Verification of Additionality in the Objective 1 regions for 2000-2006

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1. BACKGROUND

The additionality principle stipulates that in order to achieve a genuine economic impact, the appropriations of the Funds may not replace public or other equivalent structural expenditure by the Member State. As a general rule, the national level of expenditure should be at least equal to the amount of average annual expenditure in real terms achieved in the previous programming period. Article 11 of the Council Regulation 1260/1999 sets out the details of additionality assessment, including who is responsible for the assessment, the stages in which it needs to be undertaken, and other conditions where Member State expenditure might be adjusted.

Sub-paragraph 3c of the above-mentioned article states that verification on additionality should be carried out by 31 December 2005.

In 1999, the Directorate-General for Regional Policy, which is responsible for additionality assessment in Objective 1 regions in cooperation with the Directorate-General for Economic and Financial Affairs, published Working Paper (no 5), which provides guidance for Member States and addresses methodological issues for the 2000-2006 programming period.

This report has been prepared by the services of the European Commission to provide information and analysis of the results of the ex post assessment of additionality and follows the structure of the report on the mid-term verification on additionality. It aims to increase accountability for EU funds and thereby addresses the concerns expressed by some Member States and the Court of Auditors.

The nature of the additionality verification exercise is examined in section two of the report along with details of the method of verification and eligible sources of finance. Section three analyses the results of the additionality verification and contains an assessment by country. Furthermore, sections four and five embrace a longer term perspective and explore the trends in public structural expenditure over 1989-2004 (section 4), and its patterns over 1994-2004 (section 5) in terms of the broad sectors of investment.

2. THE ASSESSMENT PROCESS

This section explains the different stages of the process of verification as well as the methodological basis which underpins this process.

2.1. Timetable

Whereas additionality assessments took place every year in the previous programming period, the frequency of verification has now changed. In 2000-2006, the number of assessments has been reduced to three: an ex ante verification for the programming documents, a mid-term verification, before 31 December 2003, and an “end of the period” verification before 31 December 2005.

The exercise of additionality assessment has been carried out by the Commission, and in close cooperation with the Member States, which required frequent written consultations.
on technical and methodological issues, as well as bilateral meetings in a number of cases. Member States have been informed at each stage of the process. The process was initiated by the Commission with a letter sent in May 2005.

The process of assessment included four main stages:

1. the Commission’s request addressed to Member States for data submission
2. submission of data by Member States
3. assessment of the data by the Commission
4. communication of the results of the assessment to the Member States.

2.2. Methodological aspects

2.2.1. Method of verification

The key data for establishing compliance with the additionality principle were actual payments for eligible measures carried out between 2000 and 2004 in the Objective 1 regions taken together.

This exercise does not cover those Member States that joined the European Union on 1 May 2004. Structural Funds were available for these countries from 2004 and assessing additionality based on only a single year's payment would not have been methodologically sound. At the time of the adoption of the Community Support Frameworks and Single Programming Documents of these countries, the Commission and the Member States agreed to conclude the ex ante verification during 2007. In order to provide a necessary basis for establishing an appropriate reference level of expenditures, the Commission suggested that the new MS carry out an interim verification based on the payment data of 2004 and 2005.

The analysis also considered the sources of expenditure, methods and assumptions used by Member States, including the applied deflators (in general, the GDP deflator) and the exchange rate (fixed conversion rates apply for Member States in the euro area).

Article 11 requires that the concerned Member State and the Commission determine the level of expenditure to be maintained by the Member State. Therefore additionality is considered to be respected if the annual average of national public eligible expenditure in the years from 2000 to 2004 has at least reached the level of expenditure agreed at the time of the ex ante verification.

Contrary to the previous programming periods, additionality was assessed this time on the basis of its consistency with the level of expenditure agreed by the Member States and the Commission at the time of ex ante verification, and was not, as in the past, compared with the expenditure in the preceding programming period.

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1 Due to methodological difficulties, the additionality principle is assessed for Objectives 2 and 3 on the basis of expenditure associated with active labour market policies, for which DG EMPL has direct responsibility.
Eligible expenditure

The types of expenditure considered eligible are the operational expenditure categories to which the Community Structural Funds could contribute in all the regions concerned of a particular Member State. Eligible structural expenditure is divided into four main areas:

Basic infrastructure

This includes capital expenditure on transport, telecommunications, energy, water supply, environmental protection and health. ‘Water’ includes public or similar investment in water supply, i.e. its capture (including dams), treatment and distribution. ‘Environment’ includes public or similar investment in drainage networks, and treatment and control of urban, agricultural and industrial waste water as well as treatment, control and storage of other urban, agricultural and industrial waste.

Human resources

This includes capital expenditure on education, training and research and development. Furthermore, the following current expenditure in the field of human resources could be eligible:

- **Education**: teacher training, total cost of technical secondary education and higher education, post-graduate scholarships;

- **Training**: total cost of training courses and the training of instructors;

- **Research and development**: operational expenditure of services to firms as regards the diffusion of technologies and applied research; training and specialised training for researchers, technicians and research managers and research scholarships.

Productive environment

This category includes expenditure to promote activities in the productive sectors, including local economic infrastructure and aid to firms: industry and services, fisheries, tourism, improvement of agricultural structures and rural development.

Other

In some cases, other categories of comparatively small-scale expenditure (e.g. technical assistance) could be taken into consideration to the extent to which they contribute to regional development.

2.2.2. Eligible sources of finance

Total public eligible expenditure includes all sources of finance at national, regional and local level as well as by other public service bodies not part of those sources. Eligible expenditure of public enterprises can be included, but Member States are not obliged to do so as long as consistency between the 1994-1999 and 2000-2006 periods is ensured. Member States needed to explicitly state which administrative levels and public enterprises have been included or excluded.

For the purpose of the analysis, Community Support Framework or Single Programming Document expenditure was to be split into EU Structural Funds and national co-financing. Community Initiatives did not need to be mentioned separately given that the national co-financing would be included anyway.

Where a Member State was eligible under the Cohesion Fund, the national co-financing of Cohesion Fund projects was eligible expenditure and should have
been included. Total national eligible expenditure was the main interest for the verification of additionality.

3. RESULTS OF THE MID-TERM ASSESSMENT

3.1. Overview

Out of thirteen Member States concerned, ten fully complied with the principle of additionality (table 1). The Objective 1 macro-regions in Germany failed to meet their expenditure targets agreed at the ex ante verification. Between 2000 and 2004 Germany spent nearly 15% less than had been foreseen. Ireland increased its expenditure level by 97% compared to the previous period, which still represents a 1% shortfall compared to the target level. France’s submitted data that, in the period of 2000-2004, represented a 22% increase to the target level. As it was in contrast with the findings of the mid-term assessment, where structural spending was 5.1% short of target over the period 2000-2002, the Commission asked the French authorities to check and confirm the figures. The Commission has not received information to conclude on this issue.

**Table 1 - Results of ex post assessment of additionality**

(annual averages in EUR million, 1999 prices)

<table>
<thead>
<tr>
<th>Member State</th>
<th>Targeted level of expenditure</th>
<th>Actual level of expenditure</th>
<th>Achievement (%)</th>
<th>Variation (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Germany</td>
<td>24,622</td>
<td>20,972</td>
<td>85.2</td>
<td>-14.8</td>
</tr>
<tr>
<td>Austria</td>
<td>138</td>
<td>146</td>
<td>105.8</td>
<td>5.8</td>
</tr>
<tr>
<td>Belgium</td>
<td>939</td>
<td>1,047</td>
<td>111.5</td>
<td>11.5</td>
</tr>
<tr>
<td>Spain</td>
<td>13,917</td>
<td>17,178</td>
<td>123.4</td>
<td>23.4</td>
</tr>
<tr>
<td>Finland</td>
<td>899</td>
<td>940</td>
<td>104.6</td>
<td>4.6</td>
</tr>
<tr>
<td>France</td>
<td>2,325</td>
<td>?</td>
<td>?</td>
<td>?</td>
</tr>
<tr>
<td>Greece*</td>
<td>7,789</td>
<td>9,104</td>
<td>116.9</td>
<td>16.9</td>
</tr>
<tr>
<td>Ireland</td>
<td>4,503</td>
<td>4,457</td>
<td>99.0</td>
<td>-1.0</td>
</tr>
<tr>
<td>Italy*</td>
<td>18,198</td>
<td>18,300</td>
<td>100.6</td>
<td>0.6</td>
</tr>
<tr>
<td>Netherlands</td>
<td>394</td>
<td>438</td>
<td>111.2</td>
<td>11.2</td>
</tr>
<tr>
<td>Portugal</td>
<td>5,109</td>
<td>5,297</td>
<td>103.7</td>
<td>3.7</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>5,548</td>
<td>6,971</td>
<td>125.6</td>
<td>25.6</td>
</tr>
<tr>
<td>Sweden</td>
<td>2,776</td>
<td>2,917</td>
<td>105.1</td>
<td>5.1</td>
</tr>
</tbody>
</table>

* Targeted level of expenditure was modified during the mid-term review.
3.2. **Assessment by country**

Considering the large differences in the scale of expenditure between Member States, they have been divided into three groups according to the relative size of EU transfers. These groups are:

- Cohesion Fund countries (Greece, Ireland, Portugal and Spain)
- Macro-regions (south of Italy, Eastern Germany)
- Smaller Objective 1 regions (Austria, Belgium, Finland, France, the Netherlands, Sweden and the UK).

3.3. **Cohesion Fund countries (Chart 1)**

3.3.1. **Greece**

The annual average level of spending was EUR 9,104.18 million, an increase of 16.8% compared to the revised reference level. (The reference value was revised because of privatisations and a change in the drachma/euro conversion rate, and accordingly corrected to EUR 7,789 million.)

3.3.2. **Ireland**

The information received from the Irish authorities indicates a shortfall of annual average structural public expenditure of 1.02%. It is an improvement relative to the mid-term assessment where the shortfall was 1.45%. It must be noted that the agreed level was very ambitious and represented a 98% increase compared to the previous period; thus the outturn spending represents a 97% increase compared to the previous period. Despite the failure to reach the target level in the period 2000-2004, Ireland is likely to comply with the additionality principle for the whole of the period of 2000-2006, given the robust expenditure growth.

3.3.3. **Portugal**

On average, Portuguese annual structural public expenditure, excluding the Structural Funds, shows an increase of 3.7% relative to the 2000/2006 ex ante reference level.

3.3.4. **Spain**

Spain has respected the principle of additionality. Between 2000 and 2004 its structural public expenditure was 23% above the amount foreseen at the ex ante assessment.
3.4. Macro-regions (Chart 2)

3.4.1. Italy

The annual average level of spending was EUR 18,300 million, an increase of 0.6% compared to the revised reference level. (The reference value at the mid-term assessment was corrected to EUR 18,198 million, to a level 12% higher than in the period 1994-99, taking into account the lower than expected tax revenues. The ex ante target for 2000-2006 was on average 20% higher in real terms than the level of expenditure achieved over the 1994-99 period and assumed an increase in tax revenues of 1.62% per year for 2000-2003.)

3.4.2. Germany

The ex ante target for 2000-2006 was EUR 24,622 million, the actual annual average level of spending was EUR 20,972 million; that represents a shortfall of 14.82% in comparison to the target level.

German authorities attribute this drop to different factors, first of all to weaker than expected GDP growth (2000-2004 on average 1.32% for Objective 1 regions, rather than the 2% forecast). In addition, a far reaching reform of the active labour market policy in 2003/2004 lead to a reduction of expenditure in this field. The third factor was a partial reorganisation of the national financial support for the eastern German states in 2001. Investment oriented funds that had been under the direct responsibility of the federal government ("Investitionsförderungsgesetz") were transferred to the responsibility of the states. The states have the obligation to use these funds (partially) for investment purposes. As a consequence it is likely that the real shortfall in additionality is smaller than 14.82%, but the German authorities are not in a position to provide more detailed data.
3.5. Smaller Objective 1 regions (Chart 3)

The Commission could not conclude the additionality assessment with France. Other countries with small Objective 1 regions (Austria, Belgium, Finland, the Netherlands, Sweden and the UK) have respected the principle of additionality for 2000-2004. The increase of expenditures was marginal in Austria, Finland, and Sweden, in line with the expectations after the mid-term assessment. Expenditure level in Objective 1 regions of Belgium and of the Netherlands increased by more than 10%. The United Kingdoms' Objective 1 regions altogether experienced a significant increase, exceeding 25%.
4. **TRENDS IN STRUCTURAL PUBLIC EXPENDITURE (1989-2004)**

4.1. **Overall trend**

The dynamics of structural public expenditure in Objective 1 during 1989-2004 varied substantially among the Member States eligible for Objective 1 (see Table 2).

Globally, in GDP % terms, the spending for structural purposes in Objective 1 regions was unchanged from the past to the current programming periods. Since 1994, it has oscillated around 1.1% of combined EU GDP, which represented a slight decrease with respect to the first period 1989-1993. The eligible population in Objective 1 regions of the EU-15, however, increased from around 90 to nearly 96 million, which translated into a slightly lower per capita spending.

4.2. **Individual Member States**

Individual Member States levels of spending varied substantially during 1989-2004.

**Germany** has been reducing its structural expenditure with each programming period, spending 2.6% of GDP in 1989-1993, 1.4% of GDP in 1994-1999, and 1% of GDP in the current programming period. The evolution of German expenditure should, however, be regarded with caution, as in the aftermath of the unification of Western and Eastern Germany, expenditures were at their height at the beginning of the 1990s. With roughly the same eligible population, the reduction in per capita spending was commensurate with the decrease in GDP terms.

**Italy**, after the first programming period, reduced its structural public expenditure to 1.5% of GDP, where it has remained since. **Spain**, having devoted 2.2% of GDP in 1989-1993 to structural spending, increased spending in the following period. The increased continued in the current period and reached 2.7% of GDP. With accelerated growth rate this increased per capita spending despite the slight increase of population in Objective 1 regions.

**Greece** and **Ireland**, both Member States, which are eligible for Cohesion Fund aid, have substantially increased their structural expenditure, from 5.9% in 1989-1993 to 6.8% in the current period (Greece) and from 2.8% to 4.0% (Ireland). Given the high growth rates in Ireland’s GDP over the period in question, substantial increases in spending in absolute and per capita terms were achieved, i.e. from €382 per head in 1989-1994 to €1238 in the current period. In Greece, the increase was less dramatic, but important nevertheless. With roughly the same eligible population (the whole country is covered by Objective 1), per capita spending increased from €526 in 1989-1994 to €867 in the current period.

**Portugal**'s structural expenditure has reduced in GDP terms since 1989. Having devoted 5.9% to structural needs in 1989-1993, it spent 4.7% of GDP in the following period and 4.3% in the current period. With high GDP growth rates, however, and a slight reduction in eligible population, per capita spending has increased significantly over time.

**Austria**, **Belgium**, **Finland** and **France**, kept their expenditure relative to their GDP roughly at the same level during 1989-2004. With stable or slightly increasing eligible population, expenditure in per capita terms diminished in the case of France and Finland.
After the first programming period, the Netherlands raised its spending level to 0.1% of GDP, where it still remains. Sweden’s structural expenditure remained at the level of 1.1% of GDP.

The UK has significantly increased its spending in its Objective 1 regions. The increase of population (i.e. Objective 1 covering more regions) from the previous period to the current period outgrew the increase of spending, decreasing per capita value significantly.

**Table 2 - Additionality in Objective 1 regions: Eligible population and annual expenditure, net of Structural Funds, 1989-2006**

<table>
<thead>
<tr>
<th></th>
<th>1989 to 1993 programming period</th>
<th>1994 to 1999 programming period</th>
<th>2000 to 2004 programming period¹</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Average annual eligible expenditure</td>
<td>Eligible population</td>
<td>EUR per head</td>
</tr>
<tr>
<td></td>
<td></td>
<td>1989 (mio)</td>
<td></td>
</tr>
<tr>
<td>BE ⁴</td>
<td>942</td>
<td>1.3</td>
<td>736 0.5</td>
</tr>
<tr>
<td>DE ⁵</td>
<td>41,060</td>
<td>16.4</td>
<td>2,496 2.6</td>
</tr>
<tr>
<td>EL</td>
<td>5,286</td>
<td>10.1</td>
<td>526 5.9</td>
</tr>
<tr>
<td>ES</td>
<td>11,979</td>
<td>22.4</td>
<td>534 2.2</td>
</tr>
<tr>
<td>FR ⁶</td>
<td>2,260</td>
<td>2.5</td>
<td>888 0.2</td>
</tr>
<tr>
<td>IR</td>
<td>1,344</td>
<td>3.5</td>
<td>382 2.8</td>
</tr>
<tr>
<td>IT</td>
<td>19,104</td>
<td>20.6</td>
<td>926 1.7</td>
</tr>
<tr>
<td>NL</td>
<td>127</td>
<td>0.2</td>
<td>584 0.0</td>
</tr>
<tr>
<td>AT ⁷</td>
<td>138</td>
<td>0.3</td>
<td>513 0.1</td>
</tr>
<tr>
<td>PT</td>
<td>4,733</td>
<td>10.3</td>
<td>459 5.9</td>
</tr>
<tr>
<td>FI ⁷</td>
<td>893</td>
<td>0.8</td>
<td>1,062 0.7</td>
</tr>
<tr>
<td>SW ⁷</td>
<td>2,774</td>
<td>0.5</td>
<td>6,151 1.1</td>
</tr>
<tr>
<td>UK</td>
<td>1,829</td>
<td>1.6</td>
<td>1,143 0.2</td>
</tr>
<tr>
<td>EU</td>
<td>92,468</td>
<td>90.6</td>
<td>1,021 1.3</td>
</tr>
</tbody>
</table>

¹ Including phasing-out
² Eligible population refers to those areas covered by Objectives 1 and 6 during 1994-1999
³ Figures are verified in the ex post assessment on the basis of actual expenditure 2000-2004 (except FR)
⁴ Figures are used for comparison, as Belgian regions became eligible for Objective 1 in the period 1994-1999
⁵ Refers to unified Germany also for the period 1989 to 1993.
⁶ Figures are notional and are taken from the 1994-1999 period in order to preserve comparability following a change in methodology
⁷ Figures for 1989-1993 are estimated data derived from the ex-post assessment; for 1994-99, partial data are used, as these countries joined in 1995.
* Figure is derived from the mid-term assessment and based on years 2000-2002

Source: Calculations DG REGIO (Data are not comparable between countries).

The analysis is restricted here to the EU aggregate level since the coverage of Objective 1 is not comparable between countries. Some, e.g. Portugal and Greece, are wholly covered while in other cases, e.g. Austria and France, only small parts of the country are covered. Furthermore, the additionality table can cover different items as the national nomenclatures, from which the data for additionality verification derive, are not harmonized.

The data considered below cover the period 1994 to 2004. Partial information is available for 1989-1993 covering only some of the thirteen Member States eligible under Objective 1 in the later period. Austria, Finland and Sweden did not join the Union until 1995 and the eastern Länder of Germany did not become eligible until 1992.

The tables below give the relative shares of the three major categories of public spending which are eligible for Structural Fund aid. The comparison is drawn between the shares of each category in 1994-1999 and 2000-2004 of:

- **Total eligible national spending** excluding Structural Funds, i.e. public investment financed by the Member States from their own Resources, including both non co-financed and co-financed spending (Table 3.1);
- **Non co-financed national spending** excluding Structural Funds and national co-financing (Table 3.2);
- **Structural Fund aid** (Table 3.3);
- **National co-financing of Structural Fund aid** (Table 3.4).

All data underlying the tables below are in euros and in 1999 prices. They have been derived from the ex-post assessment of additionality for 1994-1999 and the ex post assessment for 2000-2006 (except for France, where data from the mid-term assessment were used, covering years 2000-2002). Therefore the data should be considered carefully as it reflects the first 5 years of the current period.

**Table 3.1: Total public spending excluding Structural Funds (% shares of total)**

<table>
<thead>
<tr>
<th>Category</th>
<th>Annual average 1994-1999</th>
<th>Annual average 2000-2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>Basic Infrastructure</td>
<td>51.67</td>
<td>47.30</td>
</tr>
<tr>
<td>Human Resources</td>
<td>28.40</td>
<td>33.83</td>
</tr>
<tr>
<td>Productive Environment</td>
<td>19.92</td>
<td>18.87</td>
</tr>
</tbody>
</table>

Table 3.1 indicates a substantial move away from Basic Infrastructure towards Human Resources between the two periods, with a marginal decrease in Productive Environment. This would seem to fit with an objective of increasing the skills level of the workforce and increasing the participation rate, both of which were highlighted as important elements of the Lisbon agenda.
In Table 3.1, the non co-financed national public spending on Basic Infrastructure, Human Resources, and Productive Environment is recorded. The percentage shares of the categories are as follows: 53.61% for Basic Infrastructure, 29.78% for Human Resources, and 16.60% for Productive Environment. The table also shows a comparison of these categories over the years 1994-1999 and 2000-2004. For Basic Infrastructure, the share decreases from 53.61% to 49.17%, while for Human Resources, it increases from 29.78% to 33.64%, and for Productive Environment, it remains relatively consistent at 16.60% for both periods.

In Table 3.2, both the weights of the categories and the shifts over time are similar to those of Table 3.1. This is not surprising as non co-financed public spending is the largest component (over 80%) of total public spending as recorded for the assessment of additionality. The most notable differences are the higher share of basic infrastructure and the lower share of Productive Environment. This latter indicates a slight increase, unlike the trend noticed above.

Table 3.3: Structural Fund aid (% shares of total)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Basic Infrastructure</td>
<td>33.05</td>
<td>28.43</td>
</tr>
<tr>
<td>Human Resources</td>
<td>29.05</td>
<td>21.57</td>
</tr>
<tr>
<td>Productive Environment</td>
<td>37.90</td>
<td>50.00</td>
</tr>
</tbody>
</table>

Table 3.4: National co-financing of Structural Fund aid (% shares of total)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Basic Infrastructure</td>
<td>39.82</td>
<td>34.58</td>
</tr>
<tr>
<td>Human Resources</td>
<td>19.97</td>
<td>35.12</td>
</tr>
<tr>
<td>Productive Environment</td>
<td>40.21</td>
<td>30.30</td>
</tr>
</tbody>
</table>

These differences can be attributed to the fact that Tables 3.3 and 3.4 are the outcome of individually negotiated programming documents - Community Support Frameworks (CSF) or Single Programming Documents (SPD) - reflecting the various national priorities in the allocation of EU funding and the corresponding co-financing.

The national co-financing shows a relative balance among the three main categories, while the accompanying Community funds vary more between 22 and 50%.

The role of Basic Infrastructure is significantly lower in Structural Funds spending than in national expenditures. This is partly due to the fact that the largest beneficiaries are receiving aid from the Cohesion Fund as well, which can only be used in developing certain basic infrastructures related to trans-European transport networks and environment.
Human resources development represents significantly lower share in SF aid than in total expenses (the figure for total SF aid, that is EU and national co-financing combined, is 26.59%). At the same time, productive environment has a substantially higher share in SF than in total development expenditures. A possible explanation is that it is easier to attract private capital into investments in productive environment than to HR development. This "easier financial absorption" pushes up the share of productive environment, with a similar, although reverse, pressure in human resource development.