedom Union (UW). The AWS had a relatively strong organisational cohesion, which other right-wing groupings had lacked (Szczerbiak, 1999). They formed a majority coalition with a party that also had emerged from Solidarity, the UW. In June 2000, the UW left the coalition and the AWS under Jerzy Buzek continued as a minority government. The issue of territorial decentralisation was part of an ambitious AWS-UW coalition agreement, which hoped to complete the aims of Solidarnosc set out at the time of transition. The coalition programme also included the restructuring of the pension system, a reform of the health service, education reform and, as the centrepiece of the programme, the reform of local government. This policy would include a tight budgetary control over government spending. This macro-economic policy framework was developed by the UW leader and Minister of Finance, Leszek Balcerowicz<sup>84</sup>. Another major factor in the reform of territorial administration was the 'way in which matters [related] to EU accession suddenly emerged from the shadows of political life' (Blazyca and Kolkiewicz 1999, p. 131). The basis for the draft on regional reform would be the adjustments required in the Polish regional organisation to facilitate full participation in the EU funds. However, reform would take place in the context of the three-tier system that had existed in communist times. The regional reform would be highly influenced by the interests of not the current regions, but the 17 regions that existed before 1975 (Glowacki 2002). Moreover, the regional reform would only in a limited way affect the centrist relationship between the central state and the voivodships.

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<sup>84</sup> The Ministry of Finance throughout the 1990s was very opposed to the decentralisation of public finance, mostly because it believed in the central administration of funds. Balancing the budget would also often mean cuts in subsidies to the local government (Regulski 2003).

The issue of territorial decentralisation exposed clear ruptures within the AWS, particularly between the parliamentary caucus and the executive<sup>85</sup>. Two groupings, the Patriotic Camp of the Confederation of an Independent Poland and 8 deputies from the smaller 'Polish Family' Association, were opposed to territorial reforms, because they felt reform undermined the integrity of the Polish state. They voted against the government on the number of new provinces in June of 1998 (see also Ferry 2003, p. 1106). Regionalisation showed ideological ruptures between and within the parties on the importance of central state implementation. The debate on the type of decentralisation also offered opportunities for parties to defend constituencies and score political points by stressing their commitment to the Polish state.

Due to the breakdown of internal party discipline of the AWS, the SLD profiled itself in opposition, as the driving force of regional reform (Bokajlo 2000). The SLD first blocked reform by insisting on compensation for those medium-size cities losing their administrative status. Also, the PSL, in opposition to attempts to reform middle-level government and especially to create district administration, was no longer a restricting force on the SLD. The initial attempt by the AWS to create 12 regions was abandoned. The new proposals called for 14 regions. A presidential veto on the bill, which could not be overturned in parliament, meant two further regions were created. President Kwasniewski took advantage of the divisions over this issue in parliament and within the government coalition to put his own stamp on territorial reform. It also meant the SLD held the political high ground for those people, who feared their regions and local communes would be subsumed in larger voivodships (Bokajlo 2000). This proved popular in the regional elections.<sup>86</sup> The PSL, meanwhile,

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<sup>85</sup> Buzek had been nominated as Prime Minister by Marian Krzaklewski, the chairman of the AWS. Krzaklewski stayed outside the government to control the AWS coalition from parliament. Zubek points out that 'the ultimate shape of policies tended to be decided in parliamentary committees and plenaries, where the opposition was quick to exploit the government's divisions.' (Zubek, 2001, pg. 920)

<sup>86</sup> The results of the elections of 1998 across communes, districts and provinces produced an across the board reinforcement of the existing alignments at the national level, with a right-wing bloc focused on the AWS, a left-wing bloc in the shape of the SLD, and centre parties like the UW and Social Alliance including the PSL. The AWS won 33% of the share of the seats, the SLD 31%, and the UW and Social Alliance each about 11% roughly in line with the parliamentary elections of 1997. The SLD did gain in larger cities becoming the largest party in 29 out of 49 (These larger urban centres conform more or less to the 46 cities used in the pilot scheme of territorial administration under the administration of Jozef Olesky) and those provinces created largely by President Kwasniewski's efforts (Szczerbiak, 1999). The PSL not surprisingly did well in rural counties.

maintained a populist agenda, which outlined the EU-ification of the Polish state and the creation of so called ‘German’ regions.

On June 5 of 1998, the Act on Regional Self-Government was adopted to produce a new territorial administration. This Act came into force on January 1, 1999. The new division of the Polish state included 16 voivodships rather than 49, the re-introduction of 380 powiats of which 64 are based around a large town or city, and the re-organisation of some of the municipalities. The reforms had the following components: 1. the creation of a three-tier complementary system of territorial administration, whereby the two lowest tiers are self-governing and the regions would maintain some element of state administration; 2. the emphasis on the unitary nature of the state; 3. a system of district government in which districts should cover an area with which local people identify; and 4. a regional subdivision in which regions would be geographically large enough to generate income from taxes<sup>87</sup> (also see Glowacki 2002). Most important for regional policy was the reduction of the number of voivodships. Kosarczyn (2001) points out that the structure of 49 voivodships seemed too small to meet the demands of globalisation and European integration. The European Union had been unwilling to classify the regions as NUTS 2 regions without a reduction in numbers. The new structure created a dual regional administration. The Voivod represents the State Treasury, controls and monitors the regional finances, and supervises regional development policy. At the national level, the Ministry of Interior and Public Administration, through its Department of Monitoring of Public Administration Reform, oversees and monitors the work of the Voivods (OECD 2002). Sectoral ministries can direct the Voivod on issues of sectoral delegation. The Voivod is appointed by the Prime Minister. On the other hand, the institution of Sejmik, consisting of 40 to 80 members at the voivodship level, was elevated to a self-government structure, which deals with the programming of regional policy. Its executive body is the Voivodship Management Board, with at its head the Marshal (Marszalek). The Marshal is responsible for regional programming, ‘creating an environment for regional development, shaping the regional labour market, developing regional infrastructure, financial engineering of projects, education and R&D, environmental protection, and culture (Kosarczyn 2001, p. 8)’.

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<sup>87</sup> It was assumed the smaller districts would have to be subsidised. This was also compensation for the smaller cities, which lost some autonomy in the reforms.

Another innovation is that the Marshal prepares a regional development strategy for foreign funds planning.

Within the new framework, state budget resources can be allocated for: a. the development of enterprise; b. creation of jobs; c. the development of local and regional infrastructure; d. administrative development; e. environmental protection; f. education and culture; and g. research (Kosarczyn 2001). The Voivodship Management Board applies for funds, stating the objectives and tasks to be covered by support. Based on this application and negotiations between the Management Board and the central government, a voivodship contract is signed. The Council of Ministers and the Sejmik need to approve the contract. The first 16 contracts were signed in July of 2001. The 'voivodship contract' guidelines and procedures are derived from the procedures of the EU Structural Funds and use matching funds, similar to the pre-accession funds (Interview with Jaroslaw Orlinski: Warsaw July 17 2002 jointly with Iwona Brol and Agnieszka Kapciak; MoE 2000). Financial assistance from the central government is only available, where the programme specifically addresses the national strategy (MRDC, NSRD 2001-2006, 2000 p. 38). There is a strong EU-inspired aim for convergence between regional programmes, government support, combined efforts such as 'voivodship' contracts and national strategies. The 'voivodship contracts' also ensured financing was directed at and dependent on this convergence.

Aside from direct control over regional finances by the Voivod, there were two further restraining factors on decentralisation: 1. the resistance of national administrative actors; and 2. the allocation of finances to the regions.

There was resistance from both local officials and central administration officials, who would stand to lose competences, resources, and possibly jobs, if a new level of government was created. Also, the ministries would lose the power of nomination over those devolved institutions such as the police. As Regulski mentions, protests took on the shape of blocking highways, threats, and petitions (Regulski 1999). Ferry (2003) notes that the Ministry of Finance and Ministry of Labour and Social affairs had been the dominant forces in regional development policy and especially objected. Kolodko, the Minister of Finance, also objected to the additional budgetary costs.

Decentralisation, as Regulski comments, remained the ‘hobby’ of several national political actors (Regulski 1999). After 1998, this opposition also led to the enhancement of the supervisory roles of the Voivod, the Ministry of the Interior and the line ministries.

In the allocation of finances, the voivodship self-government, the newly formed districts or powiats and the communes or gminas gained concessions from the central government on the decentralisation of public finances. The administrative reforms assigned a share of the personal and corporate income tax receipts, collected within the boundary of the self-government entity. However, these shares were very low, up to 1.5% of personal income tax and 0.5 % of company taxes. Table 12 shows both the dominance of the contributions of the central government in regional and district revenues and the relatively small shares in territorial expenditures of the districts and regions. This dominance was also enshrined in law, as all EU funds had to pass through the national budget from which they would be distributed. The composition of the funds in the ‘regional contracts’ (see table 12) shows a complete dependence on central and EU funding.

A new amendment on public finance of the Buzek government in 2001 meant that the total amount of funding in the ‘regional contracts’ was not ring-fenced and could be withdrawn at any moment. This amendment was not only geared to reduce the operational risk in the implementation of funds, but also to allow greater ministerial discretion in the distribution of funds. The voivodships were often expected to fill the deficit through revenue-raising activities. A complicating factor, limiting the activities of the voivodships, was that these regions could not run deficits (Bokajlo 2000)<sup>88</sup>. Thus, the budget was often only sufficient to implement national programmes on health and education, rather than develop regional policies (Ferry 2003). With the exception of a few functions, local administration and services provision fell mostly under the responsibility of the communes and the districts, while regional development programmes would be prepared and implemented at the voivodship level

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<sup>88</sup> The financial independence of the regions and their ability to pursue effective operations at the regional level became a fierce topic of debate in the national parliament. This debate also included electoral reform. Electoral reform focused on whether regions or powiats should form the base for parliamentary constituencies and whether the regions should form the base for the composition of the senate.



(see Sigma 1999, p. 23). Moreover, the overall state contribution, as a percentage, was reduced through the incorporation of commercial revenues and private contributions in the overall budget for regional development policy. Again, this allowed the state budget to limit its budgetary exposure to operational risk. The control over the allocation of finances at the central level meant both a central control over regional policy and limits on the exposure of the state budget to risk.

Table 12: Public Finance Reform

	Expenditures before the reform	Expenditures after the reform	Composition of Regions' Revenues	Composition of District Revenues	Composition of Funds in Regional Contracts(2001-2002)
<i>Central Government</i>	76%	55%	36% taxation and commercial revenues	4% taxation	30% central budget
<i>Regions</i>		2%	34% government subsidies	49% government subsidies	14.6% EU pre-accession
<i>Districts</i>		7%	30% government grants	47% government grants	32.4% relevant ministry
<i>Municipalities</i>	24%	24%			13% municipality
					1.4% districts
					2.1% regions

Source: Compiled from Regulski (1999; 2003); Glowacki (2002); and Moscicki as presented in Ferry (2003)

## 1.5 Regional Development Policy

The 'Law on the Rules of Supporting Regional Development' came in force on July 14, 2000. This law stipulated the exact procedures for the preparation and implementation of regional programmes. The National Strategy for Regional Development (NSRD) for the period 2001-2006 was adopted by the parliament on December 28, 2000. The NSRD is a 'reference for planning the amount and direction of expenditures from the state budget, including foreign funds, for the implementation of the 'voivodship contracts' as well as other tasks related to regional development, advisory, information programmes as well as pilot undertakings' (Ministry for Regional Development and Construction 2000, p. 7). Various medium-term strategies were then used to draft a preliminary National Development Plan (NDP) for the period of 2000-2002, which lists measures to be co-financed within the three pre-

accession programmes: PHARE ESC; SAPARD; and ISPA.<sup>89</sup> The final NDP for the period up to 2006 will also include measures to be co-financed with appropriations under the Cohesion Funds and Structural Funds. Similarly, the preliminary NDP incorporates the short-term priorities in the Accession Partnership, concerning administrative procedures and the EU financial intervention and evaluation mechanisms. The NDP is the action plan for the realisation of the priorities drawn up in the National Programme of Preparation for Membership (Committee for European Integration, NDP 2002).

The six priority axes of the NDP are (in brackets the % of financing they will get, followed by the % of national co-financing of Community funds for these axes): 1. the improvement of the economy's competitiveness through modernisation and structural adjustment of industry and services (1% of total financing-36% of Community funding); 2. structural changes in agriculture, fishing, and rural development (24%-54%); 3. the integration of Polish economy through modernisation and enlargement of transport networks (27%-32%); 4. the creation of the conditions for balanced and sustainable development through modernisation and development of environmental infrastructure (20%-43%); 5. human resource and employment development (2%-26%); 6. the strengthening development potential of regions and counteracting marginalisation of certain areas(25%-42%) (CEI NDP 2002). These figures show a weight in the implementation of funds from 2002-2003 on rural development, transport, and regional development, where also the national co-financing is at its highest compared to the other priority axes. Further, the NDP shows a focus in the distribution of resources, where regional development is the lowest. Priority axes would initially provide the largest regional envelopes to the 6 Eastern provinces, Lubelskie, Podkarpackie, Podlaskie, Slaskie, Lubuskie, and Zachodniopomorskie. The NDP also points out that, given the five fold increase in the average annual allocation of funding, it will become necessary to involve territorial self-government resources, have a broader utilisation of public/private partnership

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<sup>89</sup> Two remarks are important here: 1. the OCEI took the lead drafting the document, due to ineffectiveness of the Ministry of Regional Development and Construction; 2. the initial NDP covered a period of 2000-2002, rather than the more customary period of 2000-2006.

mechanisms, and redirect a greater share of the national budget to regional development (CEI NDP 2002 p. 106)<sup>90</sup>.

The full effects of the ‘Law on the Rules of Supporting Regional Development’ are not yet clear. The reliance on ‘voivodship’ contracts, which have their base in the NSRD means that a very specific domestic system exists for regional development, which could possibly exist next to the framework for EU funds, the NDP. Within these contracts, the sectoral ministries have much discretion in outlining the strategy and implementing it. Moreover, the Voivod’s role in these contracts is reduced from authorising payments to supervising financial flows, which means that this responsibility for payments and monitoring will most likely reside in the sectoral ministries and less likely in the regional self-government (Hausner and Marody 2000). For EU funds, most resources, as the priority axes above show, are for sectoral programmes in rural development, transport, and environment. Further, the Ministry of Economy would be responsible for all regional policy planning. Regional development planning clearly maintains the sectoral role at the national level in the programming of funds.

Still, the adoption of EU regional policy was quite comprehensive. This point also stresses the support of the executive in formulating a regional development policy after the economic crisis in the mid-1990s.

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<sup>90</sup> The estimated EU funds contribution in mio. euro to the implementation of Poland’s structural policy objectives in Poland from 2004-2006 (source European Commission 2003) (% of total EU funds available):

Structural funds in total – 67.2 % (7635.3), including:  
- European Regional Development Fund – 60,9 % (4652.8);  
- European Social Fund – 22,9 % (1748.9);  
- Guidance Section of the European Agricultural Guidance and Guarantee Fund – 13,8% (1055.0);  
- Financial Instrument for Fisheries Guidance – 2,4 % (178.6);  
Cohesion Fund – 32.8 % (3733.3).

## **2. Pre-accession Instruments and Pre-Accession Implementation Channels for Regional Policy**

### **2.1 The Pre-accession Management System**

The National Strategy for Integration in 1997 acknowledges the importance of the development of adequate management structures to deal with the absorption of aid. It states that ‘the degree of development of institutions implementing this policy, on both the central and local levels, is the condition of meeting one of the fundamental criteria of EU structural policy, i.e. the partnership between the Union, central government and regions in the planning and implementation of aid programmes.’ (CEI NSI 1997, p. 26) This strategy encompasses the facilitation of decentralised financing through the development of regional institutions, capable of designing and implementing aid programmes, the training of civil servants, creation of financial procedures and audit departments in line ministries. The National Programme of Preparation for Membership in the European Union states further that ‘the efforts towards regional development should concentrate on [the] creation of an efficient and effective system in which, at the regional level, governmental and local administration would overtake national government control over the use of Structural Funds.’ (Council of Ministers NPPME 1999)

These strategy statements point to the focus in EU programming on decentralisation. Decentralisation would mean limiting the roles of the central government in coordination and implementation. National ministerial actors would attempt to mediate this redistribution of competences and resources. Paradoxically, the absence of a clear EU template on decentralisation and the PHARE management Reforms of 1997 with its focus on more effective absorption would allow them to concentrate not only decision-making at the national level, but also maintain a sectoral approach to regional development. The following sections will look at: 1. the consolidation of funds coordination near the core executive and Minister of Economy; 2. the centralisation of financial control; and 3. the consolidation of ESC implementation in a government agency, attached to the Ministry of Economy. Such consolidation was

also proposed for ISPA environmental projects. In this way, sectoral adaptation remained with the context of the executive structure.

## 2.2 Coordination

Coordination shows a lack of continuity in the bodies involved in the coordination of funds management from PHARE to Structural Funds. Moreover, the management of PHARE evolved during the pre-accession period. However, the coordination style, which focused on central coordination, remained very similar in these periods and was strengthened close to accession. Further, as stated earlier, the Council of Ministers played an important role in policy drafting and planning.

The OCEI coordinates the pre-accession programmes. In PHARE ESC, the OCEI's role has evolved from hands on implementation tasks to a more consultative role on projects fiches and a liaising role with the European Commission. The administrative weakness in regional development policy implementation, in terms of the capacity of the Ministry for Regional Development and Construction (MRDC) during its existence, meant that the OCEI primarily checked project fiches and assisted in the management of programmes (derived from an interview with Adam Sadownik: Warsaw September 27, 2001).<sup>91</sup> In terms of drafting the NDP and National Strategy for Regional Development, the input of the line ministries and the OCEI was substantial, often at the expense of the MRDC. The more consultative role of the OCEI has also grown out of the integration of regional development policy into the Ministry of Economy. For ISPA, the OCEI is the National ISPA Coordinator (NIC). The NIC coordinates the management of EU funds in the Ministry of Environment and the Ministry of Infrastructure. This is an important role in the particular set-up of ISPA. For SAPARD, the coordinating role of the OCEI is very minimal. Moreover, it is not clear what will happen to the expertise and capacity built up in the OCEI after accession, with the introduction of Structural Funds.

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<sup>91</sup> This point is also confirmed for 'Twinning' by interview comments from Zuzanna Kierzkowska: Warsaw September 27, 2001.

The Ministry of Economy, as managing authority, will assume most coordination functions associated with the Community Support Framework. This role consists of: the delivery of implementation data to the European Commission on the progress of implementation of the operational programmes; preparing the operational programmes; arranging mid-term and ex-post evaluation; ensuring that all authorities participating in the management of assistance maintain a separate accounting system for Community funds; ensuring financial control and correctness of financial procedures; preparing an annual irregularity report; and ensuring that Community rules on public contracts are adhered to (CEI NDP 2002, p. 100). Additionally, through the operational programmes, the Ministry maintains an important implementation function.<sup>92</sup> On the broader relationship with the regions, the Minister of Economy according to 'Act on Regional Development Support' coordinates all requests, regional strategies, and voivodship programmes with the national strategy. The Minister signs the specific financial assistance contract with the territories. The monitoring and evaluation of the support programmes and the voivodship contract implementation takes place in the National Monitoring Committees. The Minister is the chair of this Committee.

In short, the institutional set-up for decision-making on Structural Funds was consolidated within the Ministry of Economy, with a minimal say for the regions. For instance, the Regional Steering Committee, an institutionalised form of social participation<sup>93</sup>, was late in being constituted and met very infrequently. Moreover, consultation at the national level was also limited. Agnieszka Kapciak points out the national steering committee for PHARE regional development does not exist as yet and therefore has never met (Interview with Agnieszka Kapciak: Warsaw July 17 2002).

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<sup>92</sup> In Structural Funds, the Ministry of Economy would be responsible as managing authority for the 'Integrated Regional Operational Programme', 'technical assistance', the sectoral operational programmes on 'the improvement of competitiveness of the economy' and through its Labour and Social Affairs mandate for the sectoral operational programme on 'human resource development'. The remaining sectoral operational programmes, namely the programme on 'restructuring and modernisation of the food sector and development of rural areas', the programme on 'fisheries', and the programme on 'infrastructure' would be managed by the Ministry of Agriculture and Rural Development (first two) and by the Ministry of Infrastructure respectively (CEI NDP 2002, pg. 98).

<sup>93</sup> It consisted of local administrative units, such as the gminas and powiats, economic and social partners, and representatives of regional administration.

## 2.3 Exercising Financial Control

A second centralising component in EU programming was the financial control requirement. There are two main parties in managing the flow of funds in regional development grants, the Ministry of Finance at the national level and the Voivod at the regional level. In the case of the pre-accession funds, the National Fund, an administrative department in the Ministry of Finance, controls the flow of financing. The National Fund was created in 1997 to support the National Authorising Officer (NAO), a Deputy Minister of Finance. Previously, the NAO, though based in the Ministry of Finance, was independent in the government plenipotentiary for EU funds transfer. After October of 2001, the NAO was integrated within the Ministry of Finance and supported by the National Fund. The National Fund aims to improve the financial procedures, in terms of financial control, and to manage absorption of foreign aid.<sup>94</sup> The National Fund contains three units: a transfer monitoring unit; an absorption unit making transfers; and an accounting unit.

Before 1997, there was no legislative framework for the management of foreign aid. Agnieszka Kazmierczak, Deputy Director of the National Fund, points out that foreign aid was not recorded in the public budget, as it had a tax-exempt status (Interview with Agnieszka Kazmierczak: Warsaw, December 22 2002). Moreover, various tax laws had different definitions on how foreign funds should be treated. In 1998, the 'Law on Public Finance' defined foreign funds as public funds and placed them in the budget. This was also facilitated by the system of co-financing that the EU introduced, whereby the national or regional budgets would have to contribute part of the funding of programmes. However, EU funds had different procedures from other public funds, due to the differential treatment of diverse grants within the different departments of the Ministry of Finance.

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<sup>94</sup> The consolidation of payment functions within the Ministry of Finance has also been acknowledged by the nomination of the Ministry as the sole payment authority in the institutional set-up for the implementation of Structural Funds after 2004. It is expected the Ministry of Finance will devolve some payment functions, which will require the setting up of independent payment units within the ministries and voivodships (CEI NDP 2002, pg. 100)

The creation of the National Fund has had effects on budgetary processes. Though there are different procedures for EU funds and the Polish budget, National Fund procedures have initiated the consolidation of the four levels of the state budget. The problem was nobody really knew how much money there was (Interview with Agnieszka Kazmierczak: Warsaw, December 22 2002). Consolidation has also occurred in grant-giving procedures. Dariusz Szewczyk points out the difficulties for the Polish Agency for Regional Development (PARR) before October 2001 to work with 80 different sources of financing, often having different procedures (Interview with Dariusz Szewczyk: Warsaw, January 22 2002).

However, Szewczyk also points out that changing requirements of EU funds (50 to 60 requirements were new in the 2001-2002 PHARE ESC programming cycle) not only make it difficult for the regions to comply, but also create incompatibilities between the programming requirements and the Polish financial regulations in which they should be embedded.<sup>95</sup> Kazmierczak notes financial procedures in the project cycle have the clear potential for straining relationships with the implementing agencies (Interview with Agnieszka Kazmierczak: Warsaw, December 22 2002).

This potential came out in the dispersal of funds. The foreign funds, agreed to in the Financing Memorandum, are kept in the National Fund account under the NAO. From there, they are dispersed to the current account of the state budget. For PHARE ESC, they are then dispersed under supervision of the Programme Authorising Officer (PAO) to a cluster of projects. The implementation agencies normally submit a report in advance to apply for funding. Before 1997, this request had to be filed 6 months in advance, whereas the Polish budget only demands 10 days for such requests. A compromise solution of 1 month is now in effect. However, implementation agencies often have liquidity problems in the current system, as ad hoc needs do not always correspond to the system of financial transfers. In ISPA, there are sub-accounts created in the state budget, over which the Sectoral Authorising Officer (SAO) has authority. Funds are directly transferred from there to the project accounts of the beneficiaries. For SAPARD, funds are transferred from the National Fund to the

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<sup>95</sup> Piotr Dudek points to the many accounting systems for different grants the regional authorities have to operationalise as a main problem in implementation (Interview with Piotr Dudek: Krakow July 19 2002).



ARMA (Agency for the Restructuring and Modernisation of Agriculture) and then distributed in zloty to the farmers. The ARMA makes monthly reports listing the projects and amounts paid to individual farmers (Compiled from an interview with Beata Kudcza: Warsaw, January 22 2002). Three characteristics are problematic for implementation agencies: the centralisation of the system without intermediaries; frequent changes in procedures; and the lack of flexibility in the application for funding.

Finally, audit became a key element of financial management. Audit procedures required an amendment to the 'Act on Public Finance', also because there is no difference in the Polish language between 'audit' and 'control'. The new amendment mandated the creation of audit units at all levels of government (Interview with Agnieszka Kazmierczak: Warsaw, December 22 2002). Audit would be organised using central guidelines, but leave freedom to the agencies and ministries in setting up the audit. Some agencies would be exempt. Those agencies are nominally not in the public sector. Obviously, the absence of audit units in certain implementation agencies remains a problem for the European Commission. The Commission preferred to have such units excluded from the project cycle (see the Cooperation Fund in 'twinning' in section 2.6). Audit is coordinated in the Ministry of Finance with help of the Chief Accountant. It is estimated 13,000 employees will be needed to provide audit capacity.

The EU preference in financial control is obvious. Commenting on the central role of the Ministry of Finance, Kazmierczak reports, 'European auditors prefer to have their reports in Warsaw, outside of Warsaw it gets too wild' (Interview with Agnieszka Kazmierczak: Warsaw, December 22 2002). These preferences allowed the Polish executive to centralise the implementation of regional projects. At the regional level, as stated earlier, the Voivod is responsible for monitoring the management of foreign funds. Moreover, central agencies would take over more implementation tasks, as these agencies had more capacity to deal with the complex EU requirements.

## **2.4 PHARE ESC Implementation**

### **2.4.a Consolidation of Implementation within the PAED**

The Polish Agency for Enterprise Development (PAED) was a transformation of the Polish Foundation for Small and Medium Enterprise Promotion and Development, which operated from 1996 to 2000. The PAED was formed in 2001 and is subordinated as a government agency to the Minister of Economy. In October 2001, the main national development agency, the PARR, was incorporated within the PAED. This development was in line with the consolidation of economic management, which also saw the incorporation of the MRDC within the Ministry of Economy (see section 1.3). The new wider mandate for the PAED would be to implement 'economic development programmes, especially in the areas of small and medium-size enterprise development, exports, regional development, job creation, human resources development and counteracting unemployment, as well as promotion of modern technologies' (taken from PAED 2003). Activities of the Agency are financed from the state budget and European Union funds. The consolidation of the implementation agencies not only fit into the preference, expressed by the European Commission in the PHARE Management Reforms, to limit the number of implementation agencies and to integrate implementation agencies closer to ministerial budgetary resources, but also to develop a more limited programming focus on economic and social cohesion programming, through the introduction of PHARE ESC in 2000. About half of the total 340 million euro allocation of PHARE 2002 will be taken up by the human resource and SME development programmes. PHARE ESC put human resource and SME development at the forefront of regional development. The PAED was better placed to administer these programmes (EC, Regular Reports 2002, p. 14).

The PARR was a treasury foundation, set up under a mandate of the Minister of the Treasury in 1993. From 1996 to 2000, the OCEI was the supervisory body for the PARR. Oversight from 2000 until October 2001 was provided by the Ministry for Regional Development and Construction (MRDC). Its mandate was to:

- assist and promote all types of initiatives launched for the benefit of the economic development of regions;
- support the development of information on regional development;
- participate in the establishment of financial institutions promoting regional development ( PARR 'About Us' 2001).

The PARR, an independent treasury foundation, had experience in implementing Struder programming.<sup>96</sup> It took control over PHARE ESC implementation. The PARR had as mission to 'set up an entire institutional system for implementing regional development policy in Poland, according to the criteria established by the European Union, and complying with the requirements of Structural Funds' (PARR 1999, p. 78). However, this coordinative function was difficult without the support of a central agency or ministry to draft national regional development policy and to coordinate the partners on the national and voivodship levels. The agency functioned further as a unit that gave relevant ministries and local government advice and information on regional development policy (functions derived from interview with, Dariusz Szewczyk: Warsaw, January 22 2002). Its set-up was a reflection of the fragmented nature of regional development policy coordination and implementation before the PHARE Management Reforms.

The coordinative and advice functions of the PARR had been a reaction to a vacuum in regional policy planning. However, this vacuum had been addressed in 1995-1997. The creation of responsibilities in the Council of Ministers in regional policy coordination and the emergence of the Ministry of Economy, the main authority in the coordination of Structural Funds, filled this vacuum. This evolution was also obvious in the differences in the composition of the supervisory boards between the PARR and the PAED. For the PARR in 2001, The Ministry of the Treasury appointed the Management Board after a motion by the Minister for Regional Development and Construction. The PARR's board aimed to involve all governmental stakeholders in regional development. The upside of the inclusion of a broader group on the board is the possibility of wider coordination. By giving the ministries a stake in the management of the PARR, the coordination between the ministries concerning regional development policy might prove easier. On the downside, giving more actors

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<sup>96</sup> PHARE Struder was a precursor to PHARE ESC programming(see PARR 1999 and PARR 2000)

a say could also lead to a fragmentation in the national set-up with competences of cross-sectoral bodies curtailed. The close involvement of the Ministry of Economy and the Ministry of Labour and Social Policy went at the expense of the competences of the MRDC in the drafting and monitoring of policy (Interview with Adam Sadownik: Warsaw September 27, 2001). In contrast, the PAED's supervisory board consisted mostly of representatives of the Ministry of Economy. However, a novelty is that local representatives and employer and employee representatives are also included (see list PAED 'Supervisory Board' 2003). This development, though a consultative arrangement, seems to be in line with the 'partnership' requirement of the European Commission.

In 'partnership', the question was to what extent the project cycle<sup>97</sup> could rely on the regions (voivodships). The identification of projects was mostly a regional competence. However, decentralised competences in policy planning, monitoring and coordination lessened with subsequent programming cycles in PHARE ESC. PHARE ESC 2000 worked primarily on the voivodship level, whereby each voivodship submitted an operational programme. This operational programme broadly set out the guidelines for ESC implementation. The programme had ranges for its priorities of 9 to 14% on the development of human resources, 24 to 42% on assisting manufacturing, and 48 to 66% on infrastructure development (CEI NDP 2002 p. 72). PHARE ESC 2001 focused on the 8 most disadvantaged voivodships. These 8 voivodships submitted operational programmes, focusing 50% of funds on SME

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<sup>97</sup> Marshal offices on the voivodship level receive the project applications from municipalities or enterprises. This process is responsible for 90% of applications. The departments process the applications and forward these to the Voivodship Management Board. The Voivodship Management Board signs off on the criteria, if they meet the needs of the regional development plans of the voivodship. These project proposals are forwarded to the Ministry of Economy by way of the PAED, where the PAO for regional operational programmes is based. The proposals or project fiches are scrutinised against the procedures outlined by the Commission and against the strategy identified in the National Strategy for Regional Development and the NDP. Dariusz Szewczyk, then CFO of PARR and now assistant to the CEO of the PAED, comments that aside from dealing with the lack of quality of some project applications, the PARR used to assist in aiding regional self-government in trend-spotting of EU preferences in programming (Interview with Dariusz Szewczyk: Warsaw, January 22 2002). It is estimated that in the current database for the Integrated Regional Development Operational Programme and the Cohesion Fund only 200 out of 600 proposed projects are properly prepared (Grosse and Olbrycht 2003a). Once the European Commission approves the project cycle, the PAED takes on the implementation responsibilities in terms of contacts with beneficiaries, tendering, payments, and monitoring. Financial control at the regional level for all programmes and Voivodship contracts rests with the Voivod. A representative of the Voivod's office is the Deputy PAO. This representative authorises payments and monitors the utilisation of aid.

development and the other 50% on the development of human resources.

Interestingly, PHARE ESC 2001 also had a provision that a national programme for regional development would be implemented by the then Ministry of Labour and Social Policy. PHARE ESC 2002 was different for two reasons. First, it relied more heavily on sectoral programmes (implemented by the line ministries) and introduced one integrated regional operational programme, rather than the 16 different voivodship operational programmes. The two additional sectoral programmes were compatible with the two priority axes in the NDP, human resource development and the enhancement of the competitiveness of the economy. Secondly, the programming cycle was multi-annual indicative rather than annual. This move provided some additional continuity in the programming cycles. It also meant that PHARE ESC 2002 would be the template for Structural Funds.

Both changes in PHARE 2002 programming were directly related to a choice of programming structure, which more directly reflected the institutional features of Structural Funds. The NDP is quite direct on this level stating, 'it is important to introduce the same types of operational programmes that will be implemented after Poland's accession to the EU, use similar arrangements for their implementation, monitoring, control etc..' (CEI NDP 2002, p 73) The management of sectoral programmes occurs in the Ministry of Economy and the Ministry of Labour and Social Affairs (now one ministry). In both cases, the PAED is responsible for implementation as an intermediary body. A PAO is appointed in both ministries and this PAO chairs the respective sectoral monitoring committee. Officials in the Ministry of Economy indicate the one integrated regional operational programme is easier to manage and control than 16 different regional programmes (Interview with Jaroslaw Orlinski: Warsaw July 17 2002 jointly with Iwona Brol and Agnieszka Kapciak). However, local officials feel that the regional input function in national and sectoral programmes has diminished in favour of a more prominent role for the respective departments in the Ministry of Economy and the PAED (Interview with Piotr Dudek: Krakow July 19 2002). The prominent role of the central units might also be explained through John O'Rourke's observation that regions' capacity for DIS (the Decentralised Implementation System) had never been tested (Interview with John O'Rourke: Warsaw, January 21 2002). The Polish answer was to use the discretion in the set-up of PHARE and Structural Funds to attach more weight to

sectoral programmes and diminish the role of regions in the drafting and implementation of programming. PHARE programming only reinforced this tendency.

The tension between regional actors and the PAED is further exhibited by the creation of regional networks by the PAED to support its activities. Early PHARE programming had been more inclusive of regional partners and in many cases relied on bottom-up initiatives. The PAED's predecessor, the PARR, mostly worked with a network of 10 regional labour offices for help with implementation. The PARR coordinated not only the 4 main sectoral ministries, but also about 25 institutions on the voivodship level (Interview with Dariusz Szewczyk: Warsaw, January 22 2002). The PAED limited involvement to two regional networks. The first network is the National SME Services Network (KSU). This is a group of 150 co-operating business-counselling centres all over the country. Most of the member-organisations are regional and local development agencies, business support centres, industrial and commercial chambers, and local associations. Constituents are not-for-profit entities, providing services directly to SMEs. These entities operate under an accreditation system, which guarantees the maintenance of high standards in their advisory, training, information, and financial services. The second network is the system of Regional Financing Institutions (RFI). These are mostly regional development agencies. The PAED has nominated one RFI per voivodship for PHARE ESC programming (Interview with Pawel Czyz: Warsaw, July 17 2002). These networks are defining new roles for local and regional agencies involved in business advice and regional development. Clearly, these RFIs limit the role of the regional development agencies.<sup>98</sup> The RFIs will help in the identification of projects, write proposals, or advise on project applications. However, the RFIs cannot be beneficiaries of PHARE programming. This limited role brings problems for organisations, whose statutory roles often include the pursuit of commercial activities such as lending, property management, and consulting. Further these are organisations that are often beneficiaries of not only PHARE but other assistance programmes (Interview with

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<sup>98</sup> Regional development agencies were mostly capitalised in the early 1990s by the Industrial Development Agency (IDA), a combination of bankers, chambers of commerce, and a variety of economic and social associations. They are non-governmental organisations linked to the voivodships, with the aim to produce regional development and assist the public executive in regional development programming (Kozak 2001).

Malgorzata Kos: Krakow July 19 2002). In essence, the development of the PAED network, which incorporates the regional development agencies, limits the core activities of the regional development agencies. This observation also fits into views of officials at the Ministry of Economy, who see the role of regional development agencies mostly as giving 'support' and 'advice' in programming (Interviews with Jaroslaw Orlinski: Warsaw July 17 2002 jointly with Iwona Brol and Agnieszka Kapciak).

## **2.4.b Characterising the Institutional Set-up**

Centralisation of implementation was a pattern in the process of preparing for Structural Funds implementation. In this preparation there existed an emphasis on sectoral programmes, which account for 70% of the budget,<sup>99</sup> and on the reduction of regional operational programmes from the 16 regional programmes to one integrated programme (see also DG Enlargement, PHARE Review 2000, 2000). The 'PHARE 2000 Review' concedes that 'a mix' of national ministries or agencies can implement regional programmes (DG Enlargement, PHARE 2000 Review, 2000). Hausner and Marody (2000, p. 105) comment that the regional development plans, drawn up by the regional self-governments, were remarkably similar and showed a dependency on EU funds, as they only addressed the five priorities of Structural Funds and did not plan beyond 2000-2006, the current EU budgetary cycle. These regional programmes presented little more than a 'wish list' or aped EU documents, rather than present an integrated or forward-looking development policy. Budgetary processes were often independent of the programming components, due to the compromises between a large number of actors (Interview with Pawel Samecki: Warsaw September 28, 2001). Thus, financial flows, already compromised by ill-defined financial procedures, not always followed programming needs and priorities.

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<sup>99</sup> Distribution of the funds within the respective Sector Operational Programmes from 2004-2006 in mio. euro (source: European Commission 2003): % of total EU Funds available (7635.3 in total)  
–Increased Economic Competitiveness SOP – 17.8 % (1300);  
–Human Resources Development SOP – 17.3 % (1270.4);  
–Transport and Maritime Economy SOP – 8.6 % (627.2);  
–Food Sector Restructuring and Improvement and Rural Areas Development SOP – 14.4 % (1055,0);  
–Fishery and Fish Processing SOP – 2.4 % (178.6)  
–Technical Support SOP – 0.3 % (20).

The development of a more centralised approach to implementation was also a function of the problems with the absorption of funds. In terms of the absorption of EU funds, PHARE uptake had been particularly slow. In 1997, only 17% of funds allocated for inter-regional cooperation were used (Glowacki 2002). In 1998, PHARE funds were reduced by 34%. PHARE 1998 was not fully used up, when the new programming cycle under PHARE 1999 would have started. PHARE 2000-2002 included the creation of capacity to absorb Structural Funds. Delays not only hampered EU projects aimed at administration-building, but also led to the irreversible loss of funds in 1998 (34 million euro) and in 1999 (Kaczorowska in Warsaw Voice, 16/12/2001). This fact produced closer attention of the European Commission to the project cycle. Both the Polish executive and the Commission focused on finding ways to ensure administrative capacity existed to manage EU funds (Interview with Jaroslaw Orlinski: Warsaw July 17 2002). This effort initially focused on the core executive and the Ministry of Economy.

The more centralised role of the Ministry of Economy, in drafting the Integrated Regional Development Operating Programme, was seen as a way to address the deficiencies in regional planning. The regional partners (for instance the RDAs) found themselves incorporated in new networks, which limited their involvement in the implementation of the pre-accession funds. Regional partners retained their role in project selection, but this role was defined and financed by the central state. Additionally, the emphasis on financial control has further consolidated the management of financial flows in specialised departments within the Ministry of Finance.

In co-financing, territorial self-government would have to adjust its expenditure to fulfil its co-financing requirement, estimated at 1 billion euro (see also table 12). To this end, initiatives at the central government to boost limited regional resources included: awarding a larger share of the income tax to the regions; allowing the municipalities to increase their budget deficit; and the extension of 6 billion zloty in state guarantees by the Ministry of Finance to help the co-financing of the regions (Grosse and Olbrycht 2003a). However, enterprises are also expected to contribute to co-financing, despite their limited budgets. Further, the 11.2 million zloty earmarked



for expanding the civil service's personnel by 600 administrators for dealing with funds does not extend to the regions, which have to finance their own capacity planning. In all, there was a limited desire among national administrative actors to share national budgetary resources. Hausner and Marody (2000) comment that with a lack of decentralisation of public funds and centralisation of the application of funds, regions would struggle to meet the requirements for EU funds implementation. The Polish government effectively centralised the management of EU funds.

## **2.5 ISPA: Consolidation Perhaps?**

In ISPA, a consolidation of implementation responsibilities remains possible. For ISPA implementation, the Polish executive aims to set up two separate implementation tracks in the Ministry of the Environment, Natural Resources and Forestry (MOE) and the Ministry of Transport and Maritime Economy (MTME), from October of 2001 part of the Ministry of Infrastructure (MoI). The OCEI functions as the National ISPA Coordinator (NIC). The SAOs are responsible for implementation and the supervision of implementation (CEI PNDP 2002, p. 92). The OCEI, in the case of environmental projects brought forward by the MOE, checks and forwards the decision on project applications to the European Commission. For transport projects, aside from the functions described for environmental projects, the OCEI also gives an opinion on the application (for regulations see EC ISPA Programming and Implementation in Poland, Working Document of Office of the CEI, 2001, p. 10)

The implementation track in the MOE has the following characteristics. Under the Agreement of the September 3, 1999 on the National Fund of Environmental Protection and Water Management (NFEP), the Minister of Environmental Protection, Natural Resources and Forestry (Minister of Environment) defers responsibilities on dissemination of information on ISPA, evaluation of project applications, collection of documentation in applications, assessing and checking applications against national selection criteria and European Union regulations, and implementation of projects to the National Fund for Environmental Protection (NFEP) (OCEI, ISPA Programming and Implementation in Poland, 2001, p. 5). The NFEP receives the application from

the beneficiary, normally a commune or local authority and gives an opinion on the application. This opinion is forwarded to the Department of Foreign Funds and Management within the MOE and to the Steering Committee (OCEI, ISPA Programming and Implementation in Poland, 2001, p. 6). Transport projects tend to have a different implementation structure. The final beneficiaries are also the implementation agencies. This situation also seems to improve the quality of applications, compared to the environmental track (Interview with Pawel Samecki: Warsaw September 28, 2001. The selection criteria, in terms of requirements and time schedule, are decided by the Minister of Infrastructure in consultation with the top transport management of the MoI and the sectoral implementation agencies. The Department for Finance and Economic Analysis in the transport section of the MoI processes the applications from the sectoral agencies.

Concerning the future of ISPA, Pawel Samecki believes that the NFEP will be phased out regardless of the timeline of accession in 3 years (Interview with Pawel Samecki: Warsaw September 28, 2001). He sees this shift of competences as a wider programme of consolidation of agencies, funds, and foundations aimed at using the capacity of sectoral ministries built around a PAO or SAO. At this point, the PAO is based within the OCEI. Most views seem to indicate that the PAO should leave the OCEI (Interview with Pawel Samecki: Warsaw September 28, 2001, September 2001; Interview with Zuzanna Kierzkowska: Warsaw September 27, 2001). The options are placing the PAO outside of public administration (Interview with Zuzanna Kierzkowska: Warsaw September 27, 2001) or placing the PAO into the sectoral ministries (Interview with Pawel Samecki: Warsaw September 28, 2001). The reason behind the first option is to create a fully independent PAO with a separate capacity. The second option highlights a need to incorporate the line ministries more closely in the project cycle. This discussion is in line with similar considerations involving PHARE ESC. Samecki acknowledges this last change would be a more logical institutional set-up, whereby implementation is again based in the sectoral ministries much like the initial phases of PHARE, be it in a smaller number of sectoral ministries. Two issues remain: a. whether the EC will find such an organisation acceptable; and b. how to organise the consolidation on the core executive level. One plan being investigated is to build a consolidated super-ministry of agriculture that could incorporate the NFEP and other agencies.

## 2.6 Overview of PHARE ESC Implementation

Type of EU program	Implementation Agency	Implementation Task	Link to Ministry	Regional Network	Statutory Purpose
<i>PHARE ESC and CBC</i>	Polish Agency for Enterprise Development (PAED) is a merger of the Polish Foundation for Small and Medium Size Enterprise Promotion and Development (PFSMEPD) est. in 1996 and the Polish Agency for Regional Development (PARD) est. 1993  Some consultation and task-sharing with other agencies Polish Agency for Foreign Investment est. 1992 and Polish Industrial Development Agency est. 1990 (linked to Ministry of Industry and Trade now part of MG)	Implementation of all ESC components of PHARE-PHARE SME Development till 2001 was in PFSMEPD and pilot projects and other ESC regional development programming in PARD	State Treasury Foundation with Link to Ministry of Economy (MG)	Network of SME Services Networks of approximately 150 business contact points throughout Poland  Network of Regional Financing Institutions which are regional implementation units consisting of Training Refund Centre (PRS) and the Consulting and Advisory Point (PKD).	(PAED) est. 2001 The objectives of the Agency include now implementation of economic development programmes, especially in the areas of:  1. Small and medium-size enterprises development; 2. Exports; 3. Regional Development; 4. Promotion of modern technologies; 5. Job creation, human resources development and counteracting unemployment.
	Agency for Cross-border Cooperation	Cross-border cooperation component of PHARE	Link to Ministry of Economy (MG)	Networks in target regions	Cooperation Fund est. 1990, CFCU est. 1996 a Polish non-profit foundation, which supports democratic transformation and fosters economic development. The Fund design and implements development programmes financed by foreign governmental and non-governmental sources. It also provides administrative support to the OCEI
	CFCU in Cooperation Fund with coordination and project evaluation provided by OCEI	Civil society development programmes of PHARE	Independent foundation	Regional contact points	
	The Task Force for Training and Human Resources in Cooperation Fund(TFTHR)  TFTHR was incorporated in the Cooperation Fund in 1990 from the Ministry of National Education	Training programmes under Phare	Same as above	Same as above including National Observatory for vocational Education and Training	
	Agroline in Cooperation Fund (separate from SAPARD)	Agricultural Training programmes under PHARE	Same as above	Same as above	Same as above

### 3. Conclusion

The adoption of EU regional policy in Poland showed two patterns of institutional change: a substantial change in sectoral institutional arrangements and a change in the executive structure.

On the sectoral level, the process of adoption in Poland was similar to the Czech Republic. The ‘misfit’ between EU regional policy and the conceptualisation in Poland of regional development as part of industrial policy has largely been overcome. The reasons for this adaptation were similar to those in the Czech Republic as well. The economic crisis of the mid-1990s had put pressure on the Polish executive to address regional disparities and structural problems. These issues, as stated in section 1.2, had been neglected in regional development planning since the early 1990s. Moreover, regional actors, after the territorial reform of 1998, became more vocal in their demands for regional programming (see Regulski 1999). The support of regional and executive actors, enhanced by the prospect of a greater and wider availability of funds, seemed to facilitate the adoption of EU regional policy and the adjustment of sectoral institutional arrangements, be it in coordination, financial control, and implementation (see sections 2.2, 2.3, and 2.4). However, similar to the Czech Republic, this sectoral adaptation occurred within the context of the Polish executive structure.

However, this observation on sectoral adjustments does not explain the change of the executive structure. Before 1997, the main challenge of the European Commission to the Polish macro-institutional set-up came in terms of the reform of territorial administration or decentralisation. After the PHARE Reforms of 1997, which focused on raising the impact of programming, the Commission demand for wide territorial reform weakened. Rather, the Commission and the EU templates referred to decentralisation as the implementation of EU funds in regions compatible with NUTS 2 classification. Moreover, after the PHARE Reforms, the pre-accession templates produced two other challenges: a focus on central coordination in EU funds management and the reduction (or consolidation) of implementation agencies.

In terms of decentralisation, the national administrative actors aimed to limit a domestic distribution of power to the regions and reduce the operational and budgetary costs of EU programming. Domestic administration had discretion in the process of adaptation, because of a lack of clear prescription in the EU templates on what territorial administration should look like. The 'acquis' was not specific. The NUTS 2 requirements are guidelines for classification, rather than specific requirements. Further, the EU's focus on the absorption of funds meant a reliance on more established administration. This reliance was enhanced by the introduction of financial procedures (co-financing and DIS and EDIS) that favoured central administrative units, such as the PAED. These were units with the experience and expertise to administer these complex programmes. In short, temporal factors further increased the domestic discretion in shaping administration and consequently decreased the potential 'misfit' between the EU requirements on regional policy and the Polish territorial administration. These factors played a role in the Polish regional reform of 1998.

The regional reform in 1998 under the Buzek government amounted to a limited decentralisation. Furthermore, the reform was a fulfilment of a constitutional undertaking. The EU inspired the reform, but its vague templates allowed domestic actors to shape it. Limited decentralisation had five characteristics: 1. the role of the Voivod in the regions gave the line ministries financial control over regional development in the voivodships; 2. the 'voivodship' contracts institutionalised state grants from the Ministry of Economy to the regions; and 3. a limited decentralisation of resources meant reliance in EU co-financing on the central government, which had discretion in the disbursal of EU funds to the regional partners; and 4. the role of the regions was reduced to a consultative role in the drawing up of priorities and programmes. In this way, the EU challenge to the Polish territorial administration dissipated and was averted. Decentralisation was limited.

In terms of the horizontal organisation of the executive, a major consolidation took place in October of 2001 after the SLD-UP election victory. This process consisted of a consolidation of pre- and post-accession regional development policy coordination within the Ministry of Economy and the consolidation of implementation and regional networks in the Polish Agency for Enterprise Development. In terms of coordination,

Pawel Samecki remarks that the integration of EU pre-accession functions in the shape of the PAOs and SAOs back into the line ministries (in this case the Ministry of Economy) was an agenda point in September 2001 (see for instance ISPA in section 2.5). This idea was also introduced to decrease fragmentation in implementation and also to connect programming to budgetary resources (Interview with Pawel Samecki: Warsaw September 28, 2001). A consolidation would also transfer the role of the OCEI in the management of the pre-accession funds to the Ministry of Economy. The coordination of EU regional policy would take place in the Ministry of Economy, which was responsible for sectoral and the integrated regional plans. The Ministry of Finance coordinated funds transfers. The allocation of resources in Structural Funds remained chiefly with the national ministerial actors. This was amplified by the move towards sectoral programmes within the programming of PHARE ESC in the period of 2000-2002 and within the planning of Structural Funds for the period of 2004-2006. These sectoral programmes reduced the emphasis on regional programming and amplified the central role of the Ministry of Economy (and its associated agency, the PAED) in coordination and implementation.

At first sight, this consolidation seems a substantial institutional change of the executive structure. This was not expected in a policy sector that the research had assumed would provide a 'moderate challenge' (see chapter 3). However, this institutional change can be explained through looking at processes of domestic administrative reform. This consolidation was in fact a continuation of the administrative reform started in 1997. As explained in section 1.3 of this chapter, the administrative reforms of 1997 were a reaction to longstanding calls for portfolio reform and to the economic crisis of the mid-1990s. This process involved the strengthening of the coordination competences of the Council of Ministers and the Prime Minister and the re-alignment of the ministries. In this way, the reform of the executive structure in the period of 1996-1997 was largely an endogenous process. The reform of 2001 was a continuation of this process. However, in this case, the EU requirements (public finance reform) and focus on absorption were used by executive actors to promote and enhance these reforms.

The main effect on the macro-institutional configuration was the institutional enhancement of executive actors. The Prime Minister and the Minister of Economy,

also a Deputy Prime Minister, achieved control over the costs of EU programming through the centralisation of the management of EU funds. Moreover, the top-down centralisation of financial procedures strengthened the role of the Ministry of Finance in funds management, in particular its National Fund unit. The regions, given the centrist nature of the state and the unclear and evolving EU template, proved to have little 'capacity' in taking advantage of the opportunities associated with EU funds.

# **Chapter 7: The Management of Agricultural Reform and the Administration of the Pre-accession Process in the Czech Republic**

## **1. Introduction**

The EU challenge to the Czech agricultural administration was twofold. First, Czech administrators had to adopt a dense regulatory policy, while the post-transition agricultural policy had focused mostly on liberal policies under Vaclav Klaus. This was a substantial 'misfit'. These liberal principles were also in reaction to the relatively limited structural problems, in terms of both the size of farms and the structure of agricultural production in the Czech Republic, compared to other CEECs. The adjustment to a more interventionist policy not only meant an expansion of the instruments to be distributed and administered under CAP and SAPARD, but also an expansion of the domestic budget.

Secondly, the adoption of this intervention policy also meant a challenge to the macro-institutional context. The challenge involved the formation and transformation of domestic administration to support the dense regulatory and interventionist policy of the Common Agricultural Policy. This challenge could affect the macro-institutional configuration and the institutional position of various national executive actors.

Section 2 will look at the reform of Czech agriculture in the post-transition period and the development of an agricultural support administration (in section 2.4). Section 3 will look at the development of an EU-specific administration in the context the systems of market intervention, direct payments, and SAPARD.

## **2. Post-transition Agricultural Reform**

There are three main periods of domestic reform and associated administrative development: 1. the immediate response to the problems of transition; 2. the liberal



policies pursued by Klaus starting in 1991; and 3. the redirection of agricultural policy in 1997.

## **2.1 A Response to Transition**

The main aim of agricultural policy in the period of the early 1990s was to safeguard farmers' income and overall agricultural production from the effects of transition. The major instruments were (compiled from Csaki, 1999):

- Price support measures with fixed and guaranteed prices coupled to export subsidies;
- Financial support for newly established private farms;
- Direct payments to farmers in less favoured areas to encourage specific production.

In the 1990s, the Czech Republic had a rather modest level of agricultural support, with the exception of the transition period of 1990-1991. In this period, pre-transition intervention, such as the extension of soft credits, prevailed (Doucha et al, 1999). Moreover, the government relied on direct support to farms, mostly in the form of grants. Market intervention and subsidy support programmes had been administered by the respective state ministries of agriculture in the Federation and in 1992 by the federally created Federal Fund of Market Regulation in Agriculture. The Czech Producer Subsidy Equivalent (PSE) percentage<sup>100</sup> in 1990 was 48, similar to the EU. However, by 1997, the PSE had fallen to 10 compared to the EU's 38 (OECD, 1999). Similarly, the Czech Republic had relatively low custom tariffs compared with other transition and EU countries, as the Czech Republic had implemented its World Trade Organisation (WTO) commitments in 1995. In the 1990s, the Czech Republic's average tariffs were 2.5 times lower on average than those of the EU (Doucha et al 1999). Agricultural support measures decreased during the 1990s in the Czech Republic. Liberal policies had abolished most direct subsidies and tariffs.

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<sup>100</sup> The Producer Subsidy Equivalent gives the percentage of all support measures in the final production price of an agricultural producer.

## 2.2 Post-transition Liberalisation under Klaus

From 1991 onwards, liberalisation and macro-economic stabilisation programmes dominated agricultural reform. There existed within this economic transformation a degree of consensus among major parties about how property and the agricultural sector in general should be reformed. The Civic Democratic Party (ODS) of Vaclav Klaus rejected a policy of permanent grants, subsidies, and protection from international trade. Klaus did not see the agricultural sector as being different from other sectors. In the early 1990s, the ODS wanted to introduce liberal prices in the agricultural sector by resolving privatisation issues, creating private management, and reversing the centralisation of price-setting. The fixing of prices had led to high costs and low production quality. The reforms aimed to produce an incentive system and market framework for producers, processors, and traders. Further, the reforms aimed to facilitate the privatisation of the means of production and create the basis for regulation and institutions to enhance the structure of the market (Csaki et al, 1999). To this end, the ODS envisioned a stronger rural economy, through decentralised decision-making and bottom-up support for rural development. However, the market and private property were central. The ODS was the natural enemy of local monopolies, the collective farms and the bureaucracy that supported this collective farming sector (Pospisil 1994).

After the parliamentary election of 1992, following the break-up of the Czechoslovak Federation, the early coalition partner of the ODS, the Christian and Democratic Union (KDU-CSL), provided the Minister of Agriculture until 1997. This post was filled by the influential Josef Lux. The basis of the agricultural policy of the Czech Republic came out of this party's platform (Pospisil 1994). The main tenets were privatisation through the restoration of ownership, the transformation of collectives, subsidies for rural development and mechanisation, and marketisation in the sector. Regulation primarily supported the setting up of markets. The general policy of the KDU-CSL for agricultural reform was for 'family farms' to exist next to transformed cooperatives.<sup>101</sup> It was clear that the agricultural support network would only rely on

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<sup>101</sup> The KDU/CSL was more explicit in its support for family farms than the ODS (Pospisil 1994).

minimal market intervention through price support, trade protection and tax redistribution. Lux advocated a balance between the interests of consumers and those of producers, rather than extensive protectionist policies (Hathaway and Hathaway, Conclusion, 1997). In 1995, the 'Agricultural Policy of the Government of the Czech Republic up to 1995 and for a Further Period' affirmed how the government viewed agricultural support:

'The government is aware of the need for a continuing policy of financial support for agriculture. Government subsidies will be targeted in such a way as to support transformation of agriculture in the direction of quality and a market of production which is genuinely saleable, and not to preserve the current survival of non-profitable agricultural production in a number of agricultural concerns and areas (MoA 1994)'.

The reform had three main consequences: 1. a relatively fast land reform that safeguarded the management of agricultural land<sup>102</sup>; 2. a policy of price liberalisation that failed to address farm indebtedness and contributed to the decrease of farmers' income in real terms; and 3. an ad hoc approach to agricultural support, due to a limited budget and lack of continuity in intervention.

Land reform was started in 1992. Reform targeted the collectives and state-owned farms. In communist times, large consolidated farms represented a local monopoly, through which a farm would virtually control a local village (Doucha et al, 1999). Collectives were reformed by 1993 and state farms by 1994. The two main instruments of reform were restitution and compensation (Chaplin 2001). For collectives, memberships had to be cancelled or compensated for. State farms were privatised in two phases in 1992 and 1994. Restitution would come first, followed by further privatisation of non-land assets. The state concentrated the state agricultural assets in a Land Fund, as part of the Fund of National Property under the competency of the Ministry of Agriculture, to facilitate faster dispersal of state assets (Doucha et al 1999). Land reform in the state-owned sector was complete in 1995. In 1995, collectives occupied 43% of the total agricultural area in the Czech Republic compared to 61% before transition. State farms occupied 2% of land in 1995 compared to 38% before transition. The difference was made up by company

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<sup>102</sup> The Czech Republic had a structural advantage, in terms farm size and the management of land, compared to the other CEECs

structures, such as joint-stock companies and private farmers (source: DG Agriculture 1998).

The result was that the average size of farms in the Czech Republic remained quite large, about 75% of land is occupied by farms above 1000 hectares (ha.) (Csaki et al 1999). In cases of restitution and sale to private buyers, ownership tended to be quite fragmented. However, even here the fragmentation of average farm sizes has not occurred. The KATO project in 2000 showed a remarkable continuity in land ownership and the management of agricultural land for the Czech Republic, also driven by the prominent role of the state (KATO Project 2000). Part of this continuity is the prevalence of collectives, with between 40- 44% of agricultural land. These collectives have barely been restructured in terms of management. Even, where ownership was fragmented, management persisted. Foreign ownership was not allowed and limited in lease structures from the Land Fund.<sup>103</sup>

Further, a policy of liberalisation did not address the level of indebtedness in the agricultural sector. Slaisova (1996, p. 2) points to the level of indebtedness and the absence of a system of using land as a collateral for mortgages. This was part of a wider institutional failing in the development of an adequate land market.<sup>104</sup> Many of the transformed collectives and newly privately held farms are still burdened by the loans from the communist era. These loans were often granted as soft credits. The claims on these loans were initially held by the Consolidation Bank, a special government body. In 1999, this debt was estimated at 50 billion CZK (Csaki et al 1999, p. xvii). An important contributing factor to the indebtedness was the Klaus government's support of trade and price liberalisation. This liberalisation initially produced a cost/price squeeze, where input prices rose far more quickly than output prices.

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<sup>103</sup> The salience of domestic ownership as a political issue has come to the foreground more recently, as much of the ownership of the processing industry has fallen in foreign hands. In response, the state conducted a voucher privatisation scheme in the early 1990s, whereby the state held on to strategic stakes of 20 to 25%. These stakes were then later in 1994 transferred through the Fund of National Property to the Support Guarantee Fund for Farmers and Forestry (SGFFF).

<sup>104</sup> For a more comparative and comprehensive view on credit problems and policies during transition in the CEECs, see Swinnen and Gow, 1997.

Finally, the Klaus government, in contrast to the Polish government in the next chapter, only introduced limited intervention programmes. These were mostly credit-related or grants, rather than price intervention in input markets. Price intervention, through price support and quota setting, focused on ad hoc intervention in the beef and dairy sectors.<sup>105</sup> In terms of credit problems, the government instituted a guaranteed loan scheme to ease the debt burden. However, no systematic rural development programme was drawn up.

## 2.3 A Redirection of Agricultural Policy

After the ODS-led coalition of Vaclav Klaus resigned in 1997, the initial period of liberalisation ended. The government policy statement of the Klaus government in 1996 had focused on: increasing competitiveness, liberalisation of trade (protection from subsidised imports), support for rational agricultural activities, subsidies and tax relief for investments, modernisation through the Support and Guarantee Fund for Farmers and Forestry (SGFFF), stabilisation of ownership structures and support for private initiative in agriculture (ODS, ODA, KDU-CSL Government Policy Statement 1996). Two factors changed agricultural policy. First, the worsening of the macro-economic climate in the mid-1990s undermined liberal policies. Secondly, it was clear that government proposals were insufficient for farmers' groups, which felt that the interests of farmers were not systematically represented in the Czech government. In October 1998, the liberal policy came under pressure as the Czech Agriculture Chamber organised protests (a strategy copied from Polish farmers) against the rising domestic food prices, the high level of farm imports that threatened farmers' livelihoods (Weinstein, Prague Post, 11/11/1998) and the levels of indebtedness in Czech agriculture. This strategy targeted the end of liberal policies, by putting pressure on the policy agenda of the caretaker government of Tosovsky and later the new minority government of Milos Zeman.

The CSSD government under Milos Zeman redirected agricultural policy and expanded the budget available for the market intervention and support network. The

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<sup>105</sup> Some production support through market regulation bodies such as the SFMR in the wheat and beef sectors remained necessary in the early to mid-1990s, mostly due to political pressures (Swain 1994).

agricultural programme of the CSSD in the early 1990s had been in favour of privatisation and modernisation, but was altogether more interventionist<sup>106</sup> and based on 'equalisation'. 'Equalisation' for the CSSD meant that all forms of ownership in farming should be treated equal by the state, thus aligning itself more closely with the agricultural cooperative sector. This sector had been under pressure from the ODS coalition government. The differences between the CSSD platform and other parties' were part of the 'redistribution' versus the 'market' cleavage between these parties (Krause 1996). The CSSD policy also bridged a gap between the liberal reformers and the more conservative agricultural parties that supported collectives and opposed wholesale privatisation.<sup>107</sup>

The CSSD-led Zeman government sought to complete the tasks of transition, as well as redistribute resources to farmers. In terms of liberal policy, it proposed: 1. to further privatise state-owned assets; 2. to improve competitiveness of agriculture; and 3. to consolidate state farms. Secondly, the Law on Agriculture of 1997 did not produce an integrated rural development programme, but produced interventionist policies, which drew on the instruments designed in the early 1990s. The CSSD policy defined intervention, not primarily as support to the development of the market and an aide to privatisation, but as redistribution. The Law of 1997 facilitated flat payments to nearly all farms. Thus, the major tools for support in the agricultural sector remained: market intervention; credit support; direct payments; and preferential taxation<sup>108</sup> (Csaki 1999). The major differences were an increase in the budgetary

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<sup>106</sup> The intervention ideas consisted of guaranteeing prices through cheap credits, tax relief on property and inputs, transfer of subsidies from the environment to agricultural production, and protectionist measures in international trade.

<sup>107</sup> The Communist Party of Bohemia and Moravia (KSCM) supported the collectives in the early 1990s and small to medium size businesses affiliating themselves with these cooperatives. Interestingly, the KSCM was in favour of introducing EU-style subsidies early in transition in terms of supporting farmers' income. The KSCM also contained nationalist elements from both Bohemia and Moravia. Further, several agrarian platforms were mostly 'policy-statements' (Pospisil 1994, pg. 21). The Agricultural Party (SZ) together with the greens and Czechoslovak Socialist Party formed the Liberal Social Union (LSU), which won 18 seats in 1992. The primary platform of the LSU was to oppose voucher privatisation and support the cooperative farms. Agricultural parties, as the party system has become more clear and stable, have lost parliamentary seats (for party systems in the Czech Republic see Kitschelt 1994; Kopecky 2001; Wightman 1994; Kostecky 2002).

<sup>108</sup> Farmers pay land, property, personal income taxes and in the case of incorporation a share of corporate taxation. Given farmers' income and profits, taxes are low. Moreover, preferential taxation schemes for land and income significantly reduce the tax burden.

level of support in 1998<sup>109</sup>. The main instruments to support farmers in order of magnitude were price intervention, followed by direct payments, with the share of credit support through cheap credits decreasing significantly. In 1998, the support increased 36% nominally compared to 1997 (Csaki 1999, p. 5). The PSE increased from 10% in 1997 to 24% in 1999 (OECD 1999; IAMO 2003).

The more recent coalition agreement (2002) of the Spidla government reflects a more interventionist approach and a balancing act between, on the one hand, compliance with EU regulations and policy and, on the other, the continued restructuring of the agricultural sector, while safeguarding farmer's lifestyles<sup>110</sup>. Further, the budget increased again, mostly due to the demands of EU accession and the institutional framework surrounding CAP and SAPARD. In all, the CSSD produced a more expansive and interventionist agricultural policy than the ODS-led coalition governments. This policy, started in late 1997, constituted a major sectoral reform.

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<sup>109</sup> Budgetary increase in the period from 1997 was still below the equivalent support to the sector in the period from 1991 to 1993 (Chaplin 2001). Additionally, the increase in the agricultural budget was initially checked by the 'Opposition Pact' with the ODS.

<sup>110</sup> Agenda points were:

- 'the "Countryside Revitalisation Programme", to encourage a harmonic development of rural areas, including regional and local specificities;
- a system of subsidies and other measures, to enable fair competition of Czech farmers in the European competitive environment;
- harmonisation of Czech laws required for the full-fledged entry of Czech agriculture to the European Union in the first wave;
- production quota in respect of separate commodities and equal treatment in allocation of direct payments and resources for development of rural areas;
- support to primary agricultural production in production and marginal areas in accordance with the EU joint agricultural policy;
- support to food and processing industries in terms of the maximum safety of food products to the consumer;
- adoption of measures designated to support agricultural exports;
- support primary agricultural producers in their sales cooperatives and organisations;
- complete restitution and transformation processes in agriculture, restore and gradually stabilise ownership relationships in agriculture; to accelerate implementation of land adjustments and the process of sale of state-owned agricultural land; to use the agreed transition period for the transfer of agricultural land to Czech entities farming such land and with the possibility of long-term repayment and agricultural land used as collateral. For purposes of achieving this goal, to establish a "land bank";
- to preserve versatile agriculture on the entire area of agricultural land with significant support to landscape and environment quality maintenance; to encourage non-food utilisation of agricultural production and increase production of renewable sources of energy' (Policy Statement CSSD and coalition KDU-CSL Democratic Union and Freedom Union 2002).

## 2.4 Administrative Management of Agriculture

The changes in agricultural policy and the reliance on market intervention and credit support were also reflected in the institutional set-up in the 1990s. Agricultural agencies were independent state funds, rather than agencies of the sectoral ministry. This set-up allowed such funds to pursue commercial activities, extend preferential credits, manage the privatisation of land, and operate outside of the national budget. However, independence was relative, as sectoral actors, the Minister of Agriculture, and the Prime Minister all vied for influence over the foundations. This dynamic will become clearer in the reforms of the statutes of these funds towards EU accession and especially in the administration of 'direct payments'.

In 1993 after the break-up of the federation, the State Fund for Market Regulation (SFMR) was created in the Czech Republic to replace the Federal Fund of Market Regulation. Its functions included (compiled from Csaki et al 1999):

- Selecting products to be regulated and time period during which regulation applied;
- Setting floor prices for selected commodities and setting quantities of specific quantities to be purchased by the government;
- Export subsidies;
- Licensing of imports and exports.

The SFMR was initially only active in certain markets. In the period of 1994 to 1996, the SFMR was active in wheat and dairy products. After the CSSD election victory in 1997, the SFMR became active in a much wider area covering wheat, dairy, beef, and other arable crops. Also, the SFMR would from 1997 onwards provide interest rate subsidies for the export of a similar range of agricultural commodities. Csaki estimates the intervention expenditures of the Fund increased by a factor of 2.3 from 1997 to 1998, almost exclusively in the fields of price support and direct payments (Csaki et al 1999, p. 15; Csaki 1999). The budget for export subsidies stayed more or less constant. Slaisova (1998) argues that the SMFR was, in this period, functioning as a credit support system through direct payments, rather than just a regulatory agency. The limitations on the national budget also meant that these



intervention programmes would come at the expense of rural development programmes.

In 1994, the Support and Guarantee Fund for Farmers and Forestry (SGFFF) was created to improve farming's access to short and longer-term credits. Credit problems, as explained earlier in section 2.2, were a major constraint on investment in the agricultural sector and depressed farmers' incomes. The Czech reaction was to open a fund in 1994, capitalised with 5 billion CZK. This amount included the shares of food enterprises, which were transferred from the National Property Fund to strengthen its portfolio. A part of the shares had been sold in coupon privatisation to farmers, who sold them on mostly to foreign investors. The SGFFF would deal with the remainder of the shares on the open market (Doucha 1996). The timing of the creation of the SGFFF in 1994 coincided with the privatisation of the non-land state assets in agriculture. The SGFFF was also seen as a vehicle to encourage the emergence of more efficient successor farms to the cooperative farms.

The credit programme of the SGFFF adopted some of the commercial practices proposed by Nallet and van Stolk (1994), whereby commercial banks play a role in the decision to extend a loan or guarantee to a farmer or enterprise and the SGFFF provides a guarantee for that loan. However, this scheme, in contrast to Nallet and van Stolk, did not solely aim to use land as collateral or even was tied in to a land market, outside of privatisation schemes run by the Land Fund. The SGFFF would typically guarantee loans up to 80% and give out interest subsidies on loans up to 70% of the interest on the loan (Chaplin 2001). Moreover, the SGFFF, similar to the SMFR, has also promoted exports through extending interest rate subsidies on export programmes for specific commodities. These loan guarantee and credit subsidy schemes, worth 60 billion CZK between 1994 and 1998, have slowly replaced the interest free loans as vehicles for investment and modernisation in agriculture (Doucha et al 1999).

The Law on Agriculture of 1997 meant a further reduction of credit-related policy. This reduction was coupled to a further decrease in interest free loans. The reasons for scaling back the activities of the SGFFF were the overly complex system for credit subsidies and guarantees and the potential future exposure of the national budget to this type of financial risk. Financial risk in the SGFFF came from: 1. the fund being

extra-budget; 2. the absence of criteria or caps on interest rates for participating banks; 3. the absence of a reserve fund for losses; 4. a lack of guidelines for lenders; 5. the commercial investments; and 6. a lack of guidelines from the government on the activities of the fund (World Bank, 1998). It was estimated that guarantees, indirect debts, soft credits, and quasi-liabilities of the Czech National Bank might amount to 13% of GDP in 1998 (Barta, PHARE-ACE Project 1999). Further, the SGFFF was promoted by the ODS as an investment vehicle to produce incentives for farmers to modernise. This priority was not necessarily shared by the CSSD.

### **3. The EU and Reform of Administration and Policy**

The EU requirements would have three direct effects on the sectoral institutional arrangements: 1. the alignment of market intervention tools; 2. the expansion and redirection of the agricultural budget; and 3. the introduction of a rural integrated development policy under SAPARD.

The agricultural budget unlike the expansion of the budget in 1997 of the CSSD government, which had mostly augmented existing intervention tools and thus reinforced institutional arrangements, concentrated resources (1998-2003) on the two pillars of CAP, market intervention and rural development. This expansion had two results: 1. greater sectoral resources for agriculture; and 2. greater resources for those bodies involved with pillar 1 and 2 of CAP. CAP not so much challenged domestic intervention, but superseded such intervention. Secondly, sectoral competences showed expansion and transformation. A change in the procedures of market intervention would necessarily lead to a transformation of the SFMR. An integrated rural development policy would imply the creation of purpose-built administration, rather than using the SGFFF. Further, implementation of market intervention and rural development would mean the alignment of non-budgetary agencies within the national budget (EU funds were distributed through the national budget). This change would also mean a budgetary actor such as the Ministry of Agriculture would potentially gain more direct control over the agencies, as the previous fragmented set-up could become more consolidated. Finally, the required capacity for implementation of a very procedural policy coupled the emphasis of the EC on 'domestic ownership'

in EDIS, which meant the transfer of operational and budgetary risk in implementation, also indicated that an expansion of competences would necessarily be focused in specialist units or agencies, rather than show a more diffuse implementation across policy sectors and within wider sectoral administration.

In these ways, the sectoral adjustments could affect the executive structure. The Czech executive structure persisted through: 1. the transformation of the SFMR into the SAIF, which remained an independent fund; 2. the placement of the payment agency and IACS in the SAIF; 3. derogations in the direct payments system; 4. limiting the role of the SAPARD Agency to rural development (or isolating the SAPARD Agency) and assigning rural development competences to the MRD.

### **3.1 Transformation of the Administration of Market Intervention**

For the Czech Republic, it became a question to what extent the patchy institutional framework could facilitate accession. Both the SMFR and the SGFFF proved respectively poor foundations for the development of a common market organisation capable of supporting CAP-based market intervention (pillar 1 of CAP) and performing management and payment functions for rural development programming (pillar 2 of CAP).

First, in the Government Act 256/2000 of 2000, the scope of activities of the SFMR was transformed. The SFMR was renamed the State Agricultural Intervention Fund (SAIF). The activities of the SAIF were defined as: ‘intervention purchases; sales of agricultural products and foodstuffs purchased within the framework of intervention purchases; organisation of market by means of production quotas; intervention and compensation subsidies; and financial subsidies support’ (compiled from the SAIF ‘About Us’ 2003). These financial support subsidies can relate to increasing consumption, subsidising storage and sales of agricultural products, humanitarian aid, and environmental products.

Despite its mandate, the SAIF initially maintained a limited regulatory scope. In 2000 and 2001, only two commodities, sugar and food wheat, were classified for market intervention. In 2000, the SAIF did not place any limits on production. In 2001, it

introduced a voluntary set-aside policy for agricultural land and a quota for milk production. Since, the SAIF has received additional competences by decrees, providing for market intervention authority in relation to a number of commodities (EC, Regular Report, 2001). Compensation payments for milk have been instituted since 2001. Further, after much legal wrangling in the Constitutional Court, a minimum price and production quota for sugar was put into place in 2000, covering a period until 2005 (IAMO 2003). The introduction of sugar and milk quotas was an example of the direct adoption of CAP mechanisms.

The creation of the SAIF did not produce a total harmonisation of intervention standards with the EU requirements (EC Regular Report on the Czech Republic Progress on Accession 2002, p. 70). The main immediate issue is that, under the terms of accession, the SAIF cannot hold stocks of agricultural commodities by May 2004, reducing the period in which it can release stocks to the market. This has made the SAIF reluctant to intervene in the wheat and pork markets, given overall budgetary cutbacks in the Czech Republic and a loss of 1 billion CZK on intervention in 2002 in the wheat sector alone (USDA Foreign Agricultural Service 2003).<sup>111</sup> So, operational risks and budgetary constraints have prevented the SAIF from operating with the breadth of intervention that the agency would be expected to deploy under CAP.

Secondly, the transformation of the SAIF, in terms of its institutional position in the administrative set-up, was limited. The SAIF became a tool to halt the consolidation of competences in the Ministry of Agriculture and within the independent SAPARD Agency. On the first point, the SAIF remained an independent fund under the supervision of a presidium chaired by the Minister of Agriculture<sup>112</sup>, rather than a ministerial agency (see table 13). Its director is appointed by the Czech cabinet. Consequently, the Prime Minister retains control over the direct management of the fund. The fund structure allowed it to augment its funding by the state budget with other credits (EU and other state funds) and revenue-generating commercial activities (mostly market-related). Of its budget totalling 9.3 billion CZK in 2002, about 4.7

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<sup>111</sup> This position also became a bone of contention between the SAIF and agricultural groups, which faced limited market intervention in 2003.

<sup>112</sup> The presidium has to approve the proposals for intervention prices, subsidies, and commercial activities. The presidium also includes the Deputy Minister of Finance as deputy chairman, the Deputy Minister of Industry and Trade and two representatives of the Ministry of Agriculture. The remaining four members come from non-governmental organisations (SAIF 'About Us' 2003).

billion CZK was contributed by the state budget. The SAIF structure was in contradiction to the European Commission's preference. The Commission required an end to the revenue-generating activities of the SAIF, which were an additional way of funding.

Consolidation showed, on the one hand, an initial move to concentrate competences around the capacity created in the SAPARD Agency (see section 3.3) and, on the other, a move to maintain state funds such as the SAIF and expand their competences. This consideration was also a debate between 'traditionalists' and 'modernisers'. The SFMR had been a structure, where interests of farmers' groups had been channelled in decisions on market intervention. The SAIF was a repository of agricultural officials of the former communist regime (Interview with Milena Vicenova: Prague September 19, 2001). The SAPARD Agency was staffed with 'modernisers'.<sup>113</sup> Further, the debate on consolidation was one that pit the sectoral minister against the cabinet, and more importantly the Prime Minister, who favoured the SAIF set-up and the persistence of the previous executive institutional arrangements.

The initial Czech plan was to have one management and payment agency for both CAP activities, be it market intervention or rural development (EC Regular Report on the Czech Republic Progress on Accession 2002). Initially, there were concrete plans in the Czech Ministry of Agriculture for the expansion of the competences of the SAPARD Agency. These competences would include the preparation for CAP, in terms of market intervention and direct payments. Market intervention was at that point the domain of the SAIF. The plan was to combine three activities in the SAPARD Agency. These activities were: market intervention through price-setting and transactions (buying primarily); rural development, which will lead into Structural Funds; and direct payments per acreage to the farmer (Interview with Milena Vicenova: Prague September 19, 2001). This consolidation was done out of the bureaucratic self-interest of the Ministry of Agriculture. As a sign of consolidation in sectoral agricultural management, a new department for the SAIF was established in the Ministry of Agriculture in April 2001. However, these plans aimed at concentration within the Ministry of Agriculture changed soon afterwards. In 2001,

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<sup>113</sup> Vicenova points out these differences come out in personnel characteristics in terms of university degree, ability to speak a foreign language, and length in the civil service.

the government decided on three agencies: the SAIF, the SAPARD Agency, and an Agricultural Payment Agency (APA) in the MoA. In 2002, it was decided in the 'Act on Budgetary Rules' of January 2001 that the APA will be established as a part of the SAIF. This Act aims to fully align payment procedures to Community rules (EC Regular Report 2001, p. 55). The agricultural payment unit, previously a unit in the Economic Affairs Department of the MoA, could, in the plans published in 2003, be integrated within a more general agrarian payment agency within the SAIF (EC, Regular Report on the Czech Republic Progress on Accession 2003). To this end, the Independent Market Information System, previously managed by the Research Institute of Agricultural Economics, has been put under the responsibility of the SAIF. The staff of the SAIF has been expanded by 20 experts in 2002 (EC Regular Report 2002). Though the SAPARD Agency would gain a role in preparing the register for the Integrated Administrative and Control System (IACS), it was clear that the SAIF had been affirmed by 2003 as the leading implementation agency in direct payments and market intervention. Though sectoral administrative procedures were transformed and changed, the executive set-up persisted. Further, the possible effect of the SAPARD Agency on the executive structure had been isolated.

Table 13: Task Delineation in CAP and SAPARD

	<i>Implementation</i>	<i>Status</i>	<i>Coordination</i>	<i>Supervision</i>	<i>Policy Drafting</i>
<b>Market Intervention</b>	SAIF	Independent government agency	Agency board: Chairman, Minister of Agriculture	Prime Minister	MoA
<b>Rural Development</b>	SAPARD Agency with 16 regional offices; some implementation tasks with MRD and MoE; some consultation with regions;	Independent ministerial unit	Agency board: MoA	Deputy Minister of Agriculture	MRD with MoA
<b>Direct Payments</b>	Agricultural Payment Agency	Ministerial unit	To be incorporated from MoA into SAIF	Prime Minister	MoA

### 3.2 Agricultural Budget and a System for Direct Payments

Though CAP intervention instruments had not been fully adopted, the agricultural budget shows a redirection of resources in the period of 1997-2001 to European Commission priorities. More recently (2002-2003), the budget shows a substantial expansion, but the central government has attempted to cap this expansion through moving EU funds around and using a derogation<sup>114</sup> on the implementation of direct payments. This moderation of spending was also in reaction to the cap member-states put on the extension of full direct payments to the Czech Republic and domestic budgetary problems (see Lazarova Radio Prague 29/9/2003).

The Czech agricultural budget was in the period 1997-2001 directed to the following posts (DG Agriculture, 2002c):

- Market oriented (pillar 1, export subsidies, set-aside, direct income support (coupled), input subsidies);
- Rural development oriented (Least Favoured Area[LFA] payment, agro-environmental programmes, renewable energy resources, afforestation);
- Investment support to agriculture;
- General support (research, information, training);
- Disaster payment.

An overview in table 14 of the Czech agricultural budget specifies this redirection (MoA 2000). Overall, the agricultural budget has increased by about 100 million euro since 1995. Further, investment support decreased in favour of rural development programmes. Market intervention stayed more or less at the same point, as did general support. The European Commission noted that in the compensation the Czech Republic pays to the Least Favoured Areas (LFA) the emphasis was still more on production than on actual rural development (DG Agriculture 2002c, p. 27). In the same way, the Czech Republic in its investment support, such as the provision of

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<sup>114</sup> There are limited transitional periods in the Accession Treaty, excluding topics such as direct payments and land ownership. These measures affect mostly veterinary controls in the poultry, egg and dairy sectors, where Czech Producers not yet accredited by the European Commission to deliver to the common market have until the end of 2006 to comply with regulations. These concern 44 meat establishments, 1 egg establishment, and 4 fish establishments. The European Commission will update this list on an annual basis. The Czech Republic will update the European Commission each year on progress and has the full burden of compliance (EC, Accession Treaty 2003, Annexes).

interest-free loans, had in 2000 not yet differentiated between post-transition restructuring and more CAP-related programmes, such as programmes focusing on food quality and safety, environmentally safe manure management, animal welfare, and on-farm processing. These programmes were implicit in investments, rather than investments being directed at them, as would be likely under pillar 2 rural development programming. It is important to note that the increase in the domestic budget and the redirection visible in table 14 are significant in outlining shifts in the domestic budget. These shifts mostly followed CAP-specific priorities in the management of agricultural support, even if the redirection of these funds has not yet been fully completed.

Table 14: Agricultural Budget 1995-2000 (mio euro)

	1995	1996	1997	1998	1999	2000
Market oriented, Pillar 1	118	104	85	90	130	121
Rural development oriented	73	78	67	104	109	124
Investment support to Agriculture	47	69	84	81	70	57
General support	63	65	60	61	61	68
<b>Total</b>	<b>304</b>	<b>327</b>	<b>349</b>	<b>373</b>	<b>384</b>	<b>409</b>

Source: Report on the State of Czech Agriculture in 2000, MoA December 2001

In the latest budget cycle of 2003 and 2004, The Ministry of Agriculture will receive almost 60% more funds in 2004 at 22.88 billion CZK than in 2003, when the budget was 14.4 billion CZK (USDA Foreign Agricultural Service 2003). This increase came after the budget had remained stable in the period of 2001-2002, as the CSSD government aimed to halt budgetary expansion. This expansion was particularly aimed at the introduction of direct payments in which the state would have a substantial co-financing requirement.

First, the Czech government moderated an expansion of the agricultural budget by using a concession on the use of Structural Funds. This concession was obtained in the accession negotiations by the Polish government.<sup>115</sup> As a consequence, 300 million euro will be redirected to the national budget from the EU allocation for Czech Structural Funds from 2004-2006. The current proposal suggests topping up EU agricultural subsidies from their introductory level at 25% of total EU subsidies to member-states. The Czech government has suggested an increase to the level of 45%.

<sup>115</sup> The loss by the CSSD-led coalition in 2003 of a one-seat majority in parliament gave the ODS leverage over the budgetary process and expansive budget items such as agriculture.



The cost of a 20% increase is 4 billion CZK. The Ministry of Agriculture has asked for 55% with a top-up from the national budget of 30%. The Ministry argues that other accession countries have already approved the full level (55%) of subsidies (e.g. Hungary) allowed under the financial framework agreed to with the EU and that the Czech farmers would not be competitive under the current proposed funding scheme. The case was also strengthened by farmers' demonstrations. The government is currently working on a reform of the state budget and plans to reduce its deficit, so it is still unclear if Czech farmers will receive more than 45% of subsidies.<sup>116</sup>

Secondly, the Czech Republic will not introduce the 'standard' system of direct payments. The Czech Government will adopt a system similar to the CAP's decoupled payment system. Adoption of the simplified system was decided by the Ministry of Agriculture in June of 2003, after consultation with Franz Fischler, the EU Commissioner for Agriculture. Fischler pointed out that the Czech Republic will not be ready to use the EU's current system of payments, as it does not have the necessary structures, such as the APA or the IACS, in place yet. All farmers had to register their areas with the IACS by August of 2003. The Czech Republic will distribute direct payments on 3.8 million ha. of agricultural land. This 'simplified' system means that subsidies will be paid out on hectares farmed, not on commodities planted. This payment system anticipates future CAP reforms. The system is closer to the proposals for CAP reforms on decoupling and addresses problems in administrative capacity by delaying full convergence with the IACS and payment procedures.

### **3.3 Integrated Rural Development Policy and SAPARD**

In rural development policy there existed a vehicle, SAPARD, to both ensure compliance in rural development and Structural Funds' procedures. Further, unlike in market intervention and direct payments, the Czech Republic had, with the exception of credit subsidies, not formulated an integrated rural development policy before

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<sup>116</sup> In September of 2003, the CSSD-led government of Vladimir Spidla survived a vote of 'no confidence' to proceed with the reform of the state budget (Lazarova, 29/9/2003). A veto by President Vaclav Klaus on the raising of VAT was overturned by the coalition in parliament (Bouc, 4/12/2003).

1997. Implementation of SAPARD meant both the creation of a rural development policy and the SAPARD Agency.

### **3.3.a Drafting of Policy**

Rural development policy was only formulated after 1997 and seems in function of EU accession. The tenets of rural development policy were developed in: the SAPARD Plan, drafted by the Ministry of Agriculture in conjunction with the Ministry of Regional Development; the National Programme for the Adoption of the Acquis (NPAA), which later was elaborated into the Implementation Strategy; the Accession Partnerships; the National Development Plan (NDP) of 1999; and the 'Departmental Policy in the Pre-Accession Period of the Czech Republic to the European Union'. These documents showed: 1. a planning dimension emerging in Czech agriculture, driven by the European Commission; and 2. a convergence of priorities across policy documents.

The SAPARD programme from 2000-2006 focuses on three priority axes (see table 15): 1. 'to strengthen the competitiveness of agriculture and the food processing industry....'; 2. 'to achieve sustainable rural development, including opening up of new local employment opportunities to help counter rural de-population'; and 3. 'to ensure the full potential of the programme is reached, notably by providing new types of vocational training and technical assistance' (EC SAPARD Programmes 2000-2006: Czech Republic, 2000).

The prioritisation of SAPARD played directly on the priorities outlined in the NPAA<sup>117</sup>. The NPAA and the Accession Partnership, similar to SAPARD, focused on rural development planning and the administrative capacity for implementation. The Accession Partnership of 1999 identifies the reinforcement of the CAP management mechanisms and administrative structures, the phytosanitary and veterinary controls,

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<sup>117</sup> NPAA outlined 9 priority areas: 1. the adoption of veterinary and phytosanitary controls; 2. import checks and border controls; 3. full compliance in animal welfare and zoo-technical legislation; 4. the alignment of less favoured area status in the Czech Republic to EU NUTS qualifications; 5. amendments to the forest laws; 6. the establishment of management system for common market organisation (see pg. 401 and pg. 402 of NPAA); 7. the alignment of aquaculture and fisheries policy legislation; 8. the adjustment of crop and livestock production; 9. structural and regional measures preparing for SAPARD and implementation of National Development Plan (Ministry of Foreign Affairs, National Programme for Membership of the European Union, 2000).

and the modernisation of meat and dairy plants as medium-term priorities (Czech Republic Accession Partnership 1999). The NDP would focus solely on rural development policy. The NDP, prepared in 1999, contains within it the Sectoral Operational Programme on Agriculture. This Programme has three priority axes: 1. the sustainable development of rural regions; 2. the development of multifunctional agriculture in regions, including diversification of rural activities; and 3. the increasing the competitiveness of agriculture and forestry (MRD, National Development Plan 2001; MRD/MoA 2000, p 6-9).

Planning showed a great continuity from the pre-accession to post-accession documents. This continuity stresses how the Czech government mostly deferred to the European Commission in developing the priority axes (Interview with Radka Sarova jointly with Renata Hola: Prague September 21, 2001). Additionally, the European Commission had more leverage over the financial allocation in SAPARD than other programming, as table 15 shows. The European Commission was the largest contributor. Consequently, the budgetary exposure of the Czech state was limited. Moreover, the Czech Republic relies quite heavily on private contributions, which amount to 37% of total financing. Private contributions further limited the exposure of the Czech state. Total expenditure for the period 2000-2006 will be at 323 million euro, with the EU contributing 154 million euro, the national budget 50 million euro and applicants 118 million euro (MRD/MoA 2000, p. 192). Another point, also outlined in chapter 5, is the reliance on the central state contribution in Czech co-financing. Czech co-financing does not include regional co-financing with the exception of measure 2.1.a, where regional funds contribute 60% of the total state contributions (MRD/MoA 2000). Measure 2.1.a is administered by the Ministry for Regional Development.

Table 15: SAPARD Allocation per Priority for the Period 2000-2006+

Measures	Total Cost ( Contributions +: EU 47 %-Czech state budget 16 % [+33 % of EU contribution]- Private 37 %)
<b>Priority 1 (60.5% of funding)</b>	
1.1 Investments in agricultural holdings	66.27
1.2 Improving processing industry and marketing of products	67.91
1.3 Improving the structures for quality control and consumer protection	36.73
1.5 Land improvement and re-parcelling	41.34
<b>Priority 2 (34.3% of funding)</b>	
2.1a Renovation and development of villages	21.88
2.1b Rural infrastructure	10.94
2.2 Development and diversification of economic activities	66.08
2.3 agricultural production methods designed to protect the environment and countryside	6.11
<b>Priority 3 (3.1% of funding)</b>	
3.1 Vocational training	4.41
3.2 Technical assistance	2.15
<b>Total</b>	<b>323.83</b>

Source: European Commission 2000

### 3.3.b The SAPARD Agency

The SAPARD Agency incorporates both management and payment functions. The regional offices of the SAPARD Agency mostly support these activities. The payment function deals with the distribution of funds. The internal audit division of SAPARD performs financial control and the National Fund within the Ministry of Finance supervises these activities (taken from MoA 'SAPARD' 2002).

The Agency is based in the Ministry of Agriculture, but operates independently as a programme-specific unit. The SAPARD agency in the hierarchy of the Ministry of Agriculture stands directly below the Minister of Agriculture, under the supervision of a Deputy Minister. By guaranteeing the independence of the Agency from political appointees, the Agency hopes to stay clear of direct political intervention within the Agency (Interview with Milena Vicenova: Prague September 19, 2001). This incorporation occurred in September of 2001. This structure was similar to a ministerial agency, but different to a state fund such as the SAIF, which is placed under the authority of the Prime Minister.

The independence of tasks and reporting is a major concern of the accreditation process and seemed the overriding issue in the setting up of the SAPARD Agency in the Czech Republic. Independence refers to the clear separation of payment, project selection, and monitoring functions. This separation of competences was outlined in the 'Agreement on the main rules of SAPARD Programme Management in the Czech Republic' of 21 November 2000. Accreditation was completed at the end of 2002 (Interview with Milena Vicenova: Prague September 19, 2001). Also, the independence of tasks came to be seen as a way of implementing, free of political intervention. The only member of staff in the SAPARD Agency with a cross-over function in the Ministry of Agriculture is the Deputy Minister of Economic Affairs, who is the National Authorising Officer (NAO) of the SAPARD programme. Though he/she has to approve the projects, the NAO's function is a formality as he/she cannot reject projects that have procedurally been approved for funding by the Programme Authorising Officer (PAO), the Director of the SAPARD Agency. This PAO in principal does not block the projects approved by the National Steering Committees.

There are two consequences of the concentration of rural development competences in the SAPARD Agency. First, non-sectoral ministries have sought out competences in rural development to counter this concentration. As stated earlier, in the absence of a central coordinating body<sup>118</sup> at the sectoral or core executive levels between the ministries, it seems the case that ministries compete over competences. Milena Vicenova outlines the interference of other government agencies and ministries in the implementation of SAPARD as very problematic (Interview with Milena Vicenova: Prague September 19, 2001). Further, because rural development was essentially a new concept in the Czech Republic, administrative capacity was required. Extra capacity was found in other line ministries. Finally, SAPARD implementation was especially salient, given that Structural Funds will flow through the Agency much in the same way as projects in rural development are financed under the current outline of the SAPARD programme.<sup>119</sup> Secondly, SAPARD reduced the role of the regions in administration.

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<sup>118</sup> Vicenova sees shortcomings in task delineation in the management of pre-accession instruments, due to a lack of a framework to manage such authorities in the core executive (Interview with Milena Vicenova: Prague September 19, 2001).

<sup>119</sup> SAPARD showed continuity where other pre-accession funds had not. This continuity was also obvious in policy setting (see 3.3.a).

In the conception of SAPARD, four ministries were involved: the Ministry of Finance through the National Fund; the Ministry of Agriculture; the Ministry for Regional Development, due to its expertise in setting up the agency at the regional level; and the Ministry of the Environment, due to possible connections with environmental projects through the Environmental Impact Analysis (EIA).

The Ministry of Regional Development has institutionalised its involvement with SAPARD in the 'Agreement on Co-operation of the MoA and the MRD' of May 12, 1999, by assigning two officials of the nine man teams within the regional implementation offices of SAPARD Agency. Further, the Ministry for Regional Development, in collaboration with the Ministry of Agriculture, prepares the Agricultural Development Plan for the period of 2000-2006, participates in the preparation of SAPARD selection and monitoring indicators, and is responsible for co-financing for projects on village development and local economic diversification (MRD/MoA 2000, p. 196). This task-sharing was concluded at the level of First Deputy Ministers under the 'Agreement on the main rules of SAPARD Programme management in the Czech Republic' on November 21, 2000. The Head of the SAPARD Agency, Milena Vicenova, sees this compromise as a political decision (Interview with Milena Vicenova: Prague September 19, 2001). The compromise in her mind is due to the battle for competences by a not very well established Ministry for Regional Development, which was uncertain about its survival under the Zeman government.

The Ministry of the Environment is said to be now no longer involved, because environment and transport is solely the subject matter of ISPA (Interview with Jiri Horacek: Prague September 20, 2001). However, the manual of the Czech government outlining the SAPARD Plan again shows a clear role for the Ministry of the Environment in terms of preparation of the Agricultural Development Plan, participation of monitoring and selection procedures, and the development of SAPARD project assessment system in terms of the environment (MRD/MoA 2000). However, the role of the Ministry of Environment is more specified and limited. This observation also applies to the Ministry of Finance. The CFA within the Ministry of

Finance also does not have a central coordinating role in SAPARD. Its role is more in an advisory capacity.

Secondly, SAPARD in terms of procedures and funds administration means a vertical centralisation of rural development policy. EU rural development policy is a policy administered at the national level. However, there were other factors meaning a more centralised approach was taken. First, the complexity of the procedures and changing requirements meant that the flow of project applications was slow. For instance, local recipients first of all read little English and find the application forms exceedingly difficult (Interview with Radka Sarova jointly with Renata Hola: Prague September 21, 2001). There are two main risks associated with this problem. First, there will be a bias in the dispersal of funding due to the level of comprehension or contacts necessary to propose a project. Secondly, local officials of the Ministry of Agriculture, who provide help in filing out the proposals (as the SAPARD Agency does not have this capacity) could control the process from the bottom-up. Problems with such regional capacity were initially responsible for the setting up of SAPARD offices in the 8 regions and reducing the role of the regional actors and the regional self-government in the institutional set-up to a more consultative role in the selection and monitoring committees.<sup>120</sup>

## 4. Conclusion

The adoption of EU agricultural policy in the Czech Republic shows a substantial change of sectoral institutional arrangements and the persistence of the macro-institutional configuration.

On the sectoral level, EU CAP and SAPARD challenged the liberal policy style of the Czech Republic. Given the additional challenge of the adoption of EU agricultural policy to the macro-institutional configuration in the Czech Republic, one would

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<sup>120</sup> Regional selection and monitoring committees were set up in the 8 regions aside from their respective national counterparts. The National Selection Committee determines the selection criteria, coordinates the use of financial resources with the multi-annual financing agreement, and comments on and scores the applications while the monitoring committees monitor implementation. Regional committees and the national selection committee build on a cross section of society (e.g. NGOs) and officials on the national and regional levels of government (MoA and MRD SAPARD Plan April 2000, pg. 196).

expect only limited change of sectoral institutional arrangements. Nonetheless, the Czech Republic has largely adopted CAP and SAPARD policy and sectoral institutional arrangements. The transformations of procedures in the SAIF and APA are examples. Sections 3.1 and 3.3 of this chapter further elaborate. There are two explanations for this change in sectoral institutional arrangements. First, the adoption of the European rural development policy can be seen in the light of this policy not substantially altering the precarious domestic budgetary situation. Within this neutral budgetary framework, sectoral reform was easier. When sectoral reform required an expansion of domestic budgetary resources, as in the system for direct payments (see section 3.2), sectoral adaptation was more incomplete. Aside from the budgetary factor, the main factor in the change of sectoral institutional arrangements, as pointed out in section 2.3, was the re-direction of the domestic agricultural policy in 1997 (the 'Law on Agriculture'). This redirection aimed to: 1. address the macro-economic crisis of the mid-1990s; 2. complete the aims of transition in the agricultural sector; and 3. build a systematic rather than ad hoc support framework for farmers. The reform of 1997 moved Czech policy closer to CAP. Further, it proved that wider sectoral reform was possible within the macro-institutional context. This executive set-up would remain stable and was even reinforced by the sectoral adaptation.

In terms of the effects on the macro-institutional configuration, the implementation of CAP and SAPARD involved the creation of agencies, as in the case of SAPARD, and the transformation of agencies in the cases of the SAIF and the APA. The independent foundations such as the Support and Guarantee Fund for Farmers and Forestry (SGFFF) and the State Fund for Market Regulation (SFMR) were offshoots of a liberal agricultural policy under Prime Minister Klaus. These agencies had limited capacity and provided limited support in terms of interest free loans and market intervention in the wheat and dairy sectors. Moreover, these agencies were extra-budgetary agencies, which did not incorporate liabilities and assets directly into the state budget. The EU challenged the macro-institutional configuration by: creating competences and a sectoral policy scope, expanding sectoral resources, focusing on the political independence of administrative tasks as in SAPARD, and requiring the incorporation of competences and budget (as in the case of the SAIF) left outside of civil service administration after transition back into the executive structure. In this way, the EU seemed to empower sectoral administrative actors at the expense of



national executive actors such as the Prime Minister and the cabinet. Moreover, as seen in SAPARD, the consolidation in rural development meant a vertical centralisation of rural development policy. Before 1997, the limited rural development initiatives undertaken by the European Commission had a strong regional and local dimension. Thus, the European Commission aimed to concentrate the previously fragmented approach to implementation closer to the Minister of Agriculture (MoA) or the independent SAPARD Agency within the MoA. This more centralised approach was more compatible with the Czech executive structure. However, it raised questions on the horizontal organisation of coordination and implementation. In the process of adaptation to EU requirements, there was a domestic debate whether agricultural agencies and more particularly funds management fell under the control of the MoA, the Prime Minister, the cabinet or whether these agencies would gain independence outside of the executive or within a ministry.

There are two ways in which the consolidation and expansion of resources and competences near the MoA were mediated. First, the potential for sectoral consolidation of CAP management and payment competences in the independent SAPARD agency had been halted. The SAPARD Agency, as mentioned earlier, was an independent unit in the MoA. Rather, the MoA proposed a consolidation of CAP functions under a Deputy Minister in the MoA. This proposed consolidation by the MoA was effectively overturned in 2003. Rather, these competences were incorporated in the SAIF. The shift of the APA from the MoA to the SAIF gave the SAIF control over direct payments. This also maintained the institutional balance between the Prime Minister and the sectoral ministry. The SAIF, formerly the SFMR, stood under supervision of the Prime Minister, who appointed its director. Any weakening of the SAIF would reduce the 'say' of the Prime Minister in agricultural policy. Farmers' groups also had connections to the SAIF and their support reinforced the SAIF's position in the institutional configuration. This re-affirmed the position of the SAIF in the management of EU funds. The isolated position of the SAPARD Agency mitigated wider effects on the domestic executive structure. Its functions pertained solely to the administration of rural development initiatives. As a consequence, the national executive structure was by and large maintained.

Secondly, non-sectoral ministries managed to stake out a claim in rural development policy. The increase of the development mandate in agricultural policy invited participation of the MRD and Ministry of Environment. These ministries countered the potential institutional enhancement of the Ministry of Agriculture and the SAPARD Agency. This mediation was a direct result of the absence of formal coordination at the core executive level, as mentioned in chapter 5. Further, the continuity of SAPARD and rural development policy gave domestic actors an incentive to determine their institutional position at the beginning of programming. The potential of any major changes in the administrative set-up in 'development' policy was thus dissipated.

# **Chapter 8: The Management of Agricultural Reform and the Administration of the Pre-accession Process in Poland**

## **1. Introduction<sup>121</sup>**

The EU challenge to the agricultural administration in Poland was twofold. On the sectoral level, EU templates entailed a re-orientation of the domestic intervention instruments and the ad hoc intervention style defined in the state agricultural policy of 1994.

Secondly, on the macro-institutional level, the EU templates also implied a redefinition of the competences and place in the executive of the agricultural agencies and the wider executive administration. The re-orientation of agricultural policy, which meant a transfer of domestic competences on decision-making in agricultural policy to Brussels, was problematic for farmers, who feared foreign ownership and a loss in subsidies. It was also problematic for the political actors, who either represented farmers or opposed any transfer of sovereignty. Similarly, the redefinition of administration was opposed by the agricultural agencies and their supporters, noticeably the farmers' lobbies, which feared a change in the representation of their interests in the administration, and the Polish Peasant Party (PSL), which feared the loss of a natural power base in the agricultural administration. On the other hand, after 2001, the Prime Minister was in favour of sectoral consolidation. This move could be seen both as an assertion of the national executive actors in agricultural management and similar to regional policy the minimisation of operational and budgetary risk in the implementation of CAP and SAPARD.

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<sup>121</sup> The term Ministry of Agriculture will be used in this chapter. The complete name of the Ministry is the Ministry for Agriculture and Food Economy (or Food Industry) used until October 2001 and the Ministry of Agriculture and Rural Development more recently.

Section 2 will give an overview of the development of agricultural policy in Poland in the period after transition. Section 3 will detail the adaptation to the EU requirements, on both the sectoral and macro-institutional levels.

## **2. Transition and Agricultural Reform in the 1990s**

### **2.1 Liberalisation and Privatisation at Transition**

The transition in the beginning of 1990 was dominated by the market reforms of the Finance Minister Leszek Balcerowicz in a new Solidarity-led government under Prime Minister Mazowiecki. Shock therapy was based on: the liberalisation of prices, the withdrawal of subsidies, interest rate liberalisation and currency convertibility, and the privatisation of state-owned assets. For agriculture, the 'Medium Term Sector Adjustment Plan', introduced in 1992, was a document stressing the importance of: the stabilisation of prices of agricultural products, the introduction of an appropriate liberalised trade policy, the privatisation of state-owned industry and quasi-cooperate entities, and the provision of incentives for the private sector to become involved in the processing and marketing of agricultural products (OECD 1995, p. 11 and Mertens in Goetz et al (eds.) 2001, p 223). However, the 'intent' of reform in planning did not foreshadow implementation (Ingham et al, 1997). Nalewajko (1998) notes that the agricultural sector was excluded from most reforms by the Solidarity government. The 'Act on Social Security and Pensions' of 1990 became the framework for lessening the social costs on farmers, by granting farmers favourable pensions with minimum contributions, benefits and tax relief.

Price liberalisation primarily targeted input prices. The communist government in 1988 and 1989 had previously liberalised consumption prices, while maintaining input prices. This liberalisation had initially boosted farmers' revenues, but subsequently in the early 1990s revenues came under pressure. This pressure continued with the cost/price squeeze farmers experienced. Moreover, minimum prices for strategic crops, such as wheat and rye, were retained and price support also occurred on an ad hoc basis. Whereas overall Producer Subsidy Equivalent (PSE) fell to 15% in 1995 compared to the low 30s for the EU, Poland increased its price

support as a percentage of PSE substantially over the 1990s from 69% in 1988 to 81% in 1995 (Ingham et al, 1998). Though overall support for agriculture declined in the 1990s, the reliance on price support in overall support increased.

Trade liberalisation could have severe consequences for domestic markets. Before transition, the domestic industry was protected mostly through import controls. As Polish agricultural prices adjusted to lower international prices and the increase of input prices (cost/price squeeze) due to trade, the farmers' lobbies made calls for government support. In 1994, the PSL-led government of Prime Minister Pawlak decided to reinforce border measures through raising tariffs and instituting quotas (DG Agriculture 1998).

Most agricultural exports went to the EU (about 52% before transition [OECD 1995]). Despite the 'Europe Agreement', signed in 1991, and the subsequent 'Association Agreement', much of Polish agricultural export to the EU was subject to tariffs, which raised prices to the EU average. Moreover, trade required export authorisation to guarantee quality. In 1997, for instance, the EU banned the importation of all Polish milk out of quality concerns. This ban affected not only the relationship between the EU and Poland, but it also called for reciprocal trade protection. The late 1990s saw a variety of import controls appear on an ad hoc basis. In 1999, Franz Fischler, European Commissioner of Agriculture, proposed scrapping customs duties and export subsidies on agricultural goods (Golden, July 12 1999). In September of 2000, a trade pact named the 'double zero' agreement meant customs duties were eliminated on 91% of EU exports to Poland and 48% of Polish exports to the EU. The agreement withdraws tariffs on various commodities and negotiated duty-free import quotas for pork, poultry, milk, dairy products, and wheat (USDA 2003) (Warsaw Business Journal, 6/4/2001). In 2003, the 'double profit' agreement, a one year transitional measure towards accession, further liberalised trade. This agreement eliminated duties worth 170 million euro.

In terms of privatisation, the predominance of private farms in the South and on the central plains meant that the consolidation of farmland mostly occurred between

private farmers (Ingham et al, 1998).<sup>122</sup> A 1990 amendment to the civil code allowed farmers to partition their farm land further. In the period of 1998-1996, average farm size actually decreased (Glebocki and Rogacki, 2002). In addition, a special law on the privatisation of agricultural property, following the Great Privatisation Act of 1990, included an aim to 'make farmland available to strengthen family farms' (Mertens in Goetz et al (eds.) 2001, p 230)'.

For the state-owned farms in the Northwest and East of Poland, transition brought substantial unemployment (Glebocki and Rogacki, 2002). Agricultural employment at 27% of the total work force changed little from 1995 to 2001 (OECD 2002, p. 17). The privatisation of state-owned farms was also compromised by the absence of a government policy on restitution, given most state-owned farms were formed on land formerly owned by ethnic Germans (Lindemans and Swinnen, 1997). Several laws sought to address this issue. A government draft law on re-privatisation in 1991, during the government of Bielecki, only provided for land to be returned to former owners that was taken illegally by the state. Secondly, the Decree on Agricultural Reform in 1994 legalised the 'Polish' confiscation of 'German' agricultural land smaller than 50 hectares. Finally, the law of 1999 on agricultural land ownership attempted to liberalise the market for land. An innovation was that land was seen more as a tradable commodity. Still, foreign ownership was limited and all deals above 100 hectares would require approval of the Agricultural Property Agency of the State Treasury (APA or AWRSP[Polish Acronym])<sup>123</sup>. In the processing industry a backlash occurred against foreign ownership. In 2001, a law passed the Sejm banning foreign ownership of the remaining unsold assets in the sugar industry and grouping all these remaining state-owned sugar mills in one national holding, Polski Cukier.

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<sup>122</sup> The communist authorities in Poland compared to other CEECs had been largely unsuccessful in implementing a collectivised system of agricultural production. Attempts in this direction were finally abandoned following the passage of the Constitutional Act of 1956 (Ingham et al, 1998). This production structure meant that the private sector accounted for 75% of Polish production, mostly organised as small farms.

<sup>123</sup> The APA also known as the Agency for Agricultural Fiscal Property is a State Treasury foundation created under the 'Law on the Management of Agricultural Real Estate of the State Treasury' dated October 19, 1991. It has as mandate to exploit or privatise all state-owned farmland and farmland placed in the National Land fund, which consists of land abandoned mostly by small family farmers. This exploitation consist of transferring the land free of charge, selling the land, bringing it into a company, leasing the land, discharging the right of use in other ways, and placing it into other administration (see APA Mission Statement 2003). The APA is a self-financing agency. About 70% of the land under management came from state-owned farms. In terms of exploitation, 25% has been sold with 60% leased out (source: APA 2003). Foreign ownership runs through lease structures of the APA, which have to be renewed after medium length periods of time (around 10 years).

Foreign claims and ownership were still interlinked with limits on privatisation of land and the subsequent liberalisation of the market for land.

## 2.2 State Agricultural Policy of 1994

After the initial liberal steps by the Solidarity government of Mazowiecki, the main directions of state agricultural policy were only set out in 1994 by the PSL<sup>124</sup>-led coalition government of Waldemar Pawlak. Its main electorate remained the small private farmers or 'family farm' owners, who were loyal to the former communist party. This situation differed from other Central and Eastern European Countries (CEECs), where collective units remained loyal to the communist successor parties, but peasants were generally more reform-minded. Initially, the influence of the PSL in government meant agricultural reform linked to the Balcerowicz economic reforms stalled. In fact, the PSL and other parties with agrarian agendas posted political gain by opposing the liberalisation policies of the Solidarity governments (Nalewajko 1994).<sup>125</sup> The party platform of the PSL in 1993 focused on rural employment. The logic was that increased investment in the agricultural sector would promote demand for labour. They linked this view of transformation to views of social equality (Nalewajko 1998). The 1994 government platform set out to: bring efficiency and modernisation to agriculture; provide a regulatory framework; maintain family farms; and build up a support network covering subsidies, regional development and market risks. These policy changes were implemented by the PSL Minister of Agriculture Janowski in the Suchocka government. The platform implied: more protectionist measures such as import levies and compensating charges; extension of loans;

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<sup>124</sup> In 1989 United Peasant Party (UPP), responsible for ensuring the input of peasants in national agricultural policy in communist times, used its considerable organisation to reorient itself as a post-communist political party (Sokolovsky, 1990). It re-branded itself under the pre-communist name, the Polish Peasant Party (PPP or PSL [Polish acronym]), which had had a strong anti-communist inter-war reputation. It derived legitimacy by merging with a democratic peasant party. The PSL was part of a coalition from transition to the present, with the exception of the Bielecki government in 1991 and the AWS Buzek government from 1997 to September 2001.

<sup>125</sup> Agricultural parties have tended after the transition to move to both sides of the political spectrum. The PSL has adopted a centre-left orientation more in line with its leftist traditions. Some have adopted a right-wing platform and have adopted a nationalist stance such as Samoobrona. Samoobrona or Self-Defence set up after the market reforms of Leszek Balcerowicz in 1992 under the leadership of Andrzej Lepper (see Piasecka, 2001). His approach was different from the PSL, as his movement tried to exact political influence through mass meetings, rallies, stay-in demonstrations and blockades (also see Kelly WBJ 1998). Lepper also has built a platform out of the transition periods the EU demanded for the full introduction of subsidies claiming the EU does not see Poles as equals (BBC, January 30 2002).

minimum producer prices (Ingham et al, 1998); and generous cash inducements to farmers mainly through pensions. Such payments were controversial, considering the initial fiscal austerity in transition and budgetary crises through the 1990s (Nalewajko 1994). Despite splits in the PSL between ‘traditionalists’, such as Pawlak, and ‘modernisers’, such as Jagielski, who favoured larger farms rather than family farms and focused on the efficient delivery (mostly through low interest loans) and redirection (to rural development) of funds through updated agencies, the general protectionist agenda of the PSL showed continuity in the 1990s.<sup>126</sup>

The implementation of the 1994 state policy occurred on three levels; 1. a focus on debt relief and the extension of loans to farmers through the creation of the Agency for the Restructuring and Modernisation of Agriculture (ARiMR or ARMA[English acronym])<sup>127</sup>; 2. the establishment of a state infrastructure capable of intervening in agricultural markets, mostly through the Agricultural Market Agency [AMA] (this agency was also part of the ‘Association Agreement’ between Poland and the EU)<sup>128</sup>;

<sup>126</sup> In 1996, Jagielski as PSL Minister of Agriculture developed plans for fuel subsidies, a loan guarantee fund, and foreign ownership limitations. These proposals sparked a major crisis in its coalition with the SLD (Nalewajko 1998). Additionally, in violation of the ‘Association Agreement’ with the EU, the PSL blocked a proposal by the SLD to eliminate the import tax on agricultural products.

<sup>127</sup> The ARMA was founded in January 1994 to replace the FRiOR. The FRiOR itself had been founded in 1992 to stimulate modernisation and aid credit repayment. Its primary occupation was on its second activity, credit repayment. Individual farmers would sell their debt to the FRiOR and would receive a more preferential interest rate. The FRiOR was suspended in 1993 after several administrative irregularities and the ARMA came into existence shortly after. The ARMA would distribute preferential credit at about 20% fixed interest (Ingham et al 1998). The evaluation of credit extensions for modernisation and debt restructuring would now be done by commercial banks. The ARMA provides aid in the following ways: 1. through interest rate subsidies; 2. financing or part-financing (grants); and 3. credit and loan guarantees to private farmers. Mostly, the ARMA is responsible for the subsidised credit, in the way that it pays the differential between the commercial interest rate and the rate paid by farmers (Latruffe 2003).

<sup>128</sup> The AMA is the government agency responsible for agricultural markets and the price support system. It was founded on June 7, 1990 under a government act. The main activities of the AMA comprise of:  
 ‘-intervention purchase and sale of unprocessed and processed agricultural products on national and external markets,  
 -subsidies to purchase prices,  
 -storage aid,  
 -export refunds,  
 -permissions for import and export of agricultural products from the Polish customs area,  
 -production quota system for certain agricultural products,  
 -aid for processing and sale of products at lowered prices,  
 -compensatory payments for potato producers and potato starch producers,  
 withdrawal of agricultural products from the market,  
 credit guarantees, except investment credits granted, to entrepreneurs fulfilling tasks commissioned by the AMA (see AMA Mission Statement 2003)’



and 3. the general expansion of the organisation and administration of the state in the agricultural sector.

These agencies not only offered a political power base to the PSL, but control of the intervention instruments could be used as a political tool. In 1996 and 1997, PSL Minister of Agriculture Jagielinski advocated stronger agencies to aid transformation, simplify the management of funds, and align more with EU requirements for CAP and SAPARD. Those proposals also would mean a more central role for these agencies in the dispersal of EU funds and in the process of domestic transformation. The PSL, as main architect of agricultural policy, controlled the Ministry of Agriculture and these state agencies for most of the 1990s. In September 2002, the SLD-PSL coalition government under Leszek Miller was reprimanded by the European Commission for the alleged coalition deal to replace civil servants with political appointees in these state agencies and divide up the regional offices of the ARMA, and staff them with supporters (RFE/RL September 5 2002). The SLD and PSL had been previously accused of colonising the machinery of the state in the drafting of civil service law and the setting of employment criteria for the civil service, which clearly favoured the old nomenklatura (Jablonski 2000).<sup>129</sup>

Secondly, the instruments of the agencies have often been used for 'lobby-supporting' activity (Nalewajko 1998, p. 27). A favourite intervention tool used by the PSL is the pre-paid purchase of wheat before the harvest. Pre-paid purchases are similar to the state guaranteed contracts proposed by Pawlak in 1996. The farmer sells the grain to the AMA at a pre-arranged price, regardless of quality, unless the market price is higher. In that case, the farmer sells to the market and pays back the AMA. In 1997, the Minister of Agriculture Jagielinski resigned over this issue to be replaced by a supporter of pre-paid intervention. More recently, in August 2002, the PSL Minister of Agriculture, Jaroslaw Kalinowski proposed a major intervention in grain purchases of about 700,000 tons through the AMA after a difficult harvest and problems at grain elevators (RFE/RL 5/8/ 2002). Additionally, the PSL controlled the cooperative Food Economy Bank (Bank Gospodarki Zywnosciowej). This bank channelled state budgetary resources to loans and preferential compensating charges for farmers.

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<sup>129</sup> The introduction of civil service law was postponed because of these reasons until after the election victory of the AWS and UW in 1997.

Politicians from the PSL had on a number of occasions prevented the bankruptcy of this institution. It was reformed under PSL Minister Janowski in 1994 to operate on a commercial basis, with cooperatives incorporated in a regional network of 9 banks controlled by the Food Economy Bank.

## **2.3 The Buzek Government between Farmers' Lobby and the EU**

The AWS-led Buzek government elected in 1997 continued on with many of the same intervention tools instituted by the PSL. The reasons were: 1. the success of farmers' groups and the PSL in shaping a relatively vague AWS agricultural policy agenda; 2. the ambiguous AWS' platform on Europe.<sup>130</sup>

The AWS' election programme had been quite general on major issues:

'We support the modernisation and restructuring of the Polish agricultural sector which will be based on family farms. Lending, intervention, and price policy will support the development of farms, investments regarding agricultural services and food processing as well as restructuring the ways of thinking. We will ensure the protection of the Polish agricultural sector against unfair international competition.' (AWS platform quoted in Nalewajko 1998, p. 16).

The vagueness of the agenda opened the AWS up to criticism that the government was neglecting rural issues in favour of reforms in social security, health and education, and territorial administration (Hermann, *Central European Review* 1999). Farmers' groups exploited this weakness by organising road blockades and protests in 1998 and 1999. The government reacted in a similar way to previous governments by using intervention instruments as a political tool. It made 180 million euro available for further price stabilisation (floor prices) in the market and mandated that the AMA make payments directly to the farmers, rather than to a middle man or market-maker (Golden WBJ June 7, 1999). Moreover, the AWS, with support of the PSL, sponsored legislation to extend further preferential loans to the poorest farms. Overall, the budget for price support in agriculture increased 23% in 2001.

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<sup>130</sup> Though the position of the AWS coalition was generally pro-European, the election platform called for a 'slowing down' of the process of integration (Stadtmüller 2000, pg. 33). The ambiguity on Europe within the AWS was also caused by splits between its constituent factions. Some of these factions, such as the Catholic League of Families, were quite 'euro-sceptic'.

On the prospect of EU membership, the AWS performed a balancing act between further integration and appearing to defend national interests. In 1999, the government made a commitment presented in Brussels to spend 6 billion euro over 3 years to reform Polish agriculture and facilitate its inclusion in the CAP by promoting modernisation and building the required regulatory framework (Golden WBJ, 29/11/1999). At the same time, the AWS angered the European Commission in 1999 by suggesting that Poland could opt out of CAP<sup>131</sup> altogether. Further, in 1998, the government raised the import tariffs on beef. The 1999 EC Regular Report comments on the worrying protectionism and price support programmes of the government drawing resources away from where they are needed (EC Regular Report on Poland's Progress towards Accession 1999, p. 73).

### 3. The EU and Agricultural Reform

Given the sectoral 'misfit' between EU policy and domestic policy, sectoral adaptation in Poland became a balancing act between, on the hand, implementing CAP to facilitate accession and, on the other, gaining exemptions and budgetary concessions to make accession possible, without excluding a major number of family farms (By cutting domestic agricultural programmes) or creating an additional budgetary imbalance. In the run-up to accession, the real debate was to what extent and under which system Poland would share in CAP direct payments and what special budgetary transition facility Poland would receive. In return, Poland had two bargaining chips: the access of EU nationals to Polish land; and further trade liberalisation. The intransigence of the Polish government was also linked to the presence of the PSL in the coalition government after 2001. The strategy was to limit budgetary expenditure and maintain as many farms as possible in the domestic support framework.

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<sup>131</sup> Jerzy Plewa, then Deputy Minister of Agriculture, points out the exclusion of over 1 million farms from CAP should not be an impediment to integration and the implementation of CAP. In Italy 1 million of 2.5 million farms are excluded (Jerzy Plewa quoted in FT, Poland 2000 Report). A preference existed in Poland that a large number of agricultural producers should exist outside of CAP, while maintaining domestic support networks for as many farms as possible. This point refers to both the efficiency of farmers producing at higher fixed prices (Hunek in Hunek and Rowinski 2000, pg. 32) and the impact on the production process of the adoption of phytosanitary and veterinary regulations (it is estimated by the ARMA that 9000 beef farmers will lose their licence over the EU regulation on the separate housing of pigs and beef [Interview with Iwona Lisztwan: Brussels October 15 2003]).

Further, adoption of CAP and SAPARD implied a challenge to the executive structure. This process involved the restructuring of agricultural agencies to integrate them in sectoral budgetary resources. Samecki calls this process the consolidation of the programmatic and budgetary resources (Interview with Pawel Samecki: Warsaw September 28, 2001). Restructuring would lead to a process of sectoral agencies resisting consolidation and the Council of Ministers and Prime Minister promoting consolidation. This promotion, as stated earlier, also aimed to limit operational and budgetary risk upon accession, as capacity remained low. The 2002 Regular Report raises the bar and notes ‘efforts need to be substantially stepped up’ (EC Regular Report on Poland’s Progress towards Accession 2002, p. 73).

The next section (3.1) will look at the outcome of the negotiations in terms of the budgetary concessions, foreign ownership and a simplified direct payment system, which enabled the continuation of domestic agricultural programmes. Secondly, in section 3.2, I will look at the process of consolidation of administration and determine whether this process has changed the executive structure or the macro-institutional configuration in Poland. This analysis will also include a look at SAPARD, which as a pre-accession fund had a history of implementation.

### **3.1 The Miller Government and EU Negotiations<sup>132</sup>**

The imminence of EU accession facing the SLD-UP-PSL coalition in September 2001 highlighted the domestic administrative deficiencies. The SLD had traditionally given discretion to the PSL in respective coalitions to shape agricultural policy. The SLD placed more emphasis than the PSL on: rural job creation, education, the consolidation of farms, more limited and temporary protection of agriculture, the multi-functional development of agriculture, and a more limited role of the state in domestic intervention. Unlike most other parties, the PSL took a very top-down state-centred view in agriculture. Within the coalition, the debate on agricultural politics revolved mainly around whether Poland should adopt a tough or facilitating posture

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<sup>132</sup> For a systematic view of the positions on Europe of the major political parties in the 2001 parliamentary elections, see for instance Szczerbiak (2002).

during the ongoing negotiations (Taggart and Sczcerbiak, 2001)<sup>133</sup>, with the SLD offering a more facilitating view towards integration.<sup>134</sup>

The PSL was a reluctant reformer and though nominally supportive of EU membership, it believed the AWS had created an ‘asymmetry in Poland’s relationship with the EU to its disadvantage’ (Sczcerbiak 2002, p. 17). The PSL advocated full inclusion in CAP, with the full extension of direct payments. Under this demand, Poland would receive the same payments as the member-states. Moreover, it advocated a transition period of 18 years on foreign ownership of agricultural land and a re-examination of foreign ownership of strategic assets. The government faced a difficult balance in working towards EU accession and adhering to the domestic rural objectives of the PSL, especially on halting the liberalisation of agricultural trade with the EU and limiting foreign ownership of land.

This balance was disrupted in 2003. In early 2003, Leszek Miller asked the PSL to leave the government coalition over its objection to a toll scheme for public roads (see Maksymiuk RFE/RL 2003b). The concessions made by the coalition government on agriculture to the EU, though defended by PSL chairman Kalinowski, not only clashed with the PSL’s positions before negotiations, but also put the party’s position as the defender of agrarian interests at risk. Sczcerbiak (2002) argues that the handling of Polish concessions to the EU in the parliament meant that the SLD-UP quickly lost goodwill with the relatively pro-Europe key opposition platform, PO, and strained relations with its coalition partner, the PSL.

The main priority of the negotiations was the inclusion of as many ‘family farms’ as possible in agricultural support. There were two main components: 1. a ‘simplified’ system of direct payments; and 2. budgetary concessions.

First, Polish sensitivities existed that foreign ownership would be similar to a backdoor restitution based on pre-war ownership (Krushelnycky 2002 or Farnam

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<sup>133</sup> Stadtmuller (2000) sees this line of thinking first developing in the AWS government of Jerzy Buzek.

<sup>134</sup> Los-Nowak (2000, pg. 19) comments that though fears existed the SLD was fully committed to EU membership, especially after the election of Aleksander Kwasniewski as President in 1995, both in and out of government the SLD has been the most ‘whole-hearted’ supporter of the EU in the Polish parliament.

2001). In the negotiations, a transition period for foreign ownership of Polish land of up to 12 years after accession was agreed between the EU and Poland. On the sale of land to foreign leaseholders, the PSL managed to change the three-year transition period to a seven-year transition period for farmers in the eight Western Polish provinces. This ownership concession was linked 'quid pro quo' to a transitional period for the phasing-in of direct subsidies to Polish farmers. The European Commission proposed 25% of direct subsidy payments and a phasing in period of 10 years. For direct payments, the national budget in the first year could top this amount up by 30% to 55%. Part of this 30% could be taken out of the EU rural development funds. Further, the European Commission and Poland agreed to a simplified scheme of direct payments. The non-land transition periods in the Accession Treaty were part of this system<sup>135</sup>.

Secondly, budgetary concessions aimed to avert the increase in agricultural spending in CAP and SAPARD and continue domestic programmes that were not included in CAP. These were government schemes, such as the soft credits in rural finance (see the ARMA), the fuel and lime subsidies, the state guaranteed contracts through the AMA, the differentiated income and company taxation for farmers<sup>136</sup>, as well a pension scheme for farmers (KRUS), which is funded at 93% by the government.<sup>137</sup> The resistance to reform of KRUS came not only from farmers' lobbies, but also the Ministry of Agriculture. KRUS, unlike the AMA and the ARMA, was an agency of the Ministry, which stood to lose in terms of funds and competences in any budgetary reform. The overall Polish aim was to limit sectoral reform.

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<sup>135</sup> Most non-land and non-payment transition periods deal with the introduction of veterinary and phytosanitary regulations (See EC Accession Treaty 2003). The basic tenet of the discussion is that production facilities, which do not comply with EU standards, will get a transitional period of 3 to 5 years. This transitional period means that those producers can only market their products in the Polish market until they are in line with EU rules. This ruling affects 332 meat establishments, 113 milk/dairy establishments, 40 fishery establishments (EC Report on the Results of the Negotiations 2003).

<sup>136</sup> Farmers do not pay income or company tax. Rather, they pay land tax and some input taxes. However, this description does not include other tax or VAT concessions. The Ministry of Finance puts support to farmers from differentiated taxation at 10 billion Polish zloty (Ministry of Finance, 1997).

<sup>137</sup> There are two schemes in KRUS: a pension and disability scheme; and a maternity and health insurance scheme. The state budget supplements the small amount of premiums (Piskorz et al, 1998). In 2002 KRUS constituted 76% of the agricultural budget (see table 16).

### **3.1.a A System for Direct Payments**

On the EU side, the simplified scheme, focusing on the size of arable land rather than a production indication, means that there is less demand on the Polish administration to meet a deadline for the full introduction of the Internal Accounting and Control System (IACS). Secondly, the EU internally, as chapter 3 explained, may be moving to a more simplified system of decoupled payments through the national envelopes and modulation. So, the continuity of policy, next to the maintenance of support to as many farms as possible, was also direct factor in the Polish choice.

The absorption of funds and the competitiveness of Polish agriculture are the two issues that dominated the negotiations on the system for direct payments in Poland. Absorption in a simplified system would be easier to accomplish through a deferment on the introduction of the IACS. The Polish proposal, brought forward by Prime Minister Miller and Minister of Agriculture Kalinowski, was to boost spending on direct payments (pillar 1 of CAP) to its farmers with 50% taken from rural development funds (pillar 2 of CAP) (Guba 2002). This transfer between budgetary headings would also mediate the pressure on Polish administration to fully absorb rural development funds. The EU placed a limit of 30% on these top-up amounts. Part of the reason for the Polish insistence on 50% was to boost their farmers' competitiveness compared to EU farmers in the member-states. A 50% boost would have given them support levels at 75% of the EU average, given the 25% of member-state payments given to the candidate countries in the first year of accession. Competitiveness also matters in terms of specialisation. Most Polish farms, as stated earlier, are not specialised and the 'standard' scheme supports specific production. Therefore, more farms will be included in the 'simplified' scheme. This was important given the structure of Polish agriculture (FAPA 2002).

### **3.1.b Direction of the Agricultural Budget**

Secondly, budgetary concessions were important in the maintenance of agricultural spending, particularly on KRUS, given the redirection of resources to CAP and

SAPARD. Stressed overall budgetary conditions increased the salience of these concessions. KRUS remained the biggest post in the agricultural budget. However, more funding has been shifted to rural development initiatives through the credit subsidies and grant-giving of the ARMA. In the period 2000-2002, co-financing requirements for SAPARD were already anticipated in the budget (DG Agriculture 2002d, p. 27). Other inflationary pressures in 2002 and 2003 were a rural early retirement programme in 2002 and the introduction of a system of direct payments in Poland. The ARMA's budget is also strengthened by funds from World Bank schemes and subsidies from the Employment Fund<sup>138</sup>. Moreover, in the 2003 budget, a scheme was introduced that would allocate excess income from customs duties to the ARMA, if these duties would exceed a certain level (Warsaw Voice, 2/12/2002). These funding schemes are also a reflection of the overall budgetary problems and the pressure to maintain support for rural development, as accession nears (the budget deficit in 2003 was 38.7 billion zloty down from 40 billion zloty in 2002-projections for 2004 are for a budget deficit of 45.5 billion zloty [source: Ministry of Finance 2003]). The AMA's budget has remained more or less the same, as it heavily intervened in the cereal and pork markets, where prices in 2002 exceeded the import prices of EU commodities.

Poland received a concession from the EU for a total of 6 billion PLN in compensation for the period of 2004-2006. This concession consisted of a mix of funds. These funds aimed to offset the costs of entering the EU, as a one-off payment to fend off any liquidity problems within the Polish state budget. Further, funds served, as an upfront payment for Structural Funds (about 1 billion euro in total from 2004-2006) (Warsaw Voice 31/1/2003). Structural Funds payments normally arrive in totality in the budget a couple of years after implementation. In the years 2004-2006, Polish agriculture will receive around EUR 7.2 billion from the EU budget for direct payments, intervention in the agricultural market and export subsidies, rural development and Structural Funds. Ironically, the pressure to spend on agriculture clashes with the public debt and budgetary requirements of the Maastricht criteria<sup>139</sup>.

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<sup>138</sup> This also explains why total budgetary spending on ARMA fell in the period 1996-1998, while the overall budget rose.

<sup>139</sup> The Public Finance Law in anticipation of the Maastricht criteria, which set public debt at a maximum of 60% of GDP, has within it escalating budgetary restrictions, if public debt exceeds the



This budgetary pressure is also aggravated by the fact that the EU membership fee must be paid by the central budget, while Structural Funds mainly go to local and regional governments. The membership fee is 1.58 billion euro in 2004, 2.43 in 2005 and 2.49 in 2006 (source: EC 2003). EU total funds provision will amount to 12.5 billion euro over the period.

Table 16: Agricultural Budget (1996-2001)

	1996	1997	1998	1999	2000	2001
1. Progress in agriculture* million €	253	274	256	125	116	104
2. ARMA** million €	114	128	144	229	288	481
3. AMA*** million €	86	105	83	118	184	174
4. Other**** million €	394	428	409	234	293	430
<b>Total (1-4) million €</b>	<b>847</b>	<b>935</b>	<b>892</b>	<b>706</b>	<b>880</b>	<b>1,188</b>
5. Agricultural Social Security Fund million €	2,302	2,549	2,715	3,150	3,530	4,303
<b>Total (1-5) million €</b>	<b>3,149</b>	<b>3,483</b>	<b>3,607</b>	<b>3,857</b>	<b>4,410</b>	<b>5,492</b>
1. Progress in agriculture* in % of total	8,0	7,9	7,1	3,3	2,6	1,9
2. ARMA** in % of total	3,6	3,7	4,0	5,9	6,5	8,8
3. AMA*** in % of total	2,7	3,0	2,3	3,0	4,2	3,2
4. Other**** in % of total	12,5	12,3	11,4	6,1	6,6	7,8
<b>Total (1-4) in % of total</b>	<b>26,9</b>	<b>26,8</b>	<b>24,7</b>	<b>18,3</b>	<b>20,0</b>	<b>21,6</b>
5. Agricultural Social Security Fund in % of total	73,1	73,2	75,3	81,7	80,0	78,4
<b>Total (1-5) in % of total</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>

Source: European Commission (2002) based on IERiGZ, Analiza produkcyjno-ekonomicznej sytuacji rolnictwa i gospodarki żywnościowej w 2000 roku – various issues, MARD, Informacja o projekcie budżetu na 2001, European Commission calculations

Note: \* - biological progress, extension services, plant protection veterinary services, other services

\*\* - subsidies to credits channelled by ARMA, in agriculture, food processing and other investments in rural

areas aimed at modernisation, job creation and infrastructure development

\*\*\* - market support and market stabilisation measures implemented by AMA

\*\*\*\* - agriculture related expenditures by local governments and other expenditures on rural development

## 3.2 Administrative Management of Reform

The reduction of operational and budgetary risk in the implementation of CAP and SAPARD implied a consolidation of the state administration. The main impetus was the consolidation of agencies, which partly depended on the integration of non-

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50%, 55%, and 60% hurdles ranging from debt reduction or the prohibition to run a deficit (Warsaw Voice 18/9/2003). The 2004 budget deficit will mean the 50% hurdle will have been passed.

budgetary resources into the national budget. EU funds would flow through the national budget. The consolidation of agricultural agencies directly challenged the macro-institutional configuration. This EU template for the implementation of CAP and SAPARD challenged: 1. the control over these agencies; 2. the independence of these agencies; and 3. the budgetary resources allocated to these agencies. A consolidation, given the issues of administrative capacity in implementation<sup>140</sup>, also indirectly meant that: 1. competences would be allocated to those agencies with a capacity for implementation; and 2. the centralisation of implementation. This last point is a characteristic of SAPARD. Finally, the European Commission would prefer implementation in agencies free of direct political intervention (see section 2.2).

Resistance to such consolidation would come in the shape agencies maintaining their autonomy and domestic systems of implementation, and agencies using their capacity to encroach on other agencies' competences or ministerial responsibilities.

### **3.2.a Redirection of Administration**

The pattern in the administrative management of agriculture in the early 1990s in Poland has been the setting up of State Treasury foundations and independent government agencies to manage the process of transition. There are three main foundations in the agricultural sector involved respectively with land use, agricultural production and markets, and rural development. These are the APA, the AMA, and the ARMA. The ARMA and the AMA were designated as CAP implementation agencies. The ARMA, similar to the AMA, is a state foundation under the supervision of the Prime Minister, who appoints its president. The APA is a State Treasury Foundation. Since the administrative reforms of 1996 and 1997, the APA was directly supervised by the then created Ministry of the State Treasury. Other agencies that play a role in the regulatory framework for agriculture are central offices controlled by the Ministry of Agriculture, as opposed to the different structure of foundation under the supervision of an executive actor. Mostly, these foundations would be funded extra-budget from their own activities, such as through the extension of commercial credits,

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<sup>140</sup> Jean-Marc Trarieux points the shortage of trained personnel in agricultural agencies. In April of 2001, AMA had 426 employees, has plans to expand to 800-1,000, but for CAP is estimated to require 12,000. ARMA would have to increase numbers from 516 at the end of 2,000 to about 11,500 at accession (Interview with Jean-Marc Trarieux: Warsaw, September 27 2001).

the management of land or state assets, or the implementation of foreign funds.

Revenue could exceed costs in these agencies (see table 17)

Table 17: Costs and Revenue of Agencies in 2000 (in billion zloty in 2000 prices)

<i>Agency</i>	<i>Costs</i>	<i>Revenue</i>	<i>Personnel</i>
AMA	1,85	1,67	349
ARMA	1,22	1,42	177
APA	0,81	0,85	10.276

Source: Ministry of Agriculture, Nature, and Food Quality of the Netherlands 2000

The implementation of CAP and SAPARD would mean the adoption of EU funds procedures. This process was helped along by the ‘Law on Public Finance’ of 1998, aimed at consolidating the definition of various grants, types of funds and tax-exempted funds, which defined foreign funds as public funds and placed them in the budget (Interview with Agnieszka Kazmierczak: Warsaw, January 22 2002). This redirection meant a reduction of monies and types of grants. For instance, for the ARMA, this redefinition meant the share of the national budget decreased from 1 billion zloty to 833 million zloty from 1996 to 1998 (source: Ministry of Agriculture 1999). In this period, 40 lines of credit were reduced to 8, with more emphasis being put on structural inputs, such as restructuring and modernisation (DG Agriculture 1998). Moreover, this process directly questioned the place of these agencies in the executive.

The institutional position of these agencies produced a heated debate across party lines in parliament between proponents of independent administrative capacity, with a specific development mandate outside of government, and those in favour of a more integrated executive, either under the control of the Prime Minister or the Ministry of Agriculture. This debate also focused on substantial budgetary resources placed in the State Treasury foundations. The controversial re-alignment of proceeds from the APA into the state budget, after new regulations on the settlement of the APA with the state budget (Warsaw Voice, 31 July 2003). is an example. The mandate of the APA was changed on July 16, 2003, when the Act of April 11, 2003 *on the Formation of Agricultural System* (*Journal of Laws, No. 64, item 592*) came into force. The Act only nominally changed the APA from a State Treasury foundation into a trust agency

of the State Treasury, with mostly the same competences. However, this move does place the responsibilities, not directly related to State Treasury property, under the Minister responsible for rural development. This consolidation represents an integral change in the way agencies operate. Further, in overall administrative reform in 2003 the State Treasury, which was only established in 1997, was temporarily integrated into the Ministry of Economy, which obtained a wider mandate (Maksymiuk RFE/RL 2003c). Thus, a second ongoing issue in the debate is the type of executive integration. This debate focuses on: 1. the functional distribution of the competences and the budget between the agencies; 2. the consolidation of the agencies within the sectoral ministry; and 3. the relationship between sectoral agencies and the Prime Minister. In the cases of the ARMA and the AMA, the Prime Minister directly supervises the agencies (see table 18). Here, prime ministerial discretion in the organisation produces more horizontal decentralisation in the executive.

Table 18: Task Delineation in CAP and SAPARD

	<i>Implementation</i>	<i>Coordination</i>	<i>Status</i>	<i>Supervision</i>	<i>Policy Drafting</i>
<b>Market Intervention</b>	AMA with 16 regional offices	Agency board	Independent government agency	Prime Minister	MoA
<b>Rural Development/ Direct Payments</b>	ARMA with 16 regional offices; some consultation from regions	Agency board; MoA	Independent government agency	Prime Minister	MoA

Making any reform of agricultural agencies a difficult proposition was the political control mentioned in section 2.2. Though administrative reform would appear to become easier after the PSL left the government, agricultural reform stalled. The SLD-UP as a minority government had limited leverage in parliament. Adam Tanski, an independent and former Minister of Agriculture, was installed as Minister of Agriculture to produce reform. Tanski quit after three months, citing political infighting over his attempt to purge the machinery of funds administration and a lack of political support in the Sejm to build a registration system for farmers to receive EU direct payments. A PSL-led initiative in the ‘Standing Committee on Agriculture and Rural Development’ of the Sejm had voted in favour of a ‘no confidence’ motion in Tanski. Tanski’s resignation came after 11 attempts in the last 4 years to come to a final determination on a registration system that was required under the procedures of the IACS. This lack of reform undermined Poland’s ability to grant EU direct

payments. At the same time, Jerzy Miller, the President of the ARMA, resigned after he had shown a list of officials employed in the ARMA, who for political reasons could not be fired. These resignations evoked protests from the European Commission, which described the registration problems in Poland as ‘catastrophic’ and re-iterated earlier concerns over the political influence over agencies (Kliphuis, Wereldomroep, 27/6/ 2003). A relatively inexperienced SLD State Secretary in the Ministry of Agriculture and Tanski confidant, Wojciech Olejniczak, succeeded Tanski. Next, the Director of the AMA quit citing the administrative and budgetary cost of transition to CAP.<sup>141</sup> Despite these setbacks, the presence of the same senior management in the Ministry of Agriculture (MOA) and the appointment of a Tanski confidant in Wojciech Olejniczak<sup>142</sup> show: 1. a willingness of the government to continue reform; and 2. a consolidation of sectoral management closer to the Minister of Agriculture and the cabinet. However, it seems obvious that the pressure from the PSL in opposition as well as the resistance to adaptation of the domestic administration produced institutional persistence, on both sectoral and macro-institutional levels, close to accession.

### **Institutional Persistence**

The roots of this persistence lie in the independence of the agencies outside of the Ministry of Agriculture, which means coordination of these agencies in the agricultural sector is difficult. This continued independence has led to: 1. agencies with capacity attaining additional competences; and 2. agencies maintaining domestic support structures outside of CAP or next to CAP.

The APA started to expand its competences outside of its statutory mandate of land management. The reasons for such a shift are twofold: 1. a reduced need for land management after the privatisation process (despite the foreign ownership question and subsequent lease structures); and 2. the use of the capacity (mostly personnel [see table 17]) and resources that the APA has built up in the regions. The APA runs about

<sup>141</sup> The costs of EU accession have become clear, as the AMA is obliged to clear the accounts before May 2004 through dumping its stocks in dairy, grains, and pork at a loss on the world market.

<sup>142</sup> The other option to the Miller government was to draft the Peasant-Democratic Party of former PSL minister, Roman Jagielinski, into the coalition government and nominate him Minister of Agriculture. This would have guaranteed more parliamentary support for the government, but would have provided little continuity in the key sectoral posts.

12 major regional offices in pre-dominantly agricultural areas. In 1997, the Employment Activation Fund, supplemented by the aptly named 'Complementary Fund', was created within the APA and distributed in subsidies by the APA for job creation schemes. From 1998 onwards, the APA aims to manage a preferential credit scheme created by the European Fund for Rural Development. These cover the whole of Poland and aim to restructure the former state farms and state agricultural property. The APA provides the credit guarantees. New credit schemes have also been created within the APA to create jobs for former employees of the state-owned farms (see Ministry of Agriculture, SAPARD Operational Programme for Poland 2002, p. 49-51). Programmes in job creation and unemployment have been linked directly to APA's core activities of land management.

This expansion of competences in the APA has gone at the expense of the ARMA. The assertion by the APA is evident in the budget of the ARMA between 1997 and 1998. In 1998, total ARMA investments in farming, food processing, and agricultural services were 972 million zloty. The composition of investments represents less emphasis in 1998 on job creation (23 million zloty in 1998 compared to 77 million in 1997), infrastructure (125 million zloty in 1998 compared to 416 million zloty in 1997), and training (16.5 million zloty in 1998 compared to 70.5 million zloty in 1997) (source: ARMA's reports Warsaw various years). Despite this redirection of the budget and assertion of the APA, the ARMA in 1998 concluded an agreement with the National Employment Office to draw loans on the Employment Fund. These loans aimed to help the rural unemployed.<sup>143</sup> This agreement shows the freedom of the agencies to develop their competences and negotiate with other parts of the domestic administration, resulting in a diffusion or fragmentation of implementation tasks in the employment aspect of rural development policy.<sup>144</sup> This diffusion makes the consolidation of agencies in the sectoral ministry, implied in EU templates, even more unlikely.

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<sup>143</sup> The Employment Fund runs preferential credit schemes. These schemes cover costs associated with vocational and professional training, provide interest rate reduction on loans, and refund social security payments.

<sup>144</sup> Such diffusion also existed in market intervention. The ARMA also managed procurement credits, a statutory activity of the AMA.

Secondly, as Jean-Marc Trarieux points out, the AMA shows the persistence of national practices, such as the pre-paid purchases and trade tariffs (Interview with Jean-Marc Trarieux: Warsaw, September 27 2001). The AMA had as aim to stabilise farmers' income and preserve the strategic reserves of Poland. It did this through two mechanisms: price intervention and procuring at prices that do not take into account storage costs (storage costs are at the AMA's expense). It was the designated market agency in CAP.

AMA's practices resisted EU implementation in several ways. First, as the United States Department of Agriculture points out, the mandate of the AMA is much more extensive than the average EU intervention agency in CAP. The AMA plays a role in procuring strategic reserves, financing companies buying grain, and commercial activities (mostly sale of products and banking transactions). The AMA has wide flexibility in determining when intervention takes place (USDA Agricultural Outlook 1999). Both procurement activities were often mixed and thus the market intervention schemes are impossible to disentangle from procurement aimed at the strategic reserves (Safin, 2000). The AMA freely extended loan guarantees to enterprises involved in grain intervention purchases, accounting for 90% of all loan guarantees extended in agriculture (Latruffe 2003). Further, the state influences improvements in the procurement through reducing interest rates in credits for procurement of agricultural products. This subsidy comes from the national budget. Secondly, the market interventions of the AMA have suffered from ad hoc non-transparent quotas, which emerged within the newer tariff systems. These quotas were in potential violation of new World Trade Organisation (WTO) commitments (Interview with Jean-Marc Trarieux: Warsaw, September 27 2001). Some activities of the AMA in the field of export subsidies have been linked directly with other government measures, which limit trade. A 1998 government decision to allow the AMA to subsidise beef exports was accompanied by new high tariffs on beef imports (Warsaw Business Journal, October 12 1998). Finally, minimum prices are negotiated between the farmers' trade unions, the Ministry of Agriculture and the AMA. These prices were

frequently above EU levels.<sup>145</sup> Lobby groups had a direct influence on prices and resisted strongly the transfer of price-setting to Brussels.

The ARMA showed a different pattern. Here SAPARD and CAP implementation, as accredited units, were separate from agency structures implementing domestic support programmes. This separation had two consequences: a set-aside capacity for CAP and SAPARD; and a continuity of the administration of domestic programmes (Interview with Iwona Lisztwan: Brussels 15 October 2003). In this way, implementation of SAPARD produced little sectoral adaptation and was isolated within the executive structure.

#### **Allocation of CAP and SAPARD Competences**

The allocation of competences is detailed in table 19. The ARMA's capacity in managing payments to farmers meant it gained responsibility for direct payments under CAP. The accreditation process of SAPARD had tested the financial and payment procedures of the ARMA. Therefore, these procedures were known to be acceptable to the European Commission. Moreover, the ARMA's familiarity with commercial credit decisions meant that it had relatively rigorous financial procedures. The AMA was not actively considered for direct payments. The AMA's market intervention and price support procedures were in the past not only divergent to the EU intervention system, but the view existed widely that the AMA had become politicised in terms of activities and staffing. Also, there were questions on its internal controls on operational activities. The ARMA was given the task to manage and implement the IACS. The ARMA built on the expertise gained during SAPARD accreditation in terms of administrative capacity and procedures (Interview with Alan Wilkinson, Head of SAPARD Unit of DG of Agriculture: Brussels, August 29 2001). The 'Bill on Payments out of the EAGGF' of May 6 2003 has put forward the ARMA

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<sup>145</sup>Recently, some concessions have been made. In 1998, the intervention system in the grain market was modified and direct payments were implemented. Minimum prices were lowered and direct payments for cereal producers were introduced to compensate for this reduction (ANIMO 2003). In 1999, the AMA eliminated its dual price structure, whereby the minimum price it set was indicative and the actual intervention price negotiated with producer groups was frequently above the world price level, in favour of a 'minimum price' boosted by a per ton supplement (USDA 2003). In 2001, both sugar and milk quota systems were brought in alignment with CAP.



and the AMA as payment agencies for the respective sections of the EAGGF, contingent upon accreditation

The FAPA's<sup>146</sup> experience with technical assistance and training under PHARE means it has responsibility over measures 6 and 7 in SAPARD (Interview with Alan Wilkinson, Head of SAPARD Unit of DG of Agriculture: Brussels, August 29 2001).

Table 19: CAP and SAPARD implementation

	AMA	ARMA	FAPA
<b>SAPARD</b>	No responsibilities	-Setting up of payment agency; -Coordination and implementation of first two priority axes(measures 1 through 5).	-Preparation of SAPARD Operational Programme; -Coordination and implementation of measures 6 and 7 of the SAPARD Programme.
<b>CAP</b>	-Setting up of payment procedures; -Expansion of tools of market intervention to cover 23 commodity groups regulated by 50 mechanisms.	-Setting up of payment agency to make direct payments; -Setting up of Integrated Management and Control System corresponding to IACS; -Market activities; -Role in implementation of EAGGF; -Job creation and unemployment policy shared with APA.	-No responsibilities

Source : FAPA 2002

### 3.2.b SAPARD and Rural Development

The next section will look in more detail at the implementation of SAPARD, the pre-accession instrument in agriculture. SAPARD implementation shows: 1. the limited budgetary risk in the implementation of SAPARD; 2. the dynamic of the consolidation of SAPARD competences and resources in the ARMA, with the associated debate on the place of the SAPARD Agency in the executive; and 3. the vertical centralisation of competences in SAPARD.

<sup>146</sup> The Foundation for the Assistance Programme for Agriculture was created in 1993 by the Minister of Agriculture as a unit within the Ministry of Agriculture for the administration and implementation of PHARE agricultural programmes. It also provides the Ministry with technical analyses assisting in the integration with the EU (FAPA, Agriculture and the Food Economy in Poland 2002, pg. 66).

## Implementation of Rural Development Policy

SAPARD goals are represented in three priority axes (Ministry of Agriculture, SAPARD Operational Programme for Poland 2002, p. 29). The first priority axis consists of two measures: 1. 'the improvement in processing and marketing of food and fishery products' (1); 2. 'investments in agricultural holdings' (2). The second axis consists of a further two measures: 1. 'the development of rural infrastructure' (3); 2. 'diversification of economic activities in rural areas' (4). A complementary axis supports the two axes. It consists of three measures: pilot projects on the environment (5), training (6), and technical assistance (7). These goals fit into the jointly agreed strategy between the Polish government and the European Commission for SAPARD in Poland:

- 'to improve the economic viability of Polish agriculture and to be able to meet new opportunities on the domestic and international markets;
- to adapt the agri-food sector to EU standards in respect of hygiene, quality and animal welfare;
- to encourage multi-functional rural development (EC, SAPARD Programmes 2000-2006: Poland, 2000).'

This programme was consistent with the Coherent Strategy for Agriculture and Rural Development the Polish government adopted in 1999. This document identified the following priorities:

- 'creation of adequate working and living conditions in rural areas so to allow rural people to achieve economic, educational, cultural, and social potential;
- restructuring of the agricultural sector by putting in place conditions for the adaptation of agriculture to the changing economic and social situation;
- sustainable development of rural areas, protection of natural environment and cultural heritage (Ministry of Agriculture, Coherent Strategy for Agriculture and Rural Development 1999, p. 1).'

The Coherent Strategy is a fulfilment of a NPAA commitment to draft such a policy and forms the base for SAPARD implementation. Moreover, it formed a platform together with the NDP for the identification of structural aid projects. The Sectoral

Operational Programme on Restructuring and Modernisation of the Food Sector and Rural Development of the NDP forms the base for the Community Support Framework. These priorities will be co-financed by the EAGGF. The goals of the NDP are broadly similar to SAPARD. Interestingly, the Strategy names the new territorial structures with their share of public funds as a significant additional source for rural development. Regional authorities also check their regional development plans against national strategies.

Table 20: SAPARD Total Expenditure for the Period 2000-2006 (mio euro)

Measure	EU Contribution	National Contribution	Private Contribution (% of total)	Total Expenditure	% of Measure in total Expenditure
1. Improvement of marketing of agricultural products	468.784	156.261	625 (50%)	1250	46%
2. Investments in agricultural holdings	222	74	296.108 (50%)	592.216	22%
3. Development of technical infrastructure	355.120	118.373	9.663 (2%)	483.155	18%
4. Diversification of economic activities	131.086	43.695	174.781 (50%)	349.561	13%
5. Agri-environmental measures	22.92	7.64	0 (0%)	30.560	1%
6. Vocational training-	25.610	8.536	0 (0%)	34.147	1%
7. Technical Assistance	4.990	1.247	0 (0%)	6.238	0%
<b>TOTAL</b>	<b>1230.591</b>	<b>409.781</b>	<b>1105.599(40%)</b>	<b>2745.970</b>	

Source: Ministry of Agriculture and Rural Development 2002

Table 20 shows that the weight of adaptation resides in the measures for the improvement of agricultural marketing and investments in agricultural holdings. Moreover, the private contributions at 40% are substantial. The SAPARD Plan has them rising from 34% in the first year to 42% from 2002 onwards. EU contributions are 75% of the total before private contributions, with the exception of technical assistance. In this case, the EU contributes 80%. So, the budgetary risk to the Polish state was very limited. The state contributes the remaining 20-25%. This point also

explains the adoption of rural development policy by administrative actors, be it in an isolated way.

At the time of publication, there was no indication in the national plan whether measures would receive co-financing from regional resources or budgets. However, the budgetary allocation included a budgetary ring-fencing for regions to: a. ensure that regions would have an envelope to independently administer programmes in a decentralised way; and b. to ensure that all beneficiaries would have fair access to funds, rather than more affluent regions spending the bulk of the money. Nonetheless, SAPARD allocation had to take into account the potential uptake of the funds (see Lisztwan 2003). It was not logical to allocate equity to regions that would not use it. Still, as the next section will show, the existence of regional envelopes did not equate to decentralised implementation.

#### **SAPARD and the Consolidation of Implementation**

The initial role of the ARMA in rural development policy was quite small, due to the fact that the implicit decentralisation of rural development policy in EU programmes had indicated a larger role for the communes in allocating resources and designing programmes. This decentralisation was similar to the implementation of World Bank programmes on the commune level. The territorial reforms of 1998 had paved the way for regional implementation, by putting those structures in place. In the distribution of competences after the PHARE reforms of 1997, it was decided to keep the existing central agencies. However, the establishment of payment agencies, as indicated in the National Programme for the Adoption of the Acquis and the focus of the institution-building component of PHARE, meant a greater degree of specialisation on the central level within the existing agencies. This trend was further emphasised under SAPARD from 2000 onwards, which centralised procedures in the project cycle<sup>147</sup>.

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<sup>147</sup> The project cycle (source: ARMA diagram 2002) of SAPARD starts with an appropriation based on the multi-financing agreement within the Directorate General for Agriculture. It releases funds at set intervals in euro into the National Fund of the Ministry of Finance, which puts the money in a SAPARD account in zloty, held in the National Bank of Poland. The SAPARD programme Managing Body, which holds general management oversight, meets in the Ministry of Agriculture. The co-financing of SAPARD comes out of the allocation given to the Ministry from the national budget. From there, both the funds in the account at the National Bank of Poland and the amount appropriated by the SAPARD Programme Managing Body are transferred. The ARMA deals with payment and implementation. The beneficiary files his application through a regional branch and upon approval

SAPARD as a programme put all ‘the eggs in one basket’ and reduced the roles of the regions to ‘zero’ (Interview with Iwona Lisztwan: Brussels October 15, 2003). In the Polish case, the ARMA assumed both payment and management functions, mainly upon the insistence of the Minister for Agriculture.

The organisation of implementation showed a consolidation of functions in the ARMA. This consolidation was controversial. Alan Wilkinson comments that a coupled management and payment function might draw in more poor projects, inadmissible for EU funds. Such a development would mean an additional demand on the Polish budget and a lack of absorption of available EU funds (Interview with Alan Wilkinson Brussels: August 29 2001). Further, the ARMA had a dual executive structure, whereby the Prime Minister oversees the ARMA and the Minister of Agriculture is responsible for the coordination and drafting of rural development policy. The coordination of SAPARD policy occurs in the Department of Rural Development in the Ministry of Agriculture. The role of the OCEI is limited. The OCEI functions as an advisory body, sits on the monitoring committee, and negotiates and signs all financing agreements (Interview with Tadeusz Kozek: Warsaw September 28, 2001). This split of responsibilities fragmented executive control over the ARMA. However, the set-up of the ARMA was entirely consistent with the Polish executive structure.

Management issues were particularly important, given the political sensitivity of implementation delays. Both farmers’ groups and the European Commission put pressure on the Polish government to speed up implementation (see Kaczorowska 16/12/2001). Accreditation, scheduled to be completed in 2000, had to wait until 2002, even though the EU funds were allocated (Warsaw Business Journal, 6 April 2001). These delays were mostly caused by the Polish government’s delay in naming a rural development agency. Ironically, the Polish government had asked for a special aid fund as early in 1999 to combat specific development issues in Polish agriculture and to compensate for the partial inclusion of Poland in CAP (Wagstyl, FT, June

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receives payments through the ARMA. Based on the Steering Committee recommendations, the ARMA selects the best applications. The National Steering Committee recommends a ranking list of projects proposed, determines the content-related scope of trainings, and makes a recommendation to the Ministry of Agriculture on the division of funds between the Voivodships for measures relevant (Ministry of Agriculture, SAPARD Operational Programme for Poland 2002. pg. 56).

2001). In terms of delays, the ARMA has admitted 2,096 applications for assistance under the SAPARD programme, for a total of PLN 1.2 billion. Areas of most interest include the modernisation of the meat processing sector, crops diversification and road improvement. Close to accession, the SAPARD contracts for 2000 and 2001 were being implemented, whereas the contract for 2002 had not been signed yet. Negotiations were still underway concerning the extension of the implementation cycle of all contracts until 2004 (source ARMA 2003). The deadline for implementation will probably shift to 2004 and 2005.

These problems in implementation have also led the ARMA to adjust the requirements for projects to qualify for SAPARD funding (Interview with Iwona Lisztwan: Brussels October 15, 2003). In 2003, they included: funding for industrial plants utilising animal waste at 50% co-financing; training and advisory programmes at 12% co-financing; co-financing for the purchase of tractors (previously excluded); costs of erecting buildings with specific agricultural functions; part refund of VAT; and investment project completion. These measures were predominantly aimed at increasing the pool of projects. SAPARD also evolved to 50% co-financing of total eligible costs for investments in processing and sustained growth, which have the same level of contribution under the requirements of the EAGGF. Moreover, under measure 2 on investment in agricultural holdings and measure 4 on rural diversification for private farmers, farmers can receive 50% back on their total investment in the project. However, under SAPARD rules, the farmer has to contribute fully to the investment, before receiving the 50% back. The initial investment cannot be covered by a preferential credit. Therefore, the commercial cooperatives have set up a low interest rate-SAPARD-bridge-credit to help the farmer cover the initial investment (Latruffe 2003). As problems in implementation were large, both the European Commission and the Polish government showed a willingness to relax certain requirements on project admission within 'the spirit of SAPARD' (Interview with Iwona Lisztwan: Brussels October 15, 2003).

The expansion of the ARMA also required a greater allocation of resources (as table 17 shows, its personnel was 177 in 2000, and over 2000 now). The ARMA had grown from a modest agency to an agency, which was central in EU rural development programming. This institutional set-up has drawn criticism in light of the problems

with the absorption of aid (see for instance Golden WBJ 9/4/2001 and Kaczorowska 16/12/2001). Administrative capacity is a main concern in the operation of SAPARD. The European Commission is primarily concerned about the number of employees and their expertise. The Delegation of the European Commission in Warsaw calculates that from a level of 516 employees in December of 2000 the ARMA will have to employ 5,300 full-time employees, 3,900 seasonal labourers, and 2,300 interim staff just to implement its rural development plan and administer SAPARD (Interview with Jean-Marc Trarieux: Warsaw, September 27 2001). Concerns about administrative capacity also extend to the set-up of regional capacity. Though the regional structures are developing, the SAPARD branches in the 16 Voivodships are not yet fully at the point of implementation of SAPARD.

Hausner and Marody (2000, p. 103) see the implementation through regional offices of the ARMA as a de facto sectoralisation and departmentalisation of rural development policy at the expense of the regions. The regional structures or voivodships, which had been created with an eye on the decentralisation in EU programming, did not have a direct function within the context of implementing SAPARD. For instance, the functioning of the Regional Steering Committees has not been formalised. The National Monitoring Committee sets the criteria for selection and the budgetary allocation. SAPARD allows a great deal of discretion for the national agency to involve the regional representatives and devolve implementation to them. The particular procedural structure under EDIS also meant a certain automatic process within the implementation and the evaluation of projects. This was done to both make programming more transparent, but also limit the degree of political discretion in the project cycle. A side effect was that the monitoring and steering committees set up to involve local and regional actors were more or less bypassed.

Lisztwan acknowledges this trend, but also notes that the European Commission sees rural development policy as a sectoral agricultural policy, rather than a regional development fund. This indicates an implicit preference for central implementation. The centralisation within the ARMA therefore may not be a bad legacy to take forward to the next stage of EU funds, namely Structural Funds of the EAGGF

(Interview with Iwona Lisztwan: Brussels October 15, 2003)<sup>148</sup>. This statement seems true. However, EU programming mandates that only one priority axis was to be centrally coordinated, while the other priority axes were to be regionally coordinated. More recent programmes have devolved payment functions to the regions, especially on water management. However, the EU, as of yet, has not provided resources for rural development within the regions. This European Commission position also fits into a picture of the general lack of resources within these regions. SAPARD workshops on programming, which included the regions, produced a remarkable result, namely the regions all listed the same needs and priorities in terms of programming. This result produced a lack of differentiation in rural development policy based on a lack of differentiation of needs, even though regional disparities can be large (see Lisztwan 2003)<sup>149</sup>. The fact that the PHARE and SAPARD programmes use similar project templates means a simplification of the management procedures but also a standardisation in project identification. The regions seem to have followed the EU 'logic' in the application process.

SAPARD implementation provides a direct example of the pressures on the Polish administration to implement EU funds. These pressures in SAPARD produce a centralisation of competences and a relaxation of EU regulations and selection criteria to allow for some domestic discretion in promoting absorption. EU regulations also seem to promote vertical centralisation, despite a focus on region-based programming. This is an inherent paradox in CAP and SAPARD implementation, which becomes exposed when there is pressure to absorb on the domestic administration. Similarly, the SLD since 1995 actively supported bottom-up approaches to agricultural development through the setting up of local Chambers and Voivodship Advisory Centres, only in view of accession to attempt to consolidate most implementation under the supervision of the Prime Minister.

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<sup>148</sup> However, the SAPARD plan also contains an emphasis on rural human resource training under its operational programming. Such training crosses over into the regional development plan in Structural Funds, normally administered under the ESF. A subsequent devolution of these responsibilities from the ARMA on the introduction of Structural Funds could prove difficult.

<sup>149</sup> Lisztwan links the divergence between needs and strategy to a lack of regional identity and absence of transfer of the regional preferences to outcomes in national programming. This divergence is strengthened by the tightness of the budgetary resources. She lists the regions of Wielkopolskie and Malopolskie as exceptions in this process (Lisztwan 2003).



## 4. Conclusion

The adoption of EU agricultural policy in Poland shows a persistence of both sectoral institutional arrangements and the macro-institutional configuration.

On the sectoral level, there was a significant sectoral ‘misfit’ between EU policy and Polish agricultural policy. Adoption of EU agricultural policy would require a redirection of domestic policy. The re-orientation of policy became a debate on: 1. how to maintain domestic policy (see for instance KRUS) and include as many ‘family farms’ as possible in agricultural support next to CAP under the current budgetary framework; and 2. how to gain exemptions and transition periods on both the budget and direct payments, which became linked to foreign ownership. The Polish government had to consider how to maintain expensive and specific domestic interventionist programmes, such as credit subsidies, loan guarantees, and export subsidies next to EU CAP and SAPARD implementation. The ARMA and the APA showed few changes in their domestic programmes. EU procedures and programmes were accommodated next to domestic initiatives. Adoption of EU administrative procedures, where they occurred, remained isolated within the domestic administration. Moreover, KRUS was not substantially altered, despite the effort at budgetary reform of 2003. The process of adaptation was somewhat aided by budgetary concessions in EU negotiations, veterinary transition periods, and a ‘simplified’ system for direct payments. In rural development policy, the limited budgetary contribution of the state budget to programming mediated the ‘misfit’ in policy, as it limited the redistribution of resources. Further to these concessions, there were the practical measures to improve absorption in SAPARD, such as the relaxation of project selection criteria and the abandonment of the development of regional programmes in SAPARD. However, even in these circumstances, the effects were limited and isolated in the executive structure. Domestic executive actors could therefore avert some of the direct costs of adaptation through transition periods and resist wholesale reform of procedures within the agencies through the separation of EU funds units from the ‘domestic’ agency units.

Furthermore, sectoral resistance was strengthened by the challenge EU templates posed the domestic macro-institutional configuration. The preferences of the

European Commission had initially, as in SAPARD, focused on the independence from political intervention of administrative tasks. This point stressed in the accreditation process of implementation agencies seemed compatible with the fragmented implementation set-up that had developed in Poland since the transition period, whereby foundations operated next to the executive. However, the Commission's preference was really for independence of the agencies within the ministry, such as in the case of the SAPARD Agency in the Czech Republic (Interview with Alan Wilkinson, Head of SAPARD Unit of DG of Agriculture: Brussels, August 29 2001). Closer to accession, EU regulations meant extra-budgetary administration had to be integrated into the national budget to participate in EU funds. This represented a significant 'misfit' with the Polish set-up. This 'misfit' could potentially change the national executive structure, as independent agencies had to be integrated in and coordinated by the executive.

The debate within the executive in Poland dealt with: 1. whether such independent administration should exist next to or should be consolidated within the line ministries or closer to the Prime Minister; and 2. whether there should be any vertical decentralisation. The institutional template for the management of agricultural development policy in Poland traditionally left drafting of policy within the Ministry of Agriculture and relied on State Treasury foundations for implementation. These foundations were overseen and coordinated by a number of executive actors, the Prime Minister, the Minister of Agriculture and the Minister of the State Treasury. This fragmentation meant that reform of administration could alter the institutional balance between executive actors. This reform was made more difficult by the political control over these agencies of especially the PSL and SLD. Sectoral consolidation did occur to some extent. However, there were divisions between the Prime Minister and the Minister of Agriculture in terms of the supervision over the agencies. The Minister of Agriculture had hopes that the ARMA and the AMA would become ministerial agencies. However, management dualism remains in for instance the ARMA and the AMA (see table 18). For the ARMA, the drafting of rural development policy occurs with the Department of Rural Development, but the ARMA responds to the Prime Minister, who also appoints its chief executive. Here, there were strong competing interests between the Minister of Agriculture and the Prime Minister over who would control EU funds. This competition was somewhat

mediated, when the PSL left the administration in 2003 and Prime Minister Miller had discretion to nominate an ally in this crucial position. Sectoral consolidation was no longer a threat to the role of the Prime Minister in the overall coordination of agricultural funds. This development raised the prospect of agencies being more closely aligned with the Minister of Agriculture. Nonetheless, at the time of completion, the basic macro-institutional set-up between the Minister, sectoral agencies, and the Prime Minister was maintained.

Secondly, the move towards consolidation, as clearly seen in SAPARD implementation, would lead to the vertical centralisation of competences and resources. In this case, a possible 'misfit' with EU templates through the decentralisation of rural development policy was moderated both by the focus of domestic actors and the EC on absorption issues and the inherent sectoral and central approach of the SAPARD and CAP rural development templates. Moreover, the strong procedural approach in SAPARD, aimed to limit any domestic discretion in programming, also meant regional actors were bypassed. This safeguarded the traditional centrist relationship within the executive structure.

Two further factors help explain the patterns of institutional change. First, the farmers' groups were an important force behind the maintenance of the existing macro-institutional set-up and the isolated sectoral adjustments. Farmers' groups were threatened by a cut in domestic support programmes, the transfer of price-setting competences to Brussels, and for instance the more limited consultation with sectoral groups in the procedures of SAPARD, which aimed to keep national discretion over programming at bay (Interview with Wladyslaw Piskorz: Brussels September 25, 2000). Any move on the macro-institutional level to decrease sectoral autonomy would be resisted.

Secondly, the independence of the agencies, coupled to the need for administrative capacity that was present in these agencies, meant that these agencies could resist adaptation as in the case of the AMA, quarantine adaptation as in the ARMA, or that competences remained somewhat fluid. The APA's involvement in employment programmes also reflected its superior administrative capacity and linkages with sectoral ministries such as the Ministry of Labour and Social Affairs. Capacity, in the absence of direct sectoral coordination from above, could dictate the allocation of

competences. This pattern of adjustment represented a continuation of the macro-institutional set-up, whereby the agencies had sectoral autonomy.

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## **Chapter 9: A Cross-Policy and Cross-Country Comparison**

### **1. Introduction**

This chapter aims to develop a comparative analysis of the empirical findings presented in chapters 5-8. This comparison follows the levels of analysis set out in chapter 3. The first part of this chapter will give a brief overview of the main differences between policy sectors. The second part of the chapter will link the degree and magnitude of institutional change to the causal framework. A third part will examine whether ‘convergence’ of administrative outcomes occurs in light of EU interaction.

### **2. Policy Comparison**

#### **2.1 Policy and Temporal Factors**

As stated in the introduction, agricultural and regional policies have important similarities. Before the implementation of SAPARD, starting in 2000, PHARE structures incorporated regional development and rural development programmes. Associated administrative effects were therefore similar across the two policy sectors. These effects centred on the diffuse and fragmented coordination and implementation of policy on both the horizontal and vertical levels of the executive through Programme Management Units (PMUs), central agencies, various state bodies, regions, districts, and Regional Development Agencies (RDAs). The effect of the EU template was to encourage a wide participation. Diffuse implementation was also a function of the decentralised executive that characterised the institutional set-ups of most post-communist countries after the transition.

Similarities remained in the pre-accession period after 1997. These similarities are visible in the mechanisms of ‘europeanisation’. Both policy areas eventually

incorporated the Extended Decentralised Implementation System (EDIS) mechanism in the 'downloading' of templates. SAPARD was set up according to EDIS principles. Regional policy was slower in this adoption and first relied on DIS. EDIS and DIS both emphasised central coordination, financial control, and implementation in fewer accredited administrative units. As the pre-accession process progressed, the EU initiatives would incorporate fewer actors. The allocation of resources from 1997 onwards was more targeted according to priority axes and was compatible with Structural Funds. Again, the allocation was less diffuse across ministries and implementation agencies after the reforms of 1997. The EU policy templates in regional and agricultural policy towards accession not only challenged the domestic institutional configuration, but also the allocation of competences and resources in the initial PHARE programming before 1997. Misfits' for the Czech Republic and Poland arose out of the EU requirements. In regional policy, they were: 1. introducing a redistributive regional policy; 2. decentralised implementation; and 3. a horizontal re-organisation in coordination and drafting. In agriculture, EU requirements were: 1. adopting CAP rather than domestic intervention policies; 2. a horizontal re-organisation in implementation and coordination; and 3. the transfer of competences to the European Commission. This first challenge solely refers to the change in sectoral institutional arrangements to manage EU development policy, whereas the last two challenges for each policy were challenges to the macro-institutional set-up.

These challenges were augmented by both a limit on the allocation of resources and the procedures of EDIS. The limit refers to the ceilings the EU budgetary framework put on transfers to the candidate countries. This cap would stop the expansionary spending by the EU on the CEECs, at least until 2006. Thus, changes in the EU budgetary allocation would likely mean a domestic redistribution of resources. Further, budgetary procedures meant that member-state contributions to the EU would come from the national budget, while EU funds distribution is mostly in regional and agricultural policy. This budgetary allocation was in fact a redistribution of resources at the national level. However, on the vertical level, this redistribution indicated differential effects. The national line ministries in regional policy stood to lose out to regions, as implementation and thus resources were decentralised. In agricultural policy, this trend was reversed, as rural development initiatives, which had been often administered and funded in an ad hoc way on the regional or district levels, were often

re-centralised. Finally, the domestic administration had to be integrated in the national budget to support EU programming, as EU funds would flow through the national budget. This point seems obvious. However, the integration of programming in the national budget was a challenge to the institutional set-ups of the Czech Republic and Poland. As previous chapters showed, these countries relied on extra-budgetary agencies to implement and even coordinate policy in these sectors.

Despite this commonality in the EU pre-accession approaches across regional and agricultural policy areas, important differences exist between the two policy areas. As stated in chapter 3, these differences reside in policy and temporal aspects. These mediating aspects also determine the domestic discretion to shape adaptation or reduce the ‘misfit’<sup>150</sup>. The policy aspect is inherent in the ‘acquis’ or the management guidelines for EU funds. The temporal aspect refers to the continuity between the pre-accession template and the ‘acquis’. Following the five categories outlined in section 3.3 of chapter 3, table 21 shows the main differences in the policy areas observed in the empirical chapters.

**Table 21: Policy and Temporal Factors in EU Agricultural and Regional Policy**

<b>Agricultural Policy</b>	<ul style="list-style-type: none"> <li>1. Dense ‘acquis’;</li> <li>2. Rural development with atomised beneficiaries (farmers);</li> <li>3. Sectoral policy;</li> <li>4 Transition periods in core CAP areas: direct payments, veterinary and phytosanitary standards;</li> <li>5. Continuity in templates (SAPARD to CAP).</li> </ul>
<b>Regional Policy</b>	<ul style="list-style-type: none"> <li>1. Shallow ‘acquis’;</li> <li>2. Regional development with diverse state beneficiaries (state agencies, regions, companies, and municipalities);</li> <li>3. Cross-sectoral policy;</li> <li>4. Some minor transition periods in funds management;</li> <li>5. Lack of continuity in PHARE with no direct successor after accession to Structural Funds/ Continuity in ISPA to Cohesion Fund.</li> </ul>

The density of the ‘acquis’ determines the clarity of the administrative requirements in a policy sector. In a policy area, where the ‘acquis’ is less prescriptive, such as regional policy, administrative requirements can be inherently paradoxical. This absence of a clear template in EU policy to promote vertical decentralisation in the member-states was also noted by Hughes, Sasse, and Gordon (2004). EU regional

<sup>150</sup> For the cases in the thesis, a reduction of a ‘misfit’ means a ‘moderate’ rather than a ‘fundamental’ challenge

policy to paraphrase from Borzel (2002a) places the ‘say’ with national executives and the ‘pay’ with the regions. Thus, decentralisation for member-states means decentralised implementation, but not necessarily decision-making. However, the EU template does not determine what kind of decentralisation should take place. As stated in chapter 3, EU regional policy after the reforms of 1999 relied on shared overall decision-making and monitoring of programming between the European Commission and national governments. These governments had the freedom to organise national coordination and implementation of EU regional policy. In the absence of a prescriptive EU model on territorial administration, such administration, much like in France, could be a system of devolved state administration, void of direct regional input.

On the other hand, agricultural policy did have a dense ‘acquis’ and distinct models of administrative management in CAP and SAPARD. In this case, despite recent reforms aimed at increasing national discretion (modulation; cross-compliance and rural development initiatives), decision-making largely remained with the European Commission and the EAGGF Management Committee. Coordination occurred in the Ministry of Agriculture of the member-states. Implementation was conducted in the associated agricultural agencies. Ex-post monitoring and control occurred in the European Commission and the European Court of Auditors.

The organisation of implementation is also dependent on whether a policy area is confined to one sector or not and on the type of beneficiaries, which exist within a policy sector. Regional policy is a cross-sectoral policy area and has diverse beneficiaries. In regional policy, it is likely that many administrative units or ministries have a ‘capacity’ that is beyond that of the regions, in terms of resources and competences. These units seem to have an advantage in the allocation or execution of implementation tasks. Secondly, dealing with diverse beneficiaries also means a segmentation of administration in regional policy, according to which units have the best access to respective beneficiaries. The fact that many beneficiaries are state actors or regional bodies makes the administrative hurdle less great and EU requirements less specific (see ISPA). In SAPARD, the sectoral perspective reduces the prospect of executive fragmentation. Further, with atomised beneficiaries (farmers), the focus on ‘administrative compliance’ is much greater.



Fourth, transition periods were negotiated close to accession. Transition periods mostly occurred in policy areas such as CAP, where the ‘acquis’ was dense and thus difficult to implement. Some transition periods were practical. For instance, transition periods relaxed the project selection criteria in SAPARD to enhance the uptake of EU pre-accession funds. Others were practical and political. Transition periods in direct payments, as stated in chapters 4, 7 and 8, reflected both the problems in the achievement of domestic compliance with EU requirements and the protracted negotiations on the EU contribution to the candidate countries, which was linked to the liberalisation of foreign land ownership in the candidate countries.

Moreover, as noted in chapter 4, the European actors seek compromises with their domestic counterparts. Such compromises reflect the inherent conflict between the two EU pre-accession priorities, the building of administration in the pre-accession period and administrative compliance. The weakening of the concept of ‘administrative compliance’ was easier in policy areas with a less dense ‘acquis’. This compromise would normally involve additional domestic discretion. For instance, a compromise between the European Commission and the domestic administrative actors on the use of sectoral operational programmes led to the weakening of the requirement for decentralised implementation in the Czech Republic and Poland (see chapters 5 and 6). This compromise produced more domestic reliance on those national executive actors, already operating in a cross-sectoral environment. As the pre-accession period progressed, the need to improve absorption meant an increased reliance on and a direction of pre-accession funds towards established domestic administration with an administrative capacity to absorb (also see ISPA uptake in chapter 4). Territorial decentralisation took a backseat to this dynamic. The expression of this compromise was evident in the frequent changes in the pre-accession templates. The template changed from a fragmented decentralised approach in the ‘early accession’ period to a template that after the PHARE Management Reforms focused more on centralised independent specialist agencies and central coordination. These implementation agencies were required to be integrated in the national budget. Shortly after accession, the pre-accession funds would be replaced by the membership funds. Though agricultural policy saw a similar evolution in the pre-accession template to regional policy (PHARE before 1997 indeed incorporated rural

development), the European Commission pushed for agricultural agencies to be integrated in the budget. SAPARD showed continuity in programming and its administrative requirements over the pre-accession period. Moreover, it required much less subsequent adaptation upon membership than PHARE.

These points lead us into the final temporal aspect in EU templates. The main difference between regional and agricultural policy in the pre-accession period is the greater continuity of agricultural policy. I make this assessment, despite the transition periods and exemptions in agricultural policy at the time of accession. However, these derogations had fixed timelines and conditions attached. The main reason for this greater continuity is the transition from SAPARD to CAP. Whereas ISPA will form the base for the Cohesion Fund, PHARE does not have a successor programme at accession. Moreover, as detailed in chapter 4, PHARE would see almost annual changes in programming and an extensive redirection in 1997. The administrative set-up of PHARE underwent two major changes in the pre-accession period: the abandonment of the PMUs and the shift from DIS to EDIS close to accession. Regional policy in the pre-accession period was caught up in an air of changeability, which affected the stability of the prescribed administrative arrangements and the allocation of budgetary resources. This temporal variability was much less in agriculture.

In overall terms, agricultural policy offered a great deal of prescription through SAPARD and CAP. Only temporal factors, in the shape of transition periods with fixed timelines, implied a domestic discretion. In regional policy, both policy and temporal factors mediated the level of 'prescription' the EU projected to the candidate countries. This differentiation would affect the challenge the EU could pose to the candidate countries.

## **2.2 EU Challenges to the Domestic Institutional Configuration**

The section above has direct consequences for the study of the effect of the European pre-accession process on the candidate countries. As stated earlier, the sectoral misfits are high in all policy areas. The study of these sectoral 'misfits' seems insufficient to

explain the different patterns of institutional change. To further the analysis, the study proposed to look at the challenge these sectoral adjustments might pose to the macro-institutional configuration. In cases of sectoral ‘misfit’, the challenge posed by the EU template to the macro-institutional configuration might further explain the strength of institutional resistance or the pattern of change. In both countries, adaptation to EU templates has the potential to change the macro-institutional context, namely the executive structure. In agricultural policy, these challenges are: the integration of the agricultural agencies within the domestic budget and executive; the transfer of sectoral competences in price-setting to Brussels, with a greater role for the cabinet in this process; the procedural and automatic aspects in the project management of funds, which largely eliminate both regional and sectoral inputs. In regional policy, the most direct challenges were: the prospect of a territorial decentralisation in these centrist states, and the emphasis on central coordination in a traditionally sectoral policy field. These challenges were amplified by budgetary redirections to these policy sectors within a capped budgetary framework.

How do the policy and temporal factors affect the EU challenge? Though transition periods exist in agricultural policy, prescription is high. The EU presents a fundamental challenge to the macro-institutional context. In this case, one expects little institutional change, on both the sectoral and macro-institutional levels. In regional policy, the prescription is less. Both policy factors and temporal factors, such as the continuity (or lack thereof) of the pre-accession templates, mediate the adaptive pressure. This means the challenge to the macro-institutional configuration is largely moderated. However, the discretion in implementation allows the domestic administrative actors to shape the process of administrative adaptation from the ‘bottom-up’. In this case, the possible sectoral institutional changes are within the range permitted by the national executive structure. The study of domestic reform processes in both cases will enhance the explanatory capacity of the framework.

### **3. Institutional Change**

This section will link institutional change observed in the empirical chapters to causal explanations. These causal explanations vary between an ‘institution-based’

perspective, when there is a fundamental challenge to the domestic institutional configuration, and a more 'agency-based approach, when the challenge is moderate. A first question is how institutional change can be linked to 'prescription' in the EU template.

### **3.1 A Fundamental Challenge to the Domestic Institutional Configuration**

In agricultural policy, the adoption of an EU intervention policy, consistent with CAP and SAPARD, presented a significant challenge to the executive structure, with few policy and temporal factors mediating adaptive pressure. SAPARD and CAP challenged the institutional relationships within the executive and those between the executive and sectoral actors. This pressure increased after 1997. In agricultural policy, demands on the domestic administrative structure only started in 1997, with the introduction of SAPARD. The 'Association Agreements' had had some administrative demands in terms of a market intervention agency, but these were not overly prescriptive. SAPARD represented a move toward an independent sectoral capacity that was integrated in the national budget. The pressure on the domestic administration was not only to create an adequate 'administrative capacity', independent of political intervention, but to consolidate this administration in the overall coordination of agricultural policy and sectoral budgetary resources.

In Poland, the EU template challenged the horizontal organisation of the state. The 'misfit' was produced by the requirement on the integration of agricultural foundations in the national budget. Such consolidation could alter the institutional relationships within the executive and between the national executive and sectoral actors. The consolidation of agencies within the budget pits the autonomous agencies against the Minister of Agriculture, and the Prime Minister. Agencies sought to maintain their independent status, rather than become sectoral ministerial agencies or have the Prime Minister exert additional influence over agricultural policy (Interview with Iwona Lisztwan: Brussels October 15 2003). Agricultural policy implementation has seen the continuation of a dualism in the Polish set-up, whereby the main implementation agencies in agriculture, the Agency for the Restructuring and

Modernisation of Agriculture (ARMA) and the Agricultural Market Agency (AMA) are independent government agencies with foundation status, which fall under the supervision of the Prime Minister, who appoints the president of these agencies. The Minister of Agriculture is in charge of overall policy coordination and the drafting of EU funds plans. The result is a limited the consolidation of agencies, whereby changes in the institutional arrangements have been incremental, as in the Agricultural Payment Agency (APA), to give the Minister of Agriculture more 'say' over agricultural agencies. Crucially, the APA, the AMA, and the ARMA maintained their foundation status and relative independence in the institutional set-up (see the way the APA negotiates its competences and arrangements with other sectoral actors in section 3.2.a of chapter 8).

This limited institutional change should also be seen in light of two actors in agricultural policy, the Peasant Party (PSL) and farmers' groups. These groups saw these agencies as their power bases, because of their independent power to implement agricultural policy outside of the core executive and indeed sometimes the sectoral Minister. Agricultural policy was for long periods in the 1990s and close to accession the domain of the PSL, a party that supported the domestic intervention policy at all levels of administration. Further, the farmers' groups could exert great influence over these agencies. The Polish institutional set-up had formally coordinated and negotiated intervention prices and support levels with the producer groups. In CAP, such consultative processes take place on the European level. Though it is generally assumed farmers' groups would benefit from European membership (see Green Cowles and Risse Kappen 2001, p. 229), in Poland the farmers' groups and agricultural parties perceived the effect of membership as a decrease in domestic 'say'. These fears also arose out of the limited consultation process with sectoral actors that developed in SAPARD programming. These factors help explain the resistance to the consolidation of agencies.

The observations above would indicate a limited sectoral adjustment. Underlying this sectoral resistance to adaptation was the sectoral 'misfit' between CAP and domestic policy. CAP challenged the domestic distribution of budgetary resources and the extension of domestic intervention instruments. The redirection of agricultural spending would inevitably mean the downsizing of the agricultural support network

and especially KRUS, the farmers' pension system. This downsizing had limited political support in parliament (Maksymiuk RFE/RL 2003c). Similarly, any substantial agricultural budgetary redirection would limit the extension of preferential credits, input subsidies and credit subsidies that were issued by foundations. In the adjustment of intervention tools, there were two trends: 1. an outright resistance to EU policy style and procedures; 2. an accommodation of such policy style, isolated from the domestic intervention instruments. Resistance to EU policy style was most pronounced in the AMA. The AMA also had the closest links with producer groups. At publication, signs were that the AMA under the immediate pressure of EU accession was undergoing a limited transformation to align procedures with the EU market intervention mechanisms. Accommodation was the most pronounced in the ARMA, where domestic support programmes were isolated from EU-related administrative units. This isolation also meant that in the EU units of the domestic administration adjustment could be substantial, but effects were contained. The survival of the domestic programmes was aided by the introduction of a 'simplified' direct payment scheme and the budgetary concessions in the negotiations with the EU.

Table 22: Sectoral Institutional Adaptation in Agriculture

	<b>Rural development</b>	<b>Market Intervention</b>	<b>Payment Function</b>
<i>Czech Republic</i>	<b>Creation</b> of SAPARD Agency as independent agency within the Ministry of Agriculture/ <b>Adoption</b> of EU administrative procedures	<b>Transformation</b> of SFMR into SAIF, a purpose-built administrative unit/ <b>Adoption</b> of EU administrative procedures	<b>Accommodation</b> of payment function within the SAIF
<i>Poland</i>	<b>Accommodation</b> of SAPARD intervention in existing unit of the ARMA next to units dealing with domestic policy (separation of EU-related and domestic administration)	<b>Initial resistance/ Some Accommodation</b> within AMA. Some adaptation of its procedures and intervention instruments	<b>Accommodation</b> of payment function within the ARMA

In agricultural policy, the Czech Republic after 1997 faced a 'misfit' between the administrative requirements of the EU and the horizontal organisation of domestic administration. However, in contrast to Poland, this 'misfit' involved the building of sectoral capacity through the establishment of the implementation agencies to

implement SAPARD and CAP. The sectoral focus in administration-building mandated by the EU also had the potential to change the institutional balance between the core executive and the sectoral ministry. First, the creation of the SAPARD agency boosted sectoral capacity. Consequently, a debate among political actors was held whether the SAPARD structure should be expanded to include direct payments and market organisation or whether separate agencies should be created (Interview with Milena Vicenova, Prague: September 19 2001). However, the independent status of SAPARD was not attractive to the Minister of Agriculture. The Minister of Agriculture was in favour of consolidating both CAP management and payment functions under the Deputy Minister of Economic Affairs of the Ministry of Agriculture. The Agricultural Payment Agency (APA) was incorporated in the Economic Section of the Ministry of Agriculture after deliberation with the European Commission, which preferred the separation of these functions. However, this consolidation did not address the institutional balance of competences between the Prime Minister and the sectoral ministry. In 2003, this decision was reversed and it was decided to integrate the payment functions of the APA including rural development payments into a transformed foundation, the State Agricultural Intervention Fund (SAIF) (EC Regular Report 2003, p. 28). The CAP payment and market intervention systems were consolidated in the SAIF. The SAIF, formerly the State Fund for Market Regulation (SFMR), had been the active interventionist agency since the time of transition and traditionally stood under the supervision of the Prime Minister. Moreover, the SAIF benefited from support from farmers' groups that had close links to this agency since transition. The consolidation of competences in the SAIF was an indication that after the debate on institutional adjustments major institutional patterns in the horizontal organisation of the executive would persist. The creation of the SAPARD Agency had proved to be an isolated event. Thus, institutional changes in the executive structure were subtle and isolated.

The pattern of institutional change also shows the limited ability of the executive to allocate competences and resources. The sharing of coordination responsibility for rural development policy between the Ministry of Agriculture and the Ministry for Regional Development (MRD) is an example. This limited coordinative ability in the executive meant a fluidity in the allocation of competences and resources, until close

to accession an institutional equilibrium similar to the original equilibrium was reached.

Similar to Poland, the empirical observations above would indicate a very limited sectoral adaptation. However, there was a transformation of the liberal agricultural policy in the Czech Republic. The adjustment in the Czech Republic consisted mostly of creation and transformation. These comprehensive adjustments aimed to align procedures and intervention styles with the ‘acquis’ and CAP requirements. Though legislative harmonisation sometimes provided unwelcome parliamentary amendments to domestic laws<sup>151</sup>, the adjustment of policy and sectoral administrative procedures was comprehensive.

In agricultural policy, the sectoral adoption of the EU template challenged the macro-institutional contexts in Poland and the Czech Republic. In terms of the organisation of the institutional relationship between the national executive and sectoral administrative actors, institutional change in both countries was limited, as more or less the horizontal organisation of administration persisted despite EU pressures. In the Czech Republic, the creation of the independent and isolated SAPARD Agency, though a significant sectoral change, did not particularly alter the organisation of the executive. In this case, sectoral actors had pushed for a reform of the executive set-up, through the creation of an independent SAPARD Agency. These actors envisioned that this SAPARD Agency would attract EU funds management and market intervention competences. However, executive actors such as the Prime Minister and Minister of Agriculture reacted to this sectoral challenge by re-affirming the executive structure that had existed previously. This structure stressed the role for the Ministry of Agriculture and the SAIF. The adoption of EU rural development policy remained isolated within the domestic macro-institutional configuration. Both these cases of institutional change are consistent with institution-based views, which anticipate institutional change to be limited.

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<sup>151</sup> The Veterinary Law of July 1999 built a platform for the protection of animal and public health and set customs fees to the same levels of the EU but was not in line in the ‘acquis’ on measures to block imports and subsidise farmers for outbreaks of disease (EC Regular Report on the Czech Republic Progress on Accession 1999, pg. 30). Similarly, some measures of the SAIF such as the subsidising of storage costs proved beyond the scope of EU market intervention



However in terms of interventionist procedures, there were some significant sectoral changes. For instance, market intervention policy administered within the AMA in Poland is changing. However, at the moment, the research can only conclude that this change, similar to the adaptation of the ARMA, is being accommodated within the agency, remains isolated in the executive structure, and has not transformed the AMA or sectoral arrangements. This situation is different in the Czech Republic. The Czech Republic has adopted most EU procedures for sectoral implementation, coordination, and financial control, in spite of liberal policy traditions. Here institution-based accounts offer less explanatory capacity. The question remains how we can explain these sectoral changes within the context of a fundamental challenge.

### **3.1.a Sectoral Institutional Change in the Case of a Fundamental Challenge to the Domestic Configuration**

An additional explanation is required when substantial sectoral change occurs when there is a fundamental challenge to the national executive set-up. Substantial sectoral changes, as in the case of the Czech Republic, can be explained within the macro-institutional context. This context often allows more than one sectoral outcome. In the Czech Republic, a change in government in 1997 was the main impetus to endogenous policy change (see section 2.3 in chapter 7). This sectoral change reduced the sectoral 'misfit' with CAP. However, the overall executive set-up, which did not fully conform in terms of horizontal organisation to the CAP and SAPARD requirements, remained more or less the same. Institutional change was confined.

In agricultural policy in the Czech Republic, the changes of sectoral institutional arrangements can be explained through institutional reform started in 1998 by the CSSD minority government of Milos Zeman. This reform aimed to transform liberal agricultural policy formed by Vaclav Klaus in the post-transition period and build systematic market intervention and rural development policy. National reform of administration and policy had reduced the 'misfit' with European CAP and SAPARD requirements before adoption of SAPARD and CAP commenced in the period 1999-2000. As explained in chapter 7, this adoption was also facilitated by the limitations on the budgetary impact of both SAPARD and the system of direct payments in the Czech Republic.

Institutional reform also opened up opportunities for sectoral groups to influence administrative and political decisions. The support by the farmers' groups for the SAIF is an example. This support also helped explain the Czech Republic retaining the executive institutional set-up in agriculture. In this sense, farmers' support and sectoral institutional change reinforced the national executive structure.

### **3.2 A Moderate Challenge to the Domestic Institutional Configuration**

As indicated in chapters 2 and 3, institution-based accounts have limits in their explanatory capacity. For instance, these accounts offer little explanation for cases where the EU challenge to the macro-institutional context is limited. A limited challenge might mean the 'misfit' is minor or, as shown in this thesis, the 'prescription' in the EU templates is mediated by temporal and policy factors. Such mediation is particularly visible in regional policy. In this case, as chapter 3 argued, agency-based approaches might explain better the pattern and magnitude of institutional change, especially on the sectoral level. In this case, any sectoral institutional changes remain within the range permitted by the national executive structure

In regional policy, the emphasis before 1997 on decentralised implementation on both the horizontal and vertical levels was replaced by a rationalisation of administration in 1997, with an increased emphasis on financial control and central coordination. This move produced pressure to consolidate the coordination and implementation of EU policy on the horizontal and vertical levels of the respective executive structures. Interestingly, the EU template had helped to create the 'misfit' before 1997 that the PHARE template in 1997 aimed to address. Close to accession, the Structural Funds templates would signal a transfer of competences from implementation agencies to the line ministries. Implementation agencies would remain as intermediate bodies.

Before 1997 in the Czech Republic, diffuse PHARE implementation strengthened the fragmented ministerial institutional set-up in which the line ministries had significant

autonomy in their institutional relationship with the core executive and the regions. However, the adoption of EU policy also challenged the territorial organisation of the state. The Czech Republic chose to postpone territorial reform under Klaus. Post-1997, the PHARE Reforms, in reducing the number of implementation partners and promoting concepts such as central coordination, reduced the 'misfit' in the territorial structure, but on the horizontal executive level challenged the role of the line ministries in the coordination process and of ministerial agencies in the implementation of PHARE. First, the Czech Republic instituted provisional 'cohesion regions'. In this choice, the Czech government was aided by a lack of specificity in the EU regional policy template on regional implementation on the NUTS 2 level. Moreover, the European Commission, focusing on the absorption of funds rather than 'administrative compliance', preferred those administrative units with high absorption capacity. The regions had very limited capacity in terms of resources and competences, as they were recently established in a centrist state. In a cross-sectoral policy environment, this preference also meant a greater role for the line ministries and the associated implementation agencies. Secondly, given the lack of specificity, domestic administrative actors in the Czech Republic managed to avoid centralisation at the horizontal level by placing very specific coordination responsibilities in the weak MRD and placing regional implementation responsibility in its agency, the Centre for Regional Development (CRD). The line ministries and their implementation agencies could largely avoid the consolidation of sectoral implementation agencies, as neither the MRD nor the CRD could easily establish their competences. This lack of institutional power of the MRD also comes out in the implementation of ISPA. Further, the line ministries managed to expand the resources allocated to the sectoral programmes. They had this distribution instituted in the Structural Funds template until 2006. This move effectively sectoralised regional policy and limited direct decentralised regional implementation. The coordination in the MRD was mainly a gathering of sectoral operational programmes. The CRD is aiming to establish a role in the coordination of the regional development agencies.

Given the lack of specificity and frequent changes in the EU templates, domestic actors could avert any substantial changes to the domestic executive organisation, both on the horizontal and vertical levels. Institutional change did occur through the creation of 'krajs', 'cohesion regions', and the MRD. However, these changes did not

substantially alter the executive structure, but were designed within the context of this executive organisation. A good example was the creation of provisional ‘cohesion regions’. Moreover, the European Commission’s focus on ‘administration-building’ favoured administrative actors with established ‘capacity’ to absorb EU funds. These actors could strengthen their institutional position. The sectoral line ministries and the associated implementation agencies filled a regional implementation vacuum.

Before 1997 in Poland, diffuse PHARE implementation strengthened the ministerial and central agencies operating in the regions. Moreover, the EU challenge to the territorial organisation produced a territorial decentralisation in the shape of the new 16 amalgamated ‘voivodships’. After 1997, PHARE Reforms challenged the fragmentation of implementation in the ministries, agencies, and regions. This challenge produced a consolidation of implementation in the Polish Agency for Enterprise Development (PAED) and a consolidation of coordination in the Ministry of Economy, whose Minister Jerzy Hausner was a key ally of Prime Minister Miller. In ISPA, the Polish cabinet pursued a rationalisation of administration through the proposal for the creation of a super-agency. The PHARE Reforms also reduced the ‘misfit’ in territorial decentralisation. ‘Voivodship contracts’, the role of the Voivod, and the allocation of resources meant a de facto ‘recentralisation’ of any constitutional concessions to the regions. When the role of Voivod was modified in the ‘voivodship’ contracts, it was not to devolve this authority to the regions but to draw financial authorisation within the Ministry of Economy. Sectoral dominance of the Ministry of Economy in coordination and implementation was also instituted in the set-up of Structural Funds until 2006, as the Ministry of Economy drafted all but two sectoral operational programmes and drafted and implemented most priority axes of the joint regional operational programme. The PAED would retain competences as an intermediate body, with responsibility for implementation in SMEs and human resources.

In Poland, a pattern of cautious vertical centralisation occurred after the PHARE Reforms of 1997 and in particular the PHARE reforms of 1999. This process was similar to the process in the Czech Republic. However, this process consisted more of re-centralisation given the reform of territorial administration of 1998. The Polish government had chosen a more substantial territorial reform than the Czech

Republic.<sup>152</sup> Again, lack of specificity in the EU template, frequent changes in the EU pre-accession template, and the focus of the European Commission on administrative capacity to absorb explain how national actors limited decentralisation in the domestic institutional configuration. However, where in the Czech Republic lack of specificity in the EU template produced little change in the institutional configuration, in Poland horizontal re-organisation was substantial. Both the Prime Minister and Minister of Economy asserted themselves in the regional policy field. The question remains how to explain this change in the executive structure in light of the moderate challenge the EU template posed. Section 3.2.a will expand.

In terms of changes of sectoral institutional arrangements, the temporal and policy factors in EU templates, which allowed a strong sectoral approach to regional development, mediated the challenge to the executive structure. Policy adjustment would not necessarily imply a challenge to the national executive structure. Moreover, the sectoral ‘misfit’ between EU regional policy and the conceptualisation in the Czech Republic and Poland of regional policy as part of industrial policy had mediated. Regional development policy broadly ‘fit’ the government’s desire to reduce disparities across the territory and more importantly with the EU average. The reduction of these regional disparities had become important after the economic crisis of the mid-1990s. There was broad administrative and political support for regional development policy. This support was boosted by the greater budget and wider distribution of funds that actors expected from EU funds. Administrative actors were quick to exploit the new opportunities in the administration of EU funds. Implementation agencies after the reforms of 1997 were quick to absorb EU regional policy style of the ‘new’ PHARE ESC in their statutory mandates. Statutory alignment of these agencies meant a ‘strategic’ positioning of these agencies for the eventual distribution of Structural Funds. Similarly, coordination and financial control procedures were adjusted in both countries. Though PHARE ESC was not a transition facility to Structural Funds, it offered a strong base for Structural Funds, which had lacked before 1997. Such procedural alignment was also visible in the specifically

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<sup>152</sup> The reason why the Czech government chose ‘provisional cohesion regions’ was the assumption that the Czech Republic would only qualify for Objective 1 status, which requires NUTS 2 implementation for a short period of time after accession. Thus, ‘krajs’ as NUTS 3 regions would receive the bulk of the funding thereafter. In Poland, objective 1 status would in all likelihood remain much longer and this helps to explain the institutionalisation of ‘voivodships’.

created units such as the MRD in the Czech Republic and EU departments of the Ministry of Economy, such as the Department for Regional Development Programming and the Cooperation Fund in Poland. These sectoral adjustments were relatively comprehensive, but were fully in the context of the executive structure.

Table 23: Sectoral Institutional Adaptation in PHARE ESC

	<b>PHARE ESC and Regional Policy</b>
<i>Czech Republic</i>	<b>-Absorption</b> of EU procedures within the domestic procedures of NTF, BDA, CzechTrade and CzechInvest
<i>Poland</i>	<b>-Absorption</b> of SME procedures and policies in PAED

### **3.2.a A Challenge to a Domestic Institutional Configuration undergoing Endogenous Macro-institutional Reform**

The analysis above presents us with one unexplained pattern of institutional change, namely the adjustments in Polish regional policy. Here, one has to explain a change in the macro-institutional configuration or the national executive set-up, when no fundamental challenge occurs to this set-up. This institutional change can be explained by looking at the endogenous processes of reform within the executive structure.

In the case of Poland, national administrative reform in 1997-1998 consisted of the strengthening of the core executive and key ministries such as the Ministry of Economy (see Zubek 2001). In regional policy, a consolidation, through the reduction of implementation agencies on the horizontal level, seemed an extensive change of the executive set-up. However, it was a function of ongoing reform of the domestic administration. The strengthening of core executive coordination and sectoral implementation in regional development were prominent features of these reforms. Moreover, administrative actors, such as the Prime Minister and the Minister of Economy, a Deputy Prime Minister, had discretion within the templates to use the EU requirements. In this way, the EU requirements were used to solidify domestic

processes of reform of the core executive. This pattern seemed to have occurred under the administration of Leszek Miller in 2001.<sup>153</sup>

It could be logical to think this reform of the executive should have affected the Polish agricultural sector as well. In agriculture, the Polish Prime Minister was similarly interested in the consolidation of implementation agencies and adoption of EU intervention style (Interview with Iwona Lisztwan: Brussels October 15 2000). However, domestic reform did not occur, given the challenge to the institutional autonomy of agencies and vested interests in terms of farmers' groups that favoured the status quo in terms of the relationship between sectoral actors and the executive. Further, the ability of the core executive to coordinate agricultural policy was limited (see for instance the role of the APA in section 3.2.a of chapter 8). Political management was difficult, given the role of the PSL within the cabinet up until 2003. After the PSL left the coalition government close to accession, Prime Minister Miller had enough leverage to attempt further reform of the agricultural agencies. However, the PSL maintained a blocking role in parliament towards the proposals of a weak minority coalition government.

### **3.2.b A Variation in the EU Challenge over Time**

Temporal factors were already included in the EU pre-accession templates, which challenged the candidate countries. However, it could be of interest to analyse possible institutional changes right after accession.

How would accession change the process of institutional change? In our institution-based approach, the reform of CAP might mediate the 'misfit' between the candidate countries and the EU template and increase in the domestic 'say' in implementation (Interview with Iwona Lisztwan: Brussels October 15 2003). However, in the cases above it is important to note that most temporal factors that refer to CAP reform, such as transition periods and exemptions, were already included in the EU pre-accession template that the candidate countries resisted. This point qualifies a point raised by

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<sup>153</sup> In contrast, administrative reform in the Czech Republic in 1996 further emphasised informal core executive coordination and ministerial autonomy. This reform limited the possibility for greater institutional change linked to EU regional policy implementation in the Czech Republic.

Goetz (2002a) that countries would postpone reform and institutional change until after accession, when they attain a better strategic position.<sup>154</sup> The prospect of wide institutional change after accession seems unlikely in agriculture, unless CAP is substantially reformed after accession.

However, in the empirical evidence here, the most tangible example of the effect of accession on institutional change was not the possible mediation of templates after accession, but the ‘bottom-up’ use of EU requirements by executive actors. In regional policy, administrative actors did not only have to avert redistribution in competences in the pre-accession period but prepare themselves for the period after accession. This fact explains why the line ministries in the Czech Republic and the Ministry of Economy in Poland were keen to institute their positions in implementation and coordination in Structural Funds. In fact, these actors became more pro-active, as accession neared and the links between the pre-accession instruments and EU funds became clear. In the Czech Republic, there are signs that the Prime Minister in regional policy might use the EU requirement on the reduction of implementation partners upon accession to restructure the implementation agencies and gain a more direct ‘say’ over the implementation of funds in regional policy. This would also increase the ability of the core executive to coordinate. This possible change to the executive structure is probably best explained in light of the Prime Minister seeking opportunities to assert himself over the specific line ministries. The reform of the core executive has been an ongoing debate in the Czech Republic. Again, the EU requirements might enhance an endogenous reform process.

## **4. A Framework for Institutional Change**

The main findings are set out in table 24. When linking institutional outcomes to explanations, it was clear that it was first necessary to differentiate between policy areas, where the ‘misfit’ and prescription was substantial and those policy areas that had less prescription. In a ‘fundamental misfit’ analysis using institution-based views,

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<sup>154</sup> Ability to ‘upload’ is mediated by three factors. First, there remains a difference in power between the core member-states and the periphery (see Featherstone and Kazamias 2001 for this point on Southern enlargement). Secondly, the willingness to participate in funds management was documented earlier. Third, there is an inherent risk that in postponing reform to wait for a better strategic position or future EU policy reform adaptive pressure or potential costs of adaptation will increase.



the research expected limited change, both on the macro-institutional and sectoral levels. In this case, institutional arrangements would likely persist. Polish agriculture shows that the challenge to the executive organisation that was present in EU templates strengthened sectoral institutional resistance to the adoption of EU policy. This is an important observation, as a sectoral ‘misfit’ in these policy areas alone does not offer a good explanation for sectoral institutional persistence. Sectoral adjustment in regional policy is the case in point.

Moreover, the case of Czech agriculture showed sectoral changes can be accommodated within the macro-institutional framework. In this case, there was a substantial adoption of EU management requirements (implementation, coordination, and financial control). The thesis argued that the ongoing sectoral domestic reform of agricultural policy and intervention procedures reduced the sectoral ‘misfit’ in the Czech Republic, thus explaining a more substantial sectoral adaptation. This reform in 1997 was an endogenous process. Importantly, this change did not affect the macro-institutional configuration.

Table 24: Degree of Institutional Change across Policy Sectors

	EU Challenge	Sectoral Change	Change in Macro-institutional Structure
<i>1. Polish Agricultural policy</i>	Fundamental ‘Misfit’	Limited and isolated accommodation	No change/resistance
<i>2. Czech Agricultural policy</i>	Fundamental ‘Misfit’	<b>Substantial change in institutional arrangements</b>	Limited change/affirmation of executive organisation
<i>3. Czech Regional Policy</i>	Moderate ‘Misfit’	<b>Substantial change in institutional arrangements</b>	Persistence of executive organisation/Limited decentralisation
<i>4. Polish Regional Policy</i>	Moderate ‘Misfit’	<b>Substantial change in institutional arrangements</b>	<b>Substantial change on horizontal level/Limited decentralisation</b>

As far as patterns of institutional change in ‘moderate misfits’ are concerned, once again it is important to consider the difference between a ‘fundamental misfit’ and a ‘moderate misfit’. Given that the ‘misfit’ in regional policy is mediated by temporal and policy factors, the challenge to the macro-institutional context largely dissipated. In the Czech case, the horizontal and vertical organisation of the executive persisted. In this case, it seems logical that those actors with resources and competences to lose in European integration will resist a redistribution of competences and resources and

will attempt to safeguard their institutional position. The Polish example does show a substantial change in the macro-institutional context. However, in this case EU requirements and pressures were mainly used by executive actors to support the ongoing endogenous reform of domestic administration. In Poland, the Prime Minister and Minister of Economy used EU pressures to support endogenous reform aimed at the consolidation of implementation and coordination in regional policy. This process served both to enhance core executive coordination and strengthen the institutional position of the Ministry of Economy close to accession. This reform also aimed to reduce the costs of non-absorption, given the budgetary problems in Poland (see Warsaw Voice 18/9/2003). Secondly, as stated in section 3.2.b of this chapter, when interaction with the EU is more dynamic in terms of prescription and continuity over time, it seems obvious actors will have to anticipate future developments in the EU templates or ‘prescription’. This refers to the point I made earlier about the possibility in the near future of a substantial change of the macro-institutional context in the Czech Republic, driven by the Prime Minister. This could be another example of EU requirements being used to legitimate and strengthen ongoing endogenous reform.

In terms of sectoral institutional adaptation, actor-based explanations seem to have more explanatory capacity in the case of a moderate challenge to the domestic institutional configuration. Next to the institutional enhancement of certain administrative actors in regional policy (through gaining a role in EU funds management), sectoral changes were substantial. At first sight, the institutional arrangements of EU regional development would clash with domestic industrial policy in the Czech Republic and Poland. However, due to changing preferences among executive actors in both countries after the economic crisis in the mid-1990s towards the development of a regional policy, the incentive of EU funds, the support of regional actors, and the option of a sectoral approach in EU templates that would not alter the executive set-up, the ‘misfit’ was substantially mediated. This allowed for a substantial sectoral change of institutional arrangements, governing the management of regional policy. However, this institutional change did not substantially affect the macro-institutional configuration.

## **5. The Degree of Institutional Change**

### **5.1 A Stronger State and Weak Regions: Limited Effects on Executive Structure**

The executive organisation to coordinate and implement regional and agricultural policy in the Czech Republic and Poland shows two main similarities, the assertion of the state in implementation and coordination in view of EU accession and the weakness of the regions in asserting themselves in policy implementation. National actors not only resisted more cooperative and multi-level forms of government (see Hooghe and Marks 2001; Kohler-Koch 1998), but also used their position to enhance their competences and resources. This enhancement was visible in the implementation of regional and rural development policy, which had before been fragmented and had taken place in various bodies at the various levels of territorial administration.

Further, lack of decentralisation is logical in agricultural policy, which by nature is a centralised sectoral policy rather than a regional policy. However, the fact that rural development policy had been framed in PHARE programming before 1997 meant that the implementation of SAPARD in both countries had a re-centralising effect as the pre-accession period progressed. This observation is by itself interesting as a comment on the effects of the EU pre-accession templates on the domestic institutional configuration. Though the endogenous regional reforms drew inspiration from the EU templates (see Cernoch and Jacoby 2002), the effects of EU templates, similar to observations in the member-states, occurred within the context of the macro-institutional configuration. This configuration decisively shaped the process of decentralisation. For the post-communist candidate countries, many analysts (including Pavel Cernoch) had expected more widespread institutional reform, namely territorial decentralisation.

The assertion of the state is also noticeable in other facets of the management of EU accession. The dominance of the executive in EU law-making in both Poland and the Czech Republic comes through the control of the executive over the legislative process. This executivisation of harmonisation was also a factor of: 1. the scope and time scale of harmonisation of the 'acquis', 2. the technical nature of much of the

‘acquis’, which required expertise mostly beyond the parliament, 3. the exact transposition of legislation, which limited the right for deputies to submit or amend legislation. This has produced a strong role for the core executive in law-making and policy-making, respectively the Prime Minister’s office in Poland and the Government Office in the Czech Republic (see OECD 2001; OECD 2002). In the Czech case, this role is more a control function and the initiation of laws is left to the ministries. Zubek (2001; 2002) similar to Lippert et al (2001) sees the process of ‘acquis’ implementation as a reinforcement of the core executive.

Further, administrative units, which were responsible for EU pre-accession policy coordination and implementation, were strengthened by these roles. Moreover, they often worked in isolation from the state administration and political actors. Agh (2002) has noted this potential dualism in the state administration with EU-specific agencies becoming ‘islands of excellence’, a term first used in Goetz (2001a). Goetz (2002a) also noted the ‘personalisation’ of such administration. The approach in the candidate countries was almost like a ‘deus ex machina’ to have particular administrative units drive the process of accession, free from the inefficiency and ineffectiveness plaguing the overall state administration. In coordination, the Centre for Foreign Assistance in the Czech Republic and the Office of the Committee for European Integration are examples.

The question remains how much the European Commission drove this process. As explained in the empirical evidence, the preference of the European Commission to create independent administrative capacity reinforced an institutional pattern of extra-budgetary agencies and independent executive bodies existing next to state administration that had characterised the institutional set-ups of both the Czech Republic and Poland since transition. However, the subsequent European requirement that these agencies be integrated in the national budget created significant ‘misfits’ between the EU requirements and the respective institutional configurations. Only in Polish regional policy implementation has this ‘misfit’ been fully resolved through the consolidation of competences within the PAED, which is associated with the Ministry of Economy. For CAP, these ‘misfits’ have not been resolved. The fragmentation in the executive became a problem for the European Commission. For instance, this

isolation, as in SAPARD implementation in Poland and the Czech Republic,<sup>155</sup> also served to limit the effect of the EU instruments on domestic intervention policy. Thus, the reduction of implementation partners and the reliance on implementation partners with capacity might have mostly reinforced the existing fragmentation in the domestic executives.

The main observation is how limited the effect of the EU on the executive organisation is in both policy sectors. In agricultural policy, where policy discretion is low, this conclusion is not surprising, given the likelihood of more incremental changes in institution-based approaches. In regional policy, temporal and policy factors in EU templates mediated fundamental ‘misfits’. On the horizontal level, rationalisation of implementation had diverse effects. In the Czech Republic, the national ministries were effective in resisting change in their competences and institutional positions, though the MRD was created. This process was helped by the increased role of sectoral ministries in Structural Funds’ implementation. In Poland, consolidation was a significant change in the administrative structure that had been traditionally horizontally decentralised. However, this consolidation was the result of the endogenous administrative reform of the executive structure started in 1997, rather than EU pressures alone. EU management requirements in this case had allowed domestic actors to promote and legitimate an ongoing domestic reform. Finally, the focus within the EU on administration-building next to administrative compliance also meant that implementation favoured those administrative actors with established resources and competences in the institutional set-up. This focus mediated the need for regional consultation or the decentralisation of administrative tasks.

The main effects were the institutional enhancement of certain national administrative actors. The Prime Minister and Ministry of Economy in Poland are examples. Specific line ministries in the Czech Republic saw their institutional positions enhanced through the institutionalised links to Structural Funds implementation. Further, in both the Czech Republic and Poland, the consolidation of financial control meant an enhancement of the institutional position of the Ministry of Finance that had ‘top-down’ audit and funds distribution responsibilities. In the Czech Republic, where

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<sup>155</sup> This isolation was amplified in cases of sectoral resistance, as in agricultural policy.

Klaus had left a legacy of a strong ministry, this enhancement was part of a strategy in the ministry to use top-down pressure to enhance its competences, as for instance it had done with the CFA. In Poland, where the power of the Ministry of Finance had been curtailed in the reforms of 1997 through the creation of a Ministry of the State Treasury, this was almost an accidental empowerment. It is important to note that within these ministries it was often the specialised units that were enhanced.

## 5.2 Effects on Policy

One can make the assumption that the policy effects will be similar to the changes in the sectoral institutional arrangements. Indeed, Knill (2001) seems to equate these two effects. This research does not really argue against the point made by Knill. When one sees a substantial change in the sectoral institutional arrangements as in for instance the statutory alignment of implementation agencies in regional policy in the Czech Republic and Poland, one can assume that EU regional development policy has been adopted.<sup>156</sup> This point seems to confirm the conclusions of many ‘europeanisation’ studies, which show that the most noticeable effects are found in public policies, rather than in the executive organisation of a country (see Dyson and Goetz 2003, p. 352). However, at the same time, this thesis does not aim to comment on the delivery of policy or link the delivery of policy or the quality of policy to specific institutional settings.

## 6. Convergence or Divergence

In terms of the adjustments in the macro-institutional context in these candidate countries, it is clear that interaction with Europe does not directly lead to convergent outcomes. Given the persistence of the macro-institutional setting, domestic institutional determinants, namely the vertical and horizontal organisation of the executive, determine the commonalities and differences between countries. Further, it is also logical to assume there might be greater convergence on the sectoral level, especially in sectoral institutional arrangements and policy over time, given the

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<sup>156</sup> It is important to differentiate between the adoption of policy and the planning of the adoption of EU policy. As seen in the empirical chapters, actual planning documents often were inconsistent with the actual outcomes.

incentive-driven EU policy templates. Regional development policy would seem to suggest this point. In agriculture, it is not yet clear whether the expansion of EU-related competences of the ARMA and the limited accommodation of EU requirements in the AMA might signify a greater sectoral change over time. At this moment, sectoral institutional change remains limited and isolated within the executive structure.

A final question here is whether we can anticipate any substantial macro-institutional change in the candidate countries and convergence of these executive organisations between countries (Wessels and Rometsch 1996b). In the two policy areas, there are suggestions that strategy changes could occur in the candidate countries due to the future costs of imminent accession. These costs primarily relate to the minimisation of the costs of non-absorption. In the Czech Republic, the proposal to consolidate implementation agencies involved with the sectoral operational programmes in regional development into a super-agency under a Deputy Minister is being considered as a way to make 'Structural Funds' implementation less fragmented and more effective. This 'simplification' had been promoted by the European Commission during the pre-accession period (Interview with Howard Harding: Prague April 26 2002). Such consolidation of the executive structure and the potential assertion of the cabinet in the implementation of 'Structural Funds', as the Deputy Minister could be placed in a secretariat supporting the cabinet, would be a change from the previous 'sectoralisation'. Deputy Ministers in the Czech Republic set the agenda for inter-ministerial coordination. In this case, similar to Poland, EU pressures could be used by executive actors to enhance and promote endogenous administrative reform.

This previous observation, though somewhat speculative, raises an important point about accession. As raised many times in the thesis, efficiency in implementation was a key feature of the PHARE Reforms in 1997 both in programming and absorption. Absorption often meant reliance on administrative units with capacity regardless of whether the administrative configuration was the most 'optimal' or directly in line with 'acquis' requirements. However, efficiency considerations evolve over time. Indications above, as in the Czech Republic, seem to hint at a 'consolidation' in the horizontal executive organisation close to accession, which would bring Czech

strategy closer in line with Polish executive organisation.<sup>157</sup> This effect at first glance seems to be occurring out of ‘efficiency’ considerations (similar to Hall and Taylor 1996; Harmsen 1999 p. 84) The theoretical argument is that administrations in a shared environment will increasingly grow similar as they adopt procedures and systems, which are the most successful or the most rewarding. This last observation is of particular importance, given the rewards of the efficient implementation of EU funds.

It is clear that the conclusions on institutional change will require further study over time. It would be interesting to link future organisational adaptation to the various mechanisms. Not surprisingly, ‘coercion’ and strategic actor-based accounts, in terms of the ‘downloading’ of the EU policy templates, have featured heavily in a study on the pre-accession period. Other mechanisms would relate more to how administration operating in a shared environment would evolve. Here, ‘mimicry’, as coined by DiMaggio and Powell (1991), might be informative. The clearest example of the mechanism of ‘mimicry’ in the thesis is the statutory alignment of Czech implementation agencies in PHARE ESC.

Finally, I do not wish to discount the validity of the application of ‘socialisation’ and ‘policy learning’ approaches (see Harmsen 1999). However, as Jan Gregor argues in an interview, it is probably ‘too early in the pre-accession period’ to establish diffuse cognitive and social effects in the candidate countries (Interview with Jan Gregor: Prague September 21, 2001). Gregor was speaking on the interaction with EU officials and ‘learning effects’ associated with financial management. Marta von Mauberg commented on the establishment of ‘policy communities’ that there still

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<sup>157</sup> ‘Consolidation’ was promoted by core executive actors, especially the Prime Minister in the Czech Republic, as it would enhance their power and profile. Moreover, it would give these actors control over funds management in a budgetary climate, which had great political costs. Prime Minister Spidla in 2003 connected his political future to an important austerity package that included passing the budget, increasing government revenue and wider public finance reform. In Poland, the high budgetary costs of the preparation for EU membership and the Maastricht budget criteria left the SLD-UP coalition of Prime Minister Miller politically weakened in 2003. High costs of adaptation emerged as a cleavage between the governing SLD-UP minority coalition and parts of the opposition. The opposition saw clear political gain in a high-stakes game so close to accession in opposing a weak minority. Polls in early 2004 seem to indicate the SLD-UP would face electoral meltdown if elections were held then (RFE-RL, 18/3/2004). This view seems to indicate that ‘europeanisation’ of politics in both Poland and the Czech Republic had more to do with short-term opportunities than deep-rooted ideological cleavages (see Mudde and Kopecky 2002). This could also explain why oppositions are more euro-sceptic than governing parties (similar to Taggart and Szczepiński 2001; Sitter 2001).



existed much 'distrust' between EU and domestic officials and often a 'lack of commonality in ideas', approaches and priorities (Interview with Marta von Mauberg: Warsaw January 23 2002). Even in the cases of the SAPARD Agency and the National Funds in Poland and the Czech Republic, socialisation and the formation of policy communities might be isolated in the domestic administration. Again, there seems to be a temporal dimension to approaches. However, future research could possibly successfully incorporate these approaches.

## Chapter 10: Conclusion

This chapter consists of three sections. The first section outlines the main findings of the empirical research and what these findings mean for the study of ‘europeanisation’, and the study of post-communist member-states. The second section will discuss the place of the Central and East European Countries (CEECs) in the EU. A first subsection analyses the internalisation of European integration by domestic actors. A second subsection section will compare the member-states and the CEECs. Further subsections attempt to generalise on the impact of enlargement on the process of European integration and the consequences of enlargement for ‘europeanisation’ studies.

### 1. Conclusions from the Empirical Research

The empirical evidence in this thesis showed a range of adaptation, which included the persistence or incremental change of the domestic macro-institutional set-up. Further, the thesis showed how and under which conditions administrative and political actors could strategically use EU requirements and opportunities. Sectoral outcomes showed a wide range of adaptation, which stayed within the macro-institutional context defined by the executive structure. There are conclusions to be drawn in the research for both the conceptualisation of ‘europeanisation’ and determination of adaptation effects. These might inform future ‘europeanisation’ studies.

This thesis followed Knill’s (2001) analytical framework with important modifications. Moreover, this framework built on Knill and Lehmkuhl (1999) by looking at different ‘europeanisation’ mechanisms to determine the domestic impact of the EU in the member-states. This approach aims to distinguish between mechanisms and to use different institutional perspectives next to each other, depending on the specific EU challenge in a given policy area. Using different mechanisms has important theoretical implications on whether Europe is an independent variable in the ‘top-down’ approaches, which take a ‘misfit’ as a

necessary precondition for change (see Borzel and Risse 2003), or whether Europe should be conceptualised as a mediating variable in 'bottom-up' processes (Radaelli 2003).

As explained in chapter 2, the thesis made two important modifications to Knill's framework. First, the thesis did not look at administrative traditions as the macro-institutional context, but instead looked at the national executive structure. The executive organisation in effect presents the core administrative structure of the state. This organisation can be analysed along two main dimensions, vertical and horizontal centralisation. There were two main reasons for the refinement made in the analytical framework. First, the empirical evidence makes the observation that the organisation of the executive was of primary importance in determining the level of administrative adaptation. Secondly, the concept of administrative traditions is somewhat indeterminate and difficult to pin down. Such traditions are often implicit in the aforementioned organisation of the executive. For the CEECs, which have recently undergone a transition, there exists a difficulty in determining traditions in policy style and administrative structure in countries.

The second modification is the use of EU templates and the level of 'prescription' these EU templates offer.<sup>158</sup> Given that both policy sectors in both countries show 'sectoral misfits' and have the potential to challenge the macro-institutional context in Poland and the Czech Republic, it is primarily the determination of the level of 'prescription' in the EU templates that will determine what challenge the EU templates pose the candidate countries. This is an important observation for studying 'europeanisation' in all post-communist candidate countries and indeed for the wider study of 'europeanisation'. The level of 'prescription' is determined by policy and temporal factors. This point also refers to how EU actors shape the policy templates. When there is a fundamental 'misfit' between the EU template and the domestic institutional configuration, the EU challenge mediates with the presence of policy factors, such as for instance a less dense 'acquis', and temporal factors, such as the lack of continuity in the pre-accession period. In the process of 'downloading' of the EU templates, it is important to determine whether fundamental 'misfits' exist

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<sup>158</sup> This analysis also includes how EU actors shape the EU template.

between the EU templates and the domestic executive set-up. When such ‘misfits’ exist, the thesis uses an institution-based approach. Here, the research looked at the patterns of resistance and limited institutional adaptation. However, this approach has limited explanatory capacity when the prescription in the EU templates is less. In this case, actor-based ‘bottom-up’ perspectives might offer a better causal link to institutional change. In this case, the thesis argues that administrative actors will not only attempt to avert costs to them in terms of the distribution of resources and competences, but might also make strategic use of the European requirements and opportunities to shape the domestic arena and enhance their institutional positions. The EU’s focus on absorption favoured those administrative actors with the ‘capacity’ to absorb. These were mostly the specialised implementation agencies, the central coordination bodies within or close to the Prime Minister, or units with the more powerful sectoral line ministries. An example of institutional enhancement from this research is how the Polish Prime Minister used top-down pressures after 1997 to support and strengthen an endogenous domestic administrative reform and strengthen core executive coordination. This strengthening of central implementation and coordination functions often went at the expense of sectoral actors. This also affected the delivery of development policy, as regional components of programming and consultation in programming were cut back. The larger weight given to transport projects in ISPA in both countries (a consequence of directing funding to programmes [mostly away from environmental initiatives] less dependent on municipalities), the limited consultation with regional and sectoral partners in SAPARD, and the centralised way of promoting Small to Medium-size Enterprise (SME) development in Poland are examples.

On a sectoral level, the support of sectoral actors such as interest groups, sectoral administrative actors, and the beneficiaries of EU funds, in the absence of a challenge to the national executive organisation (or mediated by the domestic discretion these templates allowed), helps explain the level of sectoral adaptation. Both Poland and the Czech Republic for regional policy showed that sectoral support could aid sectoral adaptation. For instance, regional actors were very much in favour of the adoption of EU regional development policy.

The two main mechanisms (or dynamics) alone do not explain all adaptation. I pointed to factors that enhance the explanatory dynamic, such as a possible ongoing domestic reform of the executive as in the case of the executive structure of Poland, endogenous sectoral reform in the case of a fundamental EU challenge, and the changing strategic considerations in view of temporal factors in the EU templates after accession. These factors could help in understanding the magnitude and degree of institutional change, especially in the macro-institutional context. The case of regional policy in Poland is especially informative. It seems clear that the European funds management template coupled to ongoing domestic reform of the executive in these four cases produced the largest adaptation in the executive set-up. Interestingly, this particular adaptation was primarily a ‘bottom-up’ process. Overall, the potential for substantial change in the administrative set-up seems greater, where actors use EU requirements in a bottom-up way, rather than where EU templates are highly prescriptive. The previous chapter also speculatively raised the possibility of a change in the executive structure of the Czech Republic, due to the strategic anticipation of future developments in the EU template on regional policy.

In terms of the effects of ‘europeanisation’, it is important to look at the degree of change. In this work, I emphasise the relative limited impact of Europe on the organisation of the executive. Nonetheless, underlying these statements are important aspects of adaptation, namely the adoption of implementation, coordination, and financial control requirements in both policy areas. Though change is limited in the context of the macro-institutional set-up, administrative units were created and transformed, implementation agencies disbanded, and coordination capacity built up. These are considerable changes in the domestic polity. There is a wider impact on the sectoral level, where both the policy style and sectoral administrative arrangements of intervention were adapted, with the exception of the Polish agricultural sector. This also raises an important point about analysis in ‘europeanisation’ studies. Sectoral ‘misfits’ alone cannot explain institutional adjustments within these policy areas. Further, as the cases of adoption of agricultural policy in Poland and the Czech Republic indicate, the incentive of EU funds is also an insufficient explanation for sectoral adaptation. Rather, these sectoral changes have to be explained in the broader analytical framework set out in chapter 3.

These differentiations and conclusions aim to contribute to the overall empirical work in ‘europeanisation’ literature, fill in some blanks on the effect of Europe in the first-wave accession countries, form a base to extend the debate on the effects in these countries, and build a platform to look at consequent waves of enlargement. Given the diversity between the member-states and the effects of ‘europeanisation’ across the member-states, there is a healthy base for expanding comparative analysis. This comparative analysis is the future for the study of the CEECs.

## **2. The CEECs and Europeanisation**

### **2.1 EU Accession from Driver of Reform to Domestic Contestation**

The European effect in many analyses was placed in the context of the domestic transition and consolidation ongoing in the post-communist societies in CEE. Europe was seen as a force legitimating the domestic reform processes. Domestic political actors would internalise the ‘logic’ of EU accession and see it as an opportunity for reform or an ‘enabling constraint’. Framing domestic reform in the context of the EU also made sense given the broad societal and political support for EU accession in both the Czech Republic and Poland. As stated in the previous chapters, major ideological splits between parties were limited on the issue of EU membership. The EU could therefore be a driver for domestic reform.

However, as the thesis has tried to show, EU accession comes at a price. There are costs associated with EU accession in both institutional and policy adjustments. A great deal of this research has illuminated how the domestic administrative actors aim to minimise the costs of accession in terms of the distribution of resources and competences in the institutional configuration. It also made clear that these costs evolve. Early PHARE programmes were largely complementary to the aims of the domestic transition. Then, EU accession was easier ‘contextualised’ in the aims of the domestic transition. PHARE programmes after 1997 were more ‘acquis’-based and challenging to the domestic polity. As section 2.2 in chapter 4 shows, programmes became ‘defined in detail’ and ‘procedural’ (Interview with John O’Rourke: Warsaw, January 21 2002).

EU accession therefore is not solely perceived as an 'enabling constraint' or an opportunity by the political leaders, it has become the subject of political contestation. This contestation takes place on two levels: 1. attaching blame to EU accession for failed or problematic domestic reforms; and 2. arguing that, given the 'asymmetry of power' in the pre-accession period, the candidate countries in CEE are getting a bad deal in the EU enlargement process.

On point 1, in as much as the EU can legitimate reform, EU policy and institutional adjustments can also be blamed for difficult domestic reform processes. This tactic seemed to be at work both in the Czech Republic and Poland during the budgetary debates in 2003. The budgetary crises in both countries were long in the making. However, the EU accession forced the hand of domestic policy-makers to commit to domestic reform. Given the costs of reform, it was inevitable the EU would be blamed. An example is the budgetary reform in Poland. In September 2003, Jerzy Hausner, the Minister of Economy, announced that he would seek 3 billion zloty in budgetary cuts and initiate a long overdue reform of KRUS, the farmers' pension system. This reform had also been an agenda point of former Minister of Finance Kolodko (Warsaw Voice 10/7/2003). Such EU-inspired proposals were opposed directly by agricultural parties such as the PSL and Samoobrona. The opposition to domestic reform close to accession was part of a trend, whereby opposition parties in particular started using the EU accession strategically or opportunistically for political gain and to directly undermine the government (see Taggart and Szczurbiak 2001). This opportunity was also offered to opposition parties by the often comprehensive reform required to ready the candidate countries for accession. The extent of this reform was a function of the continuous postponing of costly reform in the pre-accession period by the ruling political parties.

Such opportunistic use of Europe is not the same as political parties developing platforms against European integration. Doubts remain if ideological divisions on Europe would take hold in both Poland and the Czech Republic (on ideological divisions see Kopecky and Mudde 2002). Nonetheless, many parties adopted 'euro-realist' agendas, which put clear limits on the amount of integration they wanted in Europe or more important for 'europeanisation' the extent of domestic adjustment

they could tolerate. In Poland, 'euro-realist' parties were also linked to the strong resistance in the agricultural sector. This resistance was a function of the influence of farmers' groups, the main agricultural parties, and the right-wing catholic movements. The main 'euro-realist' party in the Czech Republic was the 'Thatcherite' ODS.

Point 2 also presents a cause of the shifting opinions and party platforms on EU accession. The impression was that, given the 'asymmetry in power' in the pre-accession period between the candidate countries and the EU administration and the EU member-states, the candidate countries were not getting adequate consideration at the EU level or being given appropriate concessions. This impression was strengthened by: 1. the 'homogenisation' of the negotiations, which did not differentiate between countries; and 2. the decision to perform important policy reform and set budgetary frameworks before accession, without the input of the candidate countries.

The above points would perhaps indicate a relatively militant position of domestic political actors towards European integration. A country such as Poland could be expected to aggressively assert itself in the EU institutions upon membership, when it can 'upload' its national preferences, oppose further European integration, or postpone important adjustment to the EU as much as possible. There could be a dramatic shift as these countries move from solely being policy-takers to joining a group of policy-makers. However, there are two qualifying observations, which speak to the ability and the need of the candidate countries to assert themselves.

First, at the time of publication, it was not yet clear the extent of power the first-wave accession countries would attain in the Council and European Parliament. An additional factor in the assertion of the candidate countries in Brussels was the general political weakness of the main ruling parties in Poland and the Czech Republic, respectively the SLD-UP and CSSD. These parties were predominantly engaged in political survival at home. Their assertion at the European level would also be a function of this political weakness and their vulnerability in their respective national parliaments. It is difficult at this point in time to generalise on possible patterns of interaction between the governments in the Czech Republic and Poland and the European institutions or indeed the governments of the other member-states.



Secondly, the empirical evidence in this thesis shows a range of adaptation, which included the persistence of the domestic institutional frameworks, but also how administrative and political actors might use the EU requirements and opportunities to shape the domestic arena. These patterns of adaptation are comparable to the member-states. In this sense, an asymmetry in power did in no way imply deeper or wider adaptation effects than in the member-states, or from the other extreme, a complete lack of adaptation. In this way, the importance or relevance of the 'asymmetry of power', similar to its use in 'conditionality' perspectives, might be overstated. Following, the concept of 'asymmetry of power', especially in light of an inevitable accession, might therefore be of less importance to the positions and motivations of the political and administrative actors.

In conclusion, it is too early to determine how political actors will perceive European integration upon accession. There are however some hints. It seems clear that 'enabling constraint' views linked to constructivist and transition perspectives, as stated in chapter 2, do not adequately take into account the strategic considerations of actors, the costs of enlargement, or the contentious nature of aspects of European integration to the candidate countries. On the other hand, the strategic and opportunistic use of European enlargement and integration by political actors should not be confused with the emergence of possible ideological divisions and cleavages on issues of European integration, both in society and the political spectrum. Further, such use cannot predict whether actors will adopt a militant position towards EU institutions and groups of member-states. As stated in the research, the main cleavage seems to exist between those participating in the management of EU policy and those on the fringes. In the empirical research, this point refers to the empowerment of certain national administrative actors.

## **2.2 Eastern European 'Exceptionalism'**

The question remains how different the CEECs are in the process of 'europeanisation'. First some discussion is required on approaches. These approaches question: 1. the validity of using the 'europeanisation' approach to study domestic

adjustment in Eastern enlargement in the pre-accession period, as the Nordic enlargement showed only gradual effects of ‘europeanisation’ in their pre-accession period (on Nordic enlargement see for instance Dyson and Goetz, 2003, p. 369; Sverdup 2000); and 2. the extension of neo-institutional theories to the CEECs (see Goetz 2002a). A second part of this section will categorise some important differences between Poland and the Czech Republic and the member-states. A third section will briefly look at the effects of ‘europeanisation’ in the policy sectors and countries studied, and the possible extension of the research to other policy sectors. A fourth section will discuss the effect of the enlarged Union on European integration. A final section will generalise on how these post-communist countries fit into existing categorisations in ‘europeanisation’ literature.

## **2.2.a The Institutional Perspective**

There were two main issues to address before starting this research: 1. the establishment of a pattern of interaction between the European Union and the candidate countries; and 2. the strength or weakness of the institutional frameworks in the CEECs. The need to address these issues came from observations and biases in respectively enlargement studies and the transition perspective. As noted in chapter 2 and as argued by Grabbe (2003), there is a need for ‘degreeism’ in the study of the effects of European accession in the candidate countries. This means separating ‘modernisation’, enlargement and globalisation studies from ‘europeanisation’ studies. Moreover, there is also a temporal dimension to the analysis. First, the pre-accession process evolves. Secondly, both Poland and the Czech Republic have largely finished the transition of their political, administrative, and economic institutions.

On the first point, the main novelty in these policy sectors in the current enlargement is the unprecedented pre-accession assistance. Both Northern and Southern enlargements did not benefit from these pre-accession instruments, which provided increased interaction and pressures for adaptation in the pre-accession periods. This interaction was framed by negotiations focusing on the implementation and adoption of the ‘acquis’. In this work, it is the pre-accession approach that forms the base for

change in the candidate countries. As stated in the introduction, both regional policy and agricultural policy are in this way 'extreme' cases.

The analysis of the pre-accession instruments and the use of 'extreme cases' counter those studies that question the likelihood of systematic adaptation. Early enlargement studies question the existence of a clear 'path' for the candidate countries towards accession (see for instance Sedelmeier and Wallace 1996; Schimmelfennig 1999). Adaptation in the candidate countries in these approaches would have a more fluid nature or show anticipated or anticipatory effects. There was no systematic interaction or adaptive pressure before accession. More recently, studies (see Goetz 2002a) have argued that actors try to avoid the costs of institutionalisation by postponing this adaptation until after accession, when these actors have a chance to 'upload' national preferences. Though it is difficult to evaluate this argument on a general level, it seems clear that this argument is harder to make in the management of EU funds, where actors have interacted in established frameworks throughout the pre-accession period and show some willingness to participate because of the EU incentive. This incentive is especially high given the links between the pre-accession instruments and EU Structural Funds. Moreover, comprehensive adaptation did occur on the sectoral level. The comprehensive sectoral adaptation, as seen in regional policy in both countries and in the agricultural sector in the Czech Republic, confirms the point of interaction and adaptation. It seems therefore difficult to argue against the systematic pressures and incentives to adapt in this research.

Secondly, authors have questioned the validity of taking neo-institutional approaches in the study of 'europeanisation', given the institutional weakness or changeability of institutional arrangements in the post-communist states of CEE (see Goetz 2002a).

The major argument is that the institutional arrangements have not had time to stabilise or consolidate. The thesis has argued against this by questioning the validity of the transition perspective and questioning the bias towards defining the institutional frameworks in Poland and the Czech Republic as weak. Moreover, the empirical evidence in this thesis suggests otherwise. The effect of Europe on the executive structure in these countries shows the persistence of the macro-institutional arrangements, even under EU pressure. The stickability of the domestic institutional arrangements therefore is perhaps greater than expected. This observation is in and by

itself an interesting comment on the process of institutional change in post-communist Europe. From these empirical observations, it seems counterintuitive to argue that the institutional frameworks in the Czech Republic and Poland are weak or indeterminate.

Rather than stating that institutions in these candidate countries of CEE are weak, it is perhaps more subtle to state that the institutional set-ups are specific or different. This difference in the institutional set-ups has been widely noted as an important determinant for 'europeanisation' effects in studies looking at the adaptation in the member-states (see Page 2003, Peters et al 2000, Wright and Hayward 2000, Heritier et al 2001). It does not seem farfetched to extend such an analysis to these first-wave candidate countries.

## **2.2.b Differences between Member-States and First-Wave Candidate Countries**

So, how different are Poland and the Czech Republic from the member-states? They are different in six important ways. These ways refer to their participation in EU decision-making, institutions, and policies and the diversity these countries are likely to bring to the European Union and the process of European integration.

First, the limited length of membership and the nature of interaction with the EU through the pre-accession period mean a lack of full participation in EU institutions and policy areas. Lack of participation means effects have primarily been linked with 'downloading', rather than the shaping of European integration. Secondly, these countries are different from the core EU-12, as they will not participate initially in EMU. Further to this point, derogations and transition periods exist in key policy areas such as CAP. These pertain to the participation of the new accession countries in key policy topics, such as the direct payments in CAP and the rights extended to EU nationals in the accession countries. An example is the foreign ownership of agricultural land. Member-states also placed bilateral restrictions on the free movement of labour. Membership, at least in the short-term, was not a full extension of normal rights on both sides. Third, intra-regional cooperation within the Czech Republic and Poland and regional cooperation between countries in Central and Eastern Europe are minimal compared with the Nordic countries or the core member-

states of the EU. Fourth, the fragmented nature of the party-political landscape in both Poland and the Czech Republic could mean that elections to the European Parliament in these countries could produce a fragmented result, similar to the outcome in the regional elections in these countries. This could limit the influence these countries can project through the delegations in the European Parliament. Such results coupled to the weakness of governing parties in the national parliament, mentioned earlier, could also limit the way these countries could project national preferences on European integration to the European level. Fifth, the CEECs might in general have less scope, compared to the core member-states, to project national preferences to the European level upon accession. Featherstone and Kazamias (2001) make a similar point on the asymmetry of power between the core and the periphery for the Southern member-states. Further, restrictions on the participation in core policy areas such as CAP and EMU also limit the ability of the CEECs to project national preferences. Such limitations have the potential to place these countries at the periphery of European integration. Finally, the inclusion of member-states with distinct institutional set-ups and policy frameworks could increase the diversity among the member-states. This has consequences for both processes of 'europeanisation' and European integration.

### **2.2.c Europeanisation Effects in the CEECs**

In terms of effects, important differences exist between groups of countries. For the candidate countries of CEE, their partial membership and mostly pre-accession based adaptation (in this research) might be difficult to compare with full members or founding members. In their volume on Southern 'europeanisation', Kazamias and Featherstone (2001. p. 16) describe that there is 'limited scope for generalisations on the impact of Europeanization within the region', rather they emphasise 'asymmetry, fragmentation, and dynamism'.

The research here is limited in scope in terms of the number of cases. It is therefore more difficult to make generalisations on the overall 'europeanisation' process in the post-communist candidate countries and consequently make broad comparative assessments. Nonetheless, the research allows for some interesting conclusions.

First, the empirical evidence shows a limited or incremental adaptation in the organisation of the executive in both countries. Substantial change is more obvious on the sectoral level. This takes place both in sectoral administrative arrangements and policy. In a sense, this analysis fits into what other 'europeanisation' volumes have shown, namely that the effects of the EU on domestic policy will be more substantial than the effects on the domestic polity (see for instance Dyson and Goetz 2003, p. 352). The organisation of the implementation and organisation in the executive is mostly determined by domestic institutional factors.

In terms of administrative adjustment, there are some further observations. There is a fragmentation in administration between those participating in EU policy and being strengthened by it and those not. In other words, there is a differentiated institutional enhancement. The clearest example of fragmentation is the strengthening of sectoral line ministries and associated agencies at the expense of the newly formed regions. Despite a possible challenge to the territorial administration of both the Czech Republic and Poland, the shallow 'acquis' and the focus of the European Union in the pre-accession period to work with administration that could absorb funds affirmed the centrist administrative culture in both countries. As accession neared, this sometimes meant a recentralisation in the institutional distribution of competences, as in regional policy in Poland and in SAPARD in both countries. However, fragmentation did not only exist in territorial administration.

At the national level, there was a fragmentation between EU-specific coordination and implementation units and the rest of the state administration (see also Agh 2000; van Stolk 2002). This fragmentation is exhibited mostly in the competences and resources of the respective units. Some units operated outside the political and budgetary constraints of the executive organisation. Fragmentation is also fostered by the European Commission's desire to work with specialist and independent coordination and implementation units. Moreover, some sectoral adjustments, as in the creation of the SAPARD Agency in Poland and the Czech Republic, were isolated in the executive structure to limit overall institutional change. However, the fragmentation, especially between implementation agencies and state administration, is also overstated. Both Poland and the Czech Republic had a history of implementation through foundations from the time of transition onwards. In this way, the European

pre-accession process might have confirmed or amplified institutional patterns, rather than create new institutional patterns. Moreover, the EU template on the administrative organisation of implementation evolved and was also in some ways paradoxical. Whereas in the initial phases of the pre-accession process the European Commission emphasised independent administration to limit political intervention and build capacity next to or outside of the executive<sup>159</sup>, in the later stages of the pre-accession period the EU advocated the consolidation of implementation agencies and the integration of the implementation agencies in the line ministries and state budget. This shift would consequently limit the fragmentation in the executive set-up. Increasingly, institutional enhancement would be linked to this consolidation, be it in the Prime Minister's Office and Ministry of Economy in Poland or the specific line ministries in the Czech Republic.

Regional policy and agricultural policy are 'extreme cases'. By this I mean, they are core policy areas that have an interaction with the candidate countries that extends throughout the pre-accession period. Adaptation in these sectors should draw out some conclusions on the adaptation over time in other policy sectors. Whereas the development of the executive set-up in these policy sectors is mostly determined by domestic institutional determinants, which vary between countries, the sectoral adaptation can be more substantial and produce convergence between countries. In regional policy in the Czech Republic and Poland, EU regional policy more or less confirmed the institutional position of the line ministries and implementation agencies, which together with strong sectoral support facilitated the adoption of EU intervention instruments. These instruments largely replaced the industrial policy, which had characterised regional development policy in the Czech Republic and Poland since transition. The same dynamic applies to intervention instruments in the agricultural policy in the Czech Republic, where EU requirements solidified endogenous sectoral reform. However, the situation is different in Poland, where such sectoral intervention policy threatens the institutional position of sectoral agencies, farmer groups, and beneficiaries. Here, adaptation occurs, but is quarantined in the executive structure and does not displace domestic intervention policy.

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<sup>159</sup> Foundations outside of state administration could pay higher salaries than the civil service and gain extra resources through commercial activities to build up capacity and expertise.

Though it is difficult to draw conclusions for other policy areas such as EMU, it seems clear that enlargement does not necessarily need to affect or undermine common policies. However, there is no doubt that the inclusion of more countries in the common policies increases the diversity in the EU, both in the executive set-up and in the sectoral arrangements. The case of adaptation of agricultural policy in Poland is an example. This development can put pressure on common policies.

#### **2.2.d Diversity in the EU**

The growth in the number of member-states indicates an increased diversity. At the moment, this diversity means: 1. growing social and party systemic cleavages in the EU on European integration; 2. variations in participation in policy sectors and pillars, and types of participation; and 3. a growing variation in 'europeanisation' experiences. Diversity could lead to the core founding member-states to attempt to continue with deeper integration, while the member-states on the periphery follow, if they can or if they wish to do so. This would demand an analysis of the core member-states or the relations between the core member-states and the new member-states that is beyond the scope and timeframe of this research. Alternatively, European integration outcomes could be conceptualised as becoming more of a least common denominator, whereby the periphery gains at the expense of the core. In this perspective, 'europeanisation' effects in the new accession countries would be extremely relevant.

The empirical work in this thesis can only partially answer this important question. This answer is to be found in two processes: 1. the ongoing policy and institutional reform in the EU; and 2. the evolution of the pre-accession template. These processes ran concurrent and therefore incorporated similar elements.

The enlargement of the EU meant that it was difficult and undesirable to the member-states to continue under the same budgetary frameworks and administrative frameworks. The ongoing reform of CAP and regional policy had a distinct theme. This theme was the gradual re-nationalisation of regional development policy and agricultural policy. This re-nationalisation also meant a reduction of the role of the European Commission in these policy areas. In regional policy, a reduction of the



Community Initiatives in number and budget and the granting of more discretion to the national governments to designate objective areas were elements of an enhanced role for the member-states. In fact, many of the roles for regions and the European Commission in region policy, established in the Maastricht Treaty, were reduced or eroded. In CAP, the emergence of concepts, such as modulation and cross-compliance and an increased focus on rural development initiatives, was not only a fulfilment of the proposed decreases in price support in the MacSharry Reforms, but an assertion of the member-states in these common policy areas. There was also a practical element to this re-nationalisation. Increasingly, the European Commission found it difficult to perform its assigned regulatory and monitoring tasks in these policy areas. Re-nationalisation also helped to mediate on disagreements on agricultural reform between the member-states, mostly between core member-states in favour of the status quo, such as France and Germany on one side, and those in favour of reducing the scope of CAP, such as the Netherlands, Sweden, and the United Kingdom on the other. While most of the member-states agreed to put a cap on the overall spending in the EU, not all the member-states agreed on the redistribution of funds under this cap. It was clear that the only way to maintain the budgetary framework, while enlarging the EU, was to reduce the overall budgetary support to agriculture. More national discretion allowed some governments to boost rural development initiatives, while cutting the overall budget of the common policies. Such national discretion allowed the continuation of common policies under the same overall budgetary framework. However, this discretion also increased diversity in the sectoral arrangements. As Swinnen (2003) points out, this diversity among the member-states is likely to increase after accession.

Trends towards re-nationalisation were also apparent in Poland and the Czech Republic. The introduction of the simplified system of direct payments under CAP is probably the best example. This derogation granted to the new member-states might also prove a precursor for future reforms of CAP. Sectoral resistance to the adoption of EU templates, as in the case of Polish agriculture, was often quite high. Moreover, the preferences of the EU also took into account specific national conditions. The problems in the absorption of EU funds played a key role in the administrative adjustments in the candidate countries. These problems produced a debate in the European Commission concerning 'administrative compliance' and 'administration-

building' in the pre-accession period. It is of course important, given the absence of an overall template on administrative organisation in the European Union, to acknowledge the different levels of 'prescription' and the preferences of the Commission in the two policy sectors. Nonetheless, an emphasis on administrative capacity in the absorption of EU funds allowed greater domestic discretion in shaping administrative responses than one would expect in the member-states, especially in regional policy where templates were not as extensive. Both policy sectors, with their inherent varying degrees of prescription, showed examples of specific national flexibility. The development of the preferences in the European Commission also showed the enlargement process increasingly as a two-way street, whereby both the European Commission and the candidate countries needed to make enlargement happen under the political timeline decided on for the enlargement process.<sup>160</sup> Any specific domestic discretion or sectoral resistance again increased diversity in the EU.

The re-nationalisation in core policy areas, the new methods of coordination, the varying degrees of participation of member-states in common policy, and the emergence of party and social cleavages on European integration seem to indicate varying 'europeanisation' effects, which in effect mean a 'peripheralisation' in the process of European integration. The fact that this process, as in the reform of CAP, is often purposefully driven by the core member-states only strengthens the impression of these varying experiences of 'europeanisation' becoming the norm.

## **2.2.e 'Four Worlds' of Europeanisation**

The final question in this conclusion deals briefly with how the 'europeanisation' experiences in these post-communist candidate countries compare to the other waves of enlargement and the 'europeanisation' experiences of the core member-states? In explaining differences in 'europeanisation' experiences, it seems that first and foremost commonalities and differences in the institutional set-ups between groups of member-states and the candidate countries play a role. This seems especially the case, when the exceptionalism of the pre-accession process wears off after accession.

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<sup>160</sup> This view shows the limitations of studies that attach great weight to conditionality mechanisms as outlined in chapter 2.

Further, given the emphasis on the institutional set-ups, one could ask to what extent dividing the member-states into groups is logical.

This comparison shows that the vertically centralised and horizontally decentralised executive set-ups of the CEECs might show comparisons with the Southern member-states. In regional policy, the post-communist countries showed common features in administrative structure and policy style. These countries are vertically centralised and regional development, given the communist legacy, is seen in the context of industrial policy rather than re-distributive policy. These features are also prominent in the Southern member-states<sup>161</sup>, but differ from the core member-states and the Nordic countries. These member-states show variety in vertical decentralisation with France and Germany respectively being examples of vertically centralised and decentralised territorial administration. All have a re-distributive regional policy. Moreover, the pre-accession process and the 'asymmetry of power' between the periphery and the core show similarities between the Southern member-states and the CEECs. However, experiences are also different. The pre-accession instruments were particular to the CEECs. Moreover, transition periods and exemptions on full participation in EU common policy and institutional arrangements also differ from the experiences of the Southern member-states. Moreover, these derogations can vary between countries as well. The issue of bilateral restrictions on the free movement of labour is an example. As stated in the research, these temporal factors are relevant in the challenge the EU pre-accession templates pose and consequently in the study of 'europeanisation' East.

Secondly, the post-communist countries shared a commonality in the emergence of a decentralised executive after transition. This has a commonality with the Southern states with the exception of Spain and Portugal, which showed centralisation in the core executive but only selective EU coordination ambition (see Kassim 2003, p. 93). Since the initial transition period, Poland and the Czech Republic have developed their executives in different directions. Poland strengthened the core executive, while the Czech Republic continues to show ministerial autonomy in the executive set-up.

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<sup>161</sup> Spain has developed a decentralised territorial administration, but it can be argued that territorialisation only occurred next to 'europeanisation' (Featherstone and Kazamias 2001, pg. 17). The Spanish state was initially hierarchical and centralised.

These developments create new commonalities and differences with groups of member-states. The executive set-up and in particular coordination in the executive, as shown in Kassim (2003), Peters et al (2000), and Wright and Hayward (2000) shows variety within groups of member-states. Finally, in agricultural policy Poland and the Czech Republic had very different institutional set-ups from transition to accession. Poland had a relatively extensive system of domestic intervention, while the Czech Republic compared to Poland and CAP had a liberal agricultural policy. Here, comparison with the core member-states is difficult, given their respective length of participation in CAP. However, the Czech case might be more similar to that of Austria and Finland. Poland, given the structural issues and domestic support levels in agriculture, is more similar to Spain (see Nallet and van Stolk 1994).

Though important similarities in the pre-accession process and the institutional configuration exist between the member-states and the candidate countries, 'Europeanisation' experiences of different groups of member-states might be substantially divergent and indicate a growing divergence within the EU. The question is not so much as posed in Schimmelfennig and Sedelmeier (2003) whether the candidate countries adapt more or less than the member-states, but that the effects linked to specific institutional factors and the particularities of the EU templates vary across countries and between groups of countries.

This point raises another question about the logic of conceptualising the 'four worlds' of 'europeanisation' (Goetz 2002b). While this thesis does support Goetz's attempt at conceptualising different 'europeanisation' trajectories in terms of the four worlds of 'europeanisation', this thesis highlights an important contradiction in Goetz's framework. In Goetz's framework, the difference between the 'first' and 'second' worlds of europeanisation is based on the differences in 'fits' between the domestic institutional configurations and the EU templates and on differing degrees of support for European integration by national political actors. The distinction between the 'first' and 'second' worlds, on one hand, and the 'third' and 'fourth' worlds, on the other, is based on a different principle, namely the relative strength or weakness of domestic institutions. The fact that Goetz's analysis is not based on a single principle weakens it. This thesis offers a more consistent approach by focusing on one principle, namely the fits between EU templates and the domestic institutional

configuration. Moreover, the thesis suggested that institutions in the CEECs are not weak but specific. In fact, the persistence of the institutional configuration, faced with European pressures, points to institutional strength.

In terms of the classification of the 'four worlds' of 'europeanisation', this approach raises some questions. First, given the commonalities in the institutional configurations between the CEECs and countries in the 'third' world of 'europeanisation', is it logical to assume that these countries form different worlds of europeanisation, especially as commonalities might increase after the end of the pre-accession period? This question also highlights the need to carefully determine on which levels, be it polity, politics and policy, one looks at commonalities and differences between states. Secondly, given the internal variations of institutional configurations between countries within groups, are 'groups' a useful and necessary categorisation? Indeed, the differential impact of Europe, especially on domestic polity, has been a prominent feature in many 'europeanisation' studies (Heritier et al 2001; Knill and Heritier 2000; Knill 2001; Borzel 2002b). However, I believe that within a widening European Union with divergent 'europeanisation' experiences, it is indeed useful to look at groups. I agree with Goetz (2002b) that there are indeed important commonalities and differences (see also section 2.2.b of this chapter). This thesis comments predominantly on the organisation of the state and sectoral institutional arrangements. At this point, one can make two observations on the CEECs. First, the pre-accession period and the accession negotiations has given them particular 'europeanisation' experiences. However, given the institutional commonalities with members of the 'third' group of 'europeanisation', it is also likely that, as the particularities of the pre-accession templates wear off, these 'first-wave' candidate countries will increasingly share 'europeanisation' experiences with this third group. The 'europeanisation' process in the candidate countries is still evolving. The boundaries in this way could be fading.

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In terms of writing style, I have anglicised the spelling of names of interviewees and references. I have done so out of the limitations of Microsoft Word and different ways of spelling of names within different regions of Poland and the Czech Republic.

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1997 Constitution of Republic of Poland

The Act on Regional Self-Government of 1998

The Law on Public Finance of 1998  
Law on the Rules of Supporting Regional Development of 2000  
Bill on Payments out of EAGGF of 2003  
Act on the Formation of Agricultural System of 2003

## **6. Interviews**

**Graham Avery**, Chief Adviser on Strategic Issues in the DG of Enlargement, Brussels:  
April 11, 2001

**Eduard Auer**, Correspondent of Romania Team responsible for (for all candidate countries) on the free movement of goods and EMU and economic policy for Romania Team in the DG for Enlargement, Brussels: September 22 2000

**Peter Berkovic**, Officer in Policy Studies Unit of DG of Agriculture, Brussels:  
September 22, 2000

**Jiri Blazek**, Assistant Professor of Geography with a Specialisation in Regional Policy and Development at Charles University in Prague, Prague: April 23, 2002

**Petr Blizkovsky**, Counsellor for Agriculture and Second Secretary in Czech Mission to the EU, Brussels: September 25, 2000

**Jan Cermak**, European Union Pre-Accession Adviser from the United Kingdom in the Czech Ministry of Agriculture on IACS and the SAPARD Agency, Prague: April 22, 2002

**Pavel Cernoch**, Assistant Professor in European Politics at Europeum of Charles University, Prague: April 22, 2002

**Etienne Claeys**, PHARE Coordinator and Deputy Head of Unit of Poland Team of DG of Enlargement, Brussels: October 25 2001

**Pawel Czyz**, Specialist and Consultant in the Polish Agency for Enterprise Development, Warsaw: July 17 2002

**Jacek Dominik**, Counsellor for Economic Policy in Polish Mission to the EU, Brussels: September 25, 2000

**Piotr Dudek**, Head of Department of Marketing and Promotion in Malopolska Agency for Regional Development S.A., Krakow: July 19 2002

**Ruud van Enk**, PHARE Coordinator including Twinning of the Czech Republic Team in DG of Enlargement, Brussels: April 11 2001 (now Head of Investments in European Commission Delegation in Prague)

**Jiri Eisenhammer**, Head of Structural Funds Unit in Department of European Integration and Structural Funds in Ministry for Regional Development of Czech Republic, Prague: April 23, 2002

**Jan Gregor**, Director of National Fund in Ministry of Finance of Czech Republic, Prague: September 21, 2001

**Howard Harding**, PHARE Coordinator of European Commission Delegation in the Czech Republic, Prague: April 26 2002

**Jana Hendrichova**, Director of Centre of Foreign Assistance in Ministry of Finance of Czech Republic, Prague: September 19, 2001

**Marius Hirte**, Counsellor for Economic Policy and Second Secretary of Romanian Mission to the EU, Brussels: September 22, 2000

**Jiri Horacek**, Head of Unit for Foreign Assistance in Ministry for Regional Development of Czech Republic, Prague: September 20, 2001-Round Table Discussion with **Miroslava Kapralova**, **Jana Durovcova**, both Counsellors in Ministry for Regional Development of Czech Republic.

**Ondrej Pravda**, Counsellor responsible for ISPA in Ministry for Regional Development of Czech Republic, Prague: September 19, 2001

**David Hudson**, Country Desk Officer responsible for Europe Agreement, Regular Reports, commercial issues of Poland Team of DG of Enlargement, Brussels: August 29, 2001

**James Hunt**, European Union Pre-Accession Adviser from the United Kingdom in the Czech Ministry of Environment on Water and ISPA, Prague: April 24, 2002

**Vladimir Irimescu**, Counsellor for Agriculture in Romanian Mission to the EU, Brussels: September 22, 2000

**Agnieszka Kazmierczak**, Deputy Director of the National Fund within the Ministry of Finance: Warsaw, December 22, 2002 and **Beata Kudcza**, Official responsible for Funds Transfer in the National Fund of the Ministry of Finance, Warsaw: January 22, 2002

**Zuzanna Kierzkowska**, Director responsible for Institution-building in the Office of the Committee of European Integration in Poland, Warsaw: September 27, 2001

**Ctibor Kocman**, Director of Department of Integrated Financing in Ministry of Environment, Prague: April 23, 2002

**Wojciech Kowalski**, Twinning Officer in European Commission Delegation in Poland, Warsaw: January 23, 2002

**Malgorzata Kos**, Independent Consultant for Foreign Assistance Funding and International Cooperation in Malopolska Agency for Regional Development S.A, Krakow: July 19, 2002

**Hanna Kosarczyn**, Expert on Regional Policy Implementation in Polish Agency for Regional Development (PARR): Warsaw, January 22, 2002

**Tadeusz Kozek**, Director of Office of the Committee of European Integration in Poland responsible for ISPA, SAPARD, general policy and Programme Authorising Officer, Warsaw: September 28, 2001

**Libor Krkoska**, Economist in European Bank for Reconstruction and Development, London: April 2, 2001

**Michal Lehocky**, Deputy Head of ISPA Implementing Agency in EU Funds Section of Ministry of Transport and Communications of Czech Republic, Prague: April 24, 2002

**Iwona Lisztwan**, Rural Development Officer Responsible for SAPARD in Ministry of Agriculture and Rural Development of Poland until 2000, from September 2003 Rural Development Officer in Directorate General of Agriculture of the European Commission, Brussels: October 15, 2003.

**Lubomir Madr**, Deputy Director of Central Finance and Contracting Unit of Ministry of Finance of Czech Republic, Prague: September 20, 2001

**Jenny Mard**, Official responsible for Co-ordination Europe agreements, Agriculture, Environment and Fisheries of Czech Republic Team of DG of Enlargement, Brussels: September 26, 2000

**Marta von Mauberg**, Twinning Officer in European Commission Delegation in Poland: Warsaw, January 23, 2002

**Patrick McClay**, PHARE Coordinator including Twinning of Romania Team in DG of Enlargement: Brussels, December 21, 2001

**Wolfgang Munch**, Officer in Policy Studies Unit of DG of Agriculture, Brussels: September 22, 2000

**Jaroslav Orlinski**, Official and Specialist in Voivodship Contracts and Assistance Programmes Department of Ministry of Economy, Warsaw: July 17, 2002 jointly with **Iwona Brol** and **Agnieszka Kapciak**, Officials and Specialists in Voivodship Contracts and Assistance Programmes Department of Ministry of Economy

**Jerzy Pienkowski**, Counsellor responsible for Economic and Fiscal Policy of European Commission Delegation in Poland, Warsaw: September 26, 2001

**Wladyslaw Piskorz**, Agricultural Counsellor in the Polish Mission to the EU, Brussels: September 25, 2000-Jointly with **Jaroslav Starzyk**, Minister Plenipotentiary and Counsellor for Horizontal Issues in the Polish Mission to the EU

**Katarzyna Pladys**, Deputy Director of Central Financing and Contract Unit(CFCU) within the Cooperation Fund, Warsaw: January 23, 2002 in the presence of **Wojciech Paciorkiewicz**, Director of the CFCU and Member of Management Board of the Cooperation Fund

**Andrzej Pyszkowski**, Head of Unit in Polish Agency for Regional Development(PARR), Warsaw: January 22, 2002

**Martijn Quinn**, Desk Officer of Romania Team responsible for Preparation of Association Council and Committee meetings. Relations with Delegations, Press/Information/EP, pre-accession: Regular Report, AP, NPAA contact point TAIEX, political briefings, country profile, Medium term economic strategy. Negotiation chapters: CFSP and Institutions. EA sub-committees: external relations, industry and SME's in the DG for Enlargement, Brussels: December 21, 2000

**Stanislaw Rampas**, Member of the Regional Board of Councillors for Regional Development, Local Planning, and Agriculture of Plzensky Kraj, Plzen: April 24, 2002

**John O'Rourke**, PHARE and ISPA Coordinator and First Secretary of European Commission Delegation in Poland, Warsaw: January 21 2002

**Adam Sadownik**, Deputy Director responsible for Cohesion in the Office of the Committee of European Integration in Poland, Warsaw: September 27, 2001

**Pawel Samecki**, Undersecretary of State(Deputy Minister) and Programme Authorising Officer in Office of the Committee of European Integration in Poland, Warsaw: September 28, 2001

**Radka Sarova**, Officer in External Relations Division of the SAPARD Agency in the Ministry of Agriculture of Czech Republic jointly with **Renata Hola**, Officer in External Relations Division of the SAPARD Agency in the Ministry of Agriculture of Czech Republic, Prague: September 21, 2001

**Marie Stankova**, Head of International Cooperation and EU Funds Unit in Regional Development Department of Stredocesky Kraj, Prague: April 26, 2002

**Dirk Swillens**, PHARE Programming Assistant of Poland Team in DG of Enlargement, Brussels: April 11, 2001

**Dariusz Szewczyk**, Chief Financial Officer and Member of the Management Board of the Polish Agency for Regional Development (PARR), Warsaw: January 22 2002

**Vlastimil Tesar**, Counsellor for Economic Policy in Czech Mission to the EU, Brussels: September 25, 2000

**Jean-Marc Trarieux**, Counsellor responsible for Agriculture and Second Secretary of European Commission Delegation in Poland, Warsaw: September 27 2001

**Milena Vicenova**, Director of SAPARD Agency in Ministry of Agriculture of Czech Republic, Prague: September 19, 2001

**Alan Wilkinson**, Head of SAPARD Unit of DG of Agriculture, Brussels: August 29, 2001

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