Adapting to European Integration: The Case of Lithuania

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June 1, 2001
1. Introduction

The process of European integration has been treated as a dependent variable in the study of European studies with domestic politics acting as a central explanatory factor. In the past decade increasing attention has been paid to the study of European integration as an explanatory factor in domestic continuity and change.

The main purpose of this paper is to explain the process of adaptation to European integration in Lithuania, a small, post-communist country acceding to the EU. The concept of adaptation is relevant to the analysis of domestic change in the candidate countries even in the pre-accession phase. There is one major difference between the pressure for adaptation in the EU member states on the one hand and the candidate countries on the other. If the former countries face the binding nature of EU policy decisions, the transposition and implementation of EU decisions in the latter countries arises from their voluntary commitment to join the EU.

This paper assumes that the mismatch between the EU and the national level determines the level of adaptation pressure. There are two main types of mismatch by which the EU exerts pressure for adaptation. Europeanization can cause a "policy misfit", when certain components or even styles of domestic policies are challenged by the EU, and a less direct "institutional misfit", when domestic institutions or actors are challenged by the EU. Accordingly, the paper assumes that adaptation to European integration occurs through a series of policy and institutional changes, reducing or eliminating the mismatch.

This paper links two main types of explanatory variables, (i) European requirements as well as (ii) Lithuania's policy and institutional tradition, into one framework of analysis. The article attempts to go beyond the general argument that the EU affects the process of institutional and public policy changes and aims to analyze specific manifestations of European requirements in practice. Although the research does not seek to present a comprehensive description of Lithuania's administrative and institutional tradition, it attempts to determine how this tradition influences Lithuania's adaptation to European integration.

In this research paper emphasis is placed on the interaction between the EU requirements (EU-level factors) on the one hand and the inherited policies and institutional relationships (internal factors) on the other. It is this interaction that determines the level of mismatch and, in turn, the pressure for adaptation that affect significantly the dynamics of policy and institutional change. In the final section of the paper a case study tests the hypothesis that the higher the

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pressure for adaptation, the slower the process of domestic change.

This analysis is primarily concerned with the effects of European integration on domestic factors found within the administrative and governmental level. This focus can be in part justified by the high visibility of the European effects on that level in the pre-accession phase.

The paper is organized into five main sections, preceded by an introduction and followed by a conclusion. The second section outlines main manifestations of the mismatch between the EU and Lithuania. The third section discusses the limited capacity for reform (internal factors) shaping the pattern and dynamics of domestic change. The fourth section discusses the EU’s power of agenda setting (EU-level factors) affecting the dynamics and forms institutional and policy changes in Lithuania. The fifth section presents factors facilitating domestic change by discussing “policy learning” effects generated by the PHARE program. And finally, the last section of the paper presents a case study explaining Lithuania’s adaptation to the EU’s pre-accession funds.

2. The level of European pressure for adaptation

It was assumed in the introduction that the mismatch between the EU and the national level determines the level of adaptation pressure. This pressure of adaptation depends primarily on the extent to which domestic institutions and policies (internal factors) match the European requirements (EU-level factors). By presenting a brief description of EU-level requirements, this section determines the specific manifestations of this mismatch in the candidate countries and Lithuania.

One of the main EU’s characteristics is the very large volume of EU legislation. It is estimated that the acquis currently consists of over 20.000 regulations and 2.000 directives, with approximately 80 per cent of socio-economic legislation applicable in the member states originating from the EU. The ability of Lithuania’s government to adjust to this volume of EU legislation within a relatively short period of time is limited by its relatively small size (over 10.000 officials employed in the central government).

It must be noted that pressures for adaptation vary considerably depending on a particular sector. Such well-developed policy areas in the EU as environment pose more problems for Lithuanian authorities than in other areas. Lithuania’s accession to the CAP (Common Agricultural Policy) is particularly problematic, since this policy contains numerous provisions, ranging from the enforcement of veterinary standards to the imposition of various production

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4 The EU-level requirements can be divided into explicit and implicit. If the former refer to different acquis or Accession Partnership provisions, the latter refer to “co-ordination and planning mechanisms, rebalancing of politics-administration relations, continuity, respect for formal rules and obligations, [...] effective monitoring and control mechanisms, and increased transparency”. See C. Spanou, “European Integration in Administrative Terms: A Framework for Analysis and the Greek Case”, *Journal of European Public Policy*, Vol. 5, No. 3 (1998), p. 474.

quotas to the monitoring of "set-aside" rules. In addition, processes of adaptation to the European requirements are circumscribed by the problem of "moving target". The fact that such areas of EU law as finance, agriculture and structural funds are subject to radical overhaul renders domestic change in the CEEC's more difficult.

Another feature of the EU is its emphasis on the regulation of economic activities. The adaptation of Lithuanian administration to the European pattern of regulation requires huge reform efforts, including the establishment of new regulatory institutions and the development of new regulatory skills. Lithuania inherited regulatory frameworks incompatible with those in the EU member states, in particular in the area of environment where regulation was particularly underdeveloped.

The implementation and enforcement of voluminous European legislation frequently requires significant human and budgetary resources, often more than the candidate countries can afford. "Skeleton public administrations and skeleton budgets" in the candidate countries puts limits on their ability to effectively apply the acquis. This constraint appears to be the most constraining in the case of environment. It was estimated that about 15 new officials should be recruited to the Ministry of Environment and another 20 to its regional departments by 2002 as well as few new institutions should be established in order to adopt and enforce 300 pieces of EU environmental legislation.

As far as budgetary resources are concerned, it was estimated that the implementation of only 15 of the most costly pieces of EU environmental legislation would cost to Lithuanian authorities approximately Ecu 3.1 bn. Excluding the most expensive directive (70/220/EEC on car pollution) whose costs will be mostly covered by the private sector, in 2010 the implementation of the remaining 14 most costly pieces of environmental legislation would cost to Lithuanian authorities Ecu 381.9 mln, what amounts to 6.0 per cent of Lithuania's 1996 GDP.

It is important to note that the constraint of limited human resources is more binding for some CEECs than others due to significant variations in the size of CEE administrations. The similar scope of EU matters and, in turn, similar workloads with which all applicant countries are confronted renders the size constraint more binding in Lithuania in comparison to much larger candidate countries. However, this constraint did not preclude Estonia and Slovenia, both having relatively small civil services, from becoming first-wave and most advanced applicant countries in terms of completed chapters of the acquis in their negotiations with the European Commission. Thus, the size constraint must be viewed in the context of other constraints.

3. Internal factors: limited capacity for reform

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8 Ibid., pp. 10-11.
This section introduces internal factors more prominently into the framework of analysis. It is assumed that domestic processes, institutions and policies shape the pattern and form of domestic change by generating more or less binding institutional constraints that need to be overcome by the continuous process of institutional and policy change. Since it is impossible to discuss all domestic factors, the paper focuses on the domestic capacity for institutional and policy change.

The capacity for reform has been low in Lithuania. A high degree of politicization during the transition, stemming in part from the existence of two competing political parties (the Lithuanian Democratic Labor Party and the Homeland Union (Lithuanian Conservatives)), has led to two large waves of partisan replacement of career officials and political appointees following changes in parliamentary majorities. Consequently, due to its short life span and the lack of institutional memory, the political leadership in Lithuania has been unable to advance administrative reform by asserting legitimate control over the bureaucracy.

The ability of the political executive to exert control over the bureaucracy is further limited by the absence of governing ideologies with clear positions with regard to administrative reform. Such governing ideologies have the potential to assist the political executive in reforming the civil service by providing a benchmark against which officials' performance can be measured. Platforms upon which Lithuanian political parties center their political campaigns, however, in most cases leave out public administration reform. The single exception is a recent political platform of the ruling Liberal party. It is not surprising that most Lithuanian governments with the exception of two last governments headed by Prime Ministers Kubilius and Paksas have lacked strong commitment to administrative reform.

There is also a dearth of political leadership with the capacity to design and carry out institutional reform measures after a political party takes power. The Governments rely excessively on the civil service with ministers depending upon the advice of civil servants in their respective ministries. The ability of Lithuanian legislature to offset this disadvantage is still highly limited due to a combination of limited expertise, an inadequate flow of information and a heavy legislative burden in the transition process.

In this context the process of domestic change has depended considerably on three main factors:

- the willingness of individual public administrations institutions to recognize and eliminate the discrepancy between old policies and institutional arrangements and new challenges;
- the receptiveness of the institutional environment to new reform efforts; as well as
- reform pressure stemming from the civil society and regulated communities. In the absence of strong "top-down" central guidance, "bottom-up" changes cannot ensure a uniform institutional adaptation across the board at the governmental level. The environment where bureaucratic offices can pursue their self-interest could not result in anything else but an inconsistent and incoherent reform process based on contingent and uncoordinated reform efforts. Primarily
due to the lack of central control. An uncontrolled proliferation of offices has occurred resulting in an increasing overlap of functions between different offices.

In Lithuania, the deeply-rooted principle of ministerial autonomy allows each institution to have a great deal of discretion in building its administrative capacity. For instance, in the absence of a uniform civil service, all aspects of personnel management, including recruitment, training and promotion, are the employer’s duty. This is largely attributable to the communist legacy. Under communism there was no concept of a uniform civil service, and each public institution was an independent employer.9

However, the ability of individual offices to recognize the inadequacy of old policies and institutional arrangements and adapt to new challenges has been limited and uneven. It appears that the “bottom-up” adjustments were crucially dependent on the impact of individual personalities. In some bureaucratic offices reform-minded personalities followed merit-based recruitment practices that contributed to the increasing professionalization of staff. In contrast, in other offices political appointees or senior officials resorted to patronage-based recruitment activities producing the opposite effect.

Furthermore, the implementation of “bottom-up” reform efforts has been difficult, since the institutional environment has not been receptive to the replacement of old policies and institutional arrangements with new practices. Despite the fact that individual offices have a great deal of discretion, they function in a highly institutionalized environment limiting their ability to change the existing pattern of governmental decision-making.

For instance, efforts aimed at reforming the co-ordination of policy implementation are particularly difficult in large part due to the lack of an appropriate implementation culture. In the communist administrative system, characterized by an excessively hierarchical and legalistic nature, officials were primarily concerned with carrying out formal orders rather than implementing them in practice.10 At present, the government center monitors the implementation of government decisions mostly by relying on its formal control over the execution of the government program.

Reform pressure stemming from the civil society and regulated communities has not been very significant in the first few years of transformation. This can be partly explained by the inherited culture of citizen passivity as well as the weak organization of non-governmental institutions. There are no systemic consultations with representatives of trade unions and consumers organizations.

In the absence of strong domestic reform guidance, external influences have provided a major impetus for domestic processes of policy and institutional change. Most changes that occurred within the Lithuanian administration were clearly linked to the EU. Lithuania’s policy and institutional change has been

most facilitated by the EU’s agenda-setting instruments, in particular the Accession Partnership and accession negotiations (see Section 4), as well as the EU’s PHARE program, which generated significant policy learning effects within Lithuania’s civil service and outside it (see Section 5).

4. EU-level factors facilitating domestic change I: the EU’s power of agenda setting

In the previous section the paper discussed institutional and policy constraints stemming from the limited capacity for reform. The purpose of the two following sections is to explain how EU-level factors facilitate domestic processes of institutional and policy change by reducing or eliminating internal constraints. This section will address the EU’s power of agenda setting, while the next section—“learning effects”—of the PHARE program.

The EU has influenced the dynamics and forms institutional and policy changes in Lithuania by setting both the formal and informal agenda of the Lithuanian government. The sooner EU requirements are included in the government’s agenda, the faster they are carried out. The importance of EU membership to Lithuania and limited domestic expertise on EU matters facilitate the EU’s ability to exercise its agenda-setting power.

It is relevant to note that although the Commission does not have a monopoly over setting the agenda of CEE governments, it is better placed to do so than other European institutions or even the member states. It enjoys the formal executive authority delegated by the Council for eastward enlargement and possesses both the expertise and financial resources. Because of the wide scope of the Accession Partnerships, the Commission’s influence over policy-making in the CEECs “goes beyond the EU’s role in the domestic policy processes of its member states”.

One can identify several EU’s agenda-setting instruments, most important of which are the Copenhagen criteria, the short and middle-term Accession Partnership priorities, Lithuania’s obligations according to the Europe Agreement, the Commission’s Opinions/Regular Reports, screening and accession negotiations. At the outset, the Commission’s in its opinions (1997) and subsequent regular reports on the readiness of the CEECs to accede to the EU served as the most important tools of agenda setting.

In these documents the Commission identified particular obstacles to meeting the obligations of EU membership (e.g. ineffective public administration in Lithuania) and offered policy proposals for their resolution (e.g. undertaking official training, bringing remuneration in the public sector in line with that in the

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11 Formal agenda setting is defined as the ability to set the procedural agenda, while informal agenda setting - as the ability to set the informal or substantive agenda. See M. A. Pollack, “Delegation, Agency, and Agenda Setting in the European Community”, *International Organization*, Vol. 51, No. 1 (1997), p. 121.

Although the Commission’s opinions and subsequent regular reports spurred domestic processes of institutional and policy change, it proved to be insufficient for overcoming internal constraints. Delayed EU membership did not serve as a sufficient threat to the Lithuanian government to reform its institutions, processes and policies.

Most policy solutions identified by the Commission in its opinions have been negotiated into short-term or medium-term reform objectives and embodied in the Accession Partnership agreements between the EU and the individual CEECs. The Accession Partnership agreement between the EU and Lithuania includes, for instance, the introduction of a comprehensive official training program on EU matters. More importantly, progress on implementing those reform objectives has been clearly linked to EU’s financial assistance. This reflects the increasing understanding in the EU that its ability to influence the performance of CEEC administrations largely depends on the link between its separate instruments, namely financial assistance and agenda setting.

As a result, the 1998 PHARE program for Lithuania, amounting to €29.1 mn. is designed on the basis of priority objectives specified in the Accession Partnership. The 1998 PHARE program covers five broad objectives, namely justice and home affairs, environment, energy, transport and reinforcing institutional and administrative capacity. The last objective is the most significant in terms of financial resources in the PHARE program: a total of €11.8 bn will be allocated for this objective. Most importantly, the implementation of the 1998 PHARE program is linked to the principle of conditionality through the Financing Memorandum, signed between the European Community and the Government of Lithuania in late-1998.

In the Financing memorandum, the principle of conditionality is most often linked to the availability of sufficient counterpart staff from the Lithuanian administration financed from the national budget in the policy fields of agriculture, regional policy and cohesion, environment and transport. This reflects the Commission’s concern about the Lithuanian human resources needed to effectively manage individual assistance projects foreseen by the 1998 PHARE program. In addition, the principle of conditionality is also linked to the adoption of new legal acts in the policy fields of social security, environment and energy, the establishment of proper co-ordination mechanisms to avoid fragmentation of justice and home affairs actions and to the availability of national budgetary funds to co-fund transport projects.

15 See Special Provisions (Annex C), Financing Memorandum between the European Community and the Government of Lithuania, 10 December 1998. Under the Financing Memorandum, Lithuania is obliged to meet a number of priority objectives specified in the Accession Partnership, while the Commission is obliged to fund their implementation.
It is important to note that by linking its financial assistance and agenda setting, the EU has become empowered to set the formal agenda for the CEECs. This linkage extended the principle of conditionality to the EU’s power of agenda setting. Thus, the Accession Partnership priority objectives have been endowed with “if not quasi-legal, at least very formal” character.\textsuperscript{16} This has already placed the implementation of priority objectives, set out in the Accession Partnership, high on the agenda of the Lithuanian government, thus strengthening its reform efforts.

Following the Commission’s remarks outlined in its opinion, in late-1997 the Lithuanian government adopted by decree an action plan with a number of priority measures in preparation for the Accession Partnership. In a similar way, following the Commission’s remarks specified in its regular report on Lithuania’s progress to accede to the EU, in late-1998 the Lithuanian government adopted a new action plan.

Accession negotiations represents another powerful instrument of agenda settings. Lithuania, along with other candidate countries, must prepare its negotiating positions on the different chapters of the acquis and implement measures that are needed for closing the chapters. One can conclude that the EU’s pressure for adaptation, exerted through linking its financial assistance to agenda setting, has considerably strengthened internal reform efforts in Lithuania.

5. EU-level factors facilitating domestic change: “learning effects” of the PHARE program

It is assumed in this paper that EU funding produces “policy learning” effects, defined in terms of improved knowledge and skills on EU matters, to the candidate countries. As a result of “changing perceptions of how the policy problem in question is to be defined, and what appropriate solutions are”\textsuperscript{17} policy learning may be translated into institutional or policy changes essential for joining the EU. The analysis, drawing on the logic of sociological institutionalism, assesses the extent to which the PHARE’s influence actually generated policy learning in the Lithuanian civil service and the extent to which new knowledge and skills have produced institutional and policy changes necessary for accession to the EU.

The evolution of PHARE reveals the increasing ability to generate policy learning effects. The “demand-driven” PHARE (from its outset to 1997) suffered from several sets of problems. First, the effectiveness, efficiency and relevance of PHARE suffered from its rigid tendering and contracting procedures, leading to long time gaps between the presentation of assistance proposals and the start

\textsuperscript{16} H. G. Krenzler and M. Everson, \textit{Preparing for the Acquis Communautaire}, EUI, Robert Schuman Centre, Policy Paper, No. 98/6, p. 14

of their implementation. Even one Commissioner responsible for PHARE had to admit that bureaucratic procedures and the lack, or low quality, of specialist knowledge hampered the effectiveness of European assistance to the CEECs. Additionally, the generation of policy learning effects was circumscribed by the limited dissemination of knowledge and skills, although the limited PHARE budget points to the importance of spreading new knowledge as wide as possible.

Second, the limited success of technical assistance has been attributed to the limited capacity of the CEECs to absorb technical assistance due to their weak and ill-adapted administrations as well as a lack of experience in managing foreign assistance programs. The effectiveness, efficiency and sustainability of PHARE projects were considerably undermined by the low degree of stability within the post-communist administrations. It has been pointed out that "the officials and ministers dealing with PHARE change quite regularly, often causing lack of institutional memory which affects the running of programs". The Project Management Units (PMUs), which were set up within relevant sectoral ministries to support the administration of PHARE, suffered from significant staffing problems, high staff turnover and inappropriate role definition. Additionally, the low planning capacity of the beneficiary countries hindered their ability to identify and prepare high quality PHARE projects.

It is interesting to note that PHARE assistance considerably differed in its effectiveness, efficiency and sustainability across countries. The evaluation of two PHARE programs found Lithuania's record to be the worst of four evaluated countries, namely Bulgaria, Hungary, Lithuania and Poland. To a large extent this stems from the low planning capacity and instability within the Lithuania's civil service.

The final set of PHARE deficiencies can be explained by its "demand-driven" nature. In the absence of specific funding priorities, PHARE was executed primarily on the basis of the beneficiaries' needs, to the extent that they were able to determine them in the terms of reference. Due to its "demand-driven" nature, PHARE sometimes was forced to support ineffective policies.

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19 Financial Times, 10 June 1993, "Britan Admits Flaws in Aid", p. 3.
24 PHARE Customs Programmes.
e.g., in Lithuania, where there was little stability in the privatization policy. Most importantly, PHARE aid was not based on the principle of conditionality, which could have been attached to PHARE assistance in the form of ex-ante conditions (to be fulfilled prior to starting a PHARE project) or ex-post conditions (by making future PHARE projects dependent on existing ones).

This situation was changed in 1997 with the implementation of another set of significant changes. The EU explicitly acknowledged the primary importance of the institutional and administrative capacity in the candidate countries for the preparations for EU membership and re-orientated the PHARE program from a "demand-driven" into an "accession-driven" program. 30 per cent of the total PHARE assistance has been allocated to the reinforcement of administrative and judicial capacity in the CEECs.

In addition, the 1997 reforms attempted to improve the effectiveness, efficiency, and sustainability of PHARE assistance through the principle of conditionality. To overcome constraints deriving from the "demand-driven" nature of PHARE, and to reinforce internal reform efforts, the EU applied the principle of conditionality to its financial assistance in the CEECs, thus rendering the allocation of EU's financial aid conditional upon the fulfillment of several requirements. Article 4 of a new Regulation empowers the Council to "take appropriate steps", which may take the form of cut or suspending financial assistance if any of the CEECs fails to satisfy its commitments under the Europe Agreement, progress towards fulfilling the Copenhagen criteria or the Accession Partnership priority objectives (ex-ante conditionality). Under conditionality, progress of individual CEECs will be reviewed every one or two years, rendering the partnership in the next year dependent upon progress achieved (ex-post conditionality).

These reforms are likely to generate greater policy learning effects by addressing the aforementioned problems stemming from the "demand-driven" nature of PHARE. The principle of conditionality is likely to facilitate the translation of new knowledge and skills on EU matters into institutional and policy changes, particularly those not desired by CEE governments.

In early-1999 the responsibility for PHARE was significantly devolved to the EU delegations. The main principles underlying new adjustments are the decentralization of PHARE management, the establishment of independent financial institutions and greater transparency. Following the introduction of the new rules the EU Delegations have been granted more powers. The CEECs are...

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27 PHARE Restructuring and Privatisation Programmes.
28 Ibid.
29 In late-1997, the Luxembourg European Council decided that the remaining 70 per cent of the overall amount, previously allocated to investment projects, will be spent on investments related to the adoption and implementation of the acquis. Commission of the European Communities, European Council: Conclusions of the Presidency, Bulletin of the European Union, Luxembourg, 1997.
likely to benefit from greater decentralization through more direct contacts with Community officials and higher responsibilities, which are likely to lead to even greater learning effects.

Most recently, a recent study, which was commissioned by the Enlargement Commissioner, recommended to prepare the candidate countries for the management of EU’s Structural Funds through the decentralized management of PHARE. At present, since overloaded administrations of the candidate countries cannot cope with both the management of PHARE projects and preparations for EU’s structural funds, sometimes the former issues are more important. These recommendations, if implemented, will foster the ability of the candidate countries to assume EU’s requirements in the area of EU transfers through greater exposure to “learning by doing” practices.

In conclusion, through the transfer of information and knowledge PHARE informed the post-communist administrations about the nature of European requirements in different policy fields, helped them to assess the mismatch these requirements and the domestic situation and define institutional and public policy reforms needed to abolish this mismatch. However, one can expect that mere policy learning is insufficient for ensuring the successful adaptation, since the translation of new knowledge and skills into policy actions or institutional changes is a difficult process. The higher effectiveness of PHARE assistance to training in Lithuania compared to other type of projects can be largely explained by the lack of need to translate training outputs into policy and institutional changes.

6. The case study: adaptation to the EU’s pre-accession funds

The last section of the paper explains Lithuania’s adaptation to the EU’s pre-accession funds. Adaptation to EU funds is defined as a gradual process of convergence between national and European characteristics of public investment management. Since it is not feasible to describe Lithuania’s adaptation to the entire range of EU funds available to Lithuania, this research is limited to the EU’s pre-accession instruments.

It is important to analyze Lithuania’s preparations to manage these instruments because they are meant to prepare candidate countries for the EU’s structural funds. EU transfers constitute one of the potential advantages of EU membership, although their contribution to economic development will to a large extent depend on their implementation in practice. When Lithuania joins the EU, EU transfers can account for up to 4 per cent of the GDP. It was calculated that

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32 *Phare Restructuring and Privatisation Programmes*.

in the first membership year Lithuania would approximately receive Eur 450 million from the EU budget. After 4-5 years of Lithuania’s accession to the EU the receipts from the EU budget may reach to Eur 875-1000 million and the state budget would contribute an estimated Lit 1 500 million as co-financing.

It is assumed in this paper that the dynamics and form of adaptation to EU transfers depends crucially on the mismatch between characteristics of the national investment policy (internal factors) and EU funds (EU-level factors). To determine specific manifestations of this mismatch, the first part of this section sets out major tensions between national and European characteristics of public investment systems, identifying factors binding Lithuania’s adaptation to EU funds. The next part undertakes a more detailed comparison of Lithuania’s preparation for the SAPARD program and the PHARE SEC program in order to explain differences in the dynamics of adaptation between different pre-accession instruments.

6.1 Level of mismatch, tensions and pressure for adaptation

A first tension is related to the underdevelopment of economic development policies whose implementation can be supported from the EU’s pre-accession instruments. After the re-establishment of the independence, Lithuania, together with other transitional economies, started to dismantle the system of state interventions in the economy and accorded higher priority to macro-economic stability, market economy, privatization and other important issues of economic transition. Overloaded agendas of transitional governments and fiscal deficits prevented the introduction of economic development policies.

With the stabilization of the economy and increasing pace of accession to the EU, two recent years saw a proliferation of sectoral development strategies. However, economic development policies suffer from uncertain and low funding, loose inter-policy co-ordination and serious implementation deficiencies. Although the Parliament of Lithuania passed regional policy legislation, regional development pilot projects co-funded by the EU from different PHARE program remain the only instrument of regional development policy.

The next tension stems from differing investment policy rationales. Frequently, national public investment instruments have deeply embedded welfare objectives and provide funding in the form of fiscal transfers to different groups aimed at providing certain levels of income. For instance, the Rural

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14 At the same time, Lithuania’s payments to the EU budget would approximately amount to Eur 170 million euro. Thus, the positive net balance would equal to Eur 280 million euro or about 2% of Lithuania’s GDP. See Recommendations from the Short Term Experts for Budgetary Impact Analysis, Summary of the Report, Vilnius, 2000, p 2-3, http://www.spp- ta.lt/documentation.html or, alternatively, Versto Zinios, 6 September 2000, “ES naryste ir Lietuvos biudzentas”, p 8. These figures are calculated on the assumption that Lithuania will join the EU in 2004. In addition, EU financial resources earmarked for Lithuania will depend on the outcome of the accession negotiations and the financial perspective for 2000-2006.

15 Versto Zinios, ibid.

16 Since 1998 the Government of Lithuania has adopted individual development programs for such sectors as industry, SMEs; exports, quality management; business innovation; information society; tourism; research and development; etc.
Support Fund still finances price support schemes for different agricultural products (grain, meat, etc.). In contrast, the EU’s pre-accession programs are investment instruments of an economic development policy aimed at reducing development disparities through investment support rather than fiscal transfers. Their primary rationale is economic development, and individual welfare is affected through a “trickle-down” effect.

Differences in public investment policy principles and instruments create another tension. Unlike national investment spending, the management of the EU’s pre-accession programs is based on such principles as concentration, programming, additionality, partnership, monitoring and evaluation. For instance, Lithuania’s economic development policies are lacking a multi-annual programming basis, their implementation frequently takes the form of limited projects.

A national investment framework consists of numerous diverse instruments, including the State Investment Program, budgetary programs, extra-budgetary funds, local government funds or programmes, serving the needs of different economic sectors and providing different forms of assistance. The EU’s pre-accession instruments support wider economic sectors (e.g. the PHARE Social and Economic Cohesion programme can provide investment assistance to productive environment, human resources and business-related infrastructure), and they rely on a single investment planning document, the preliminary National Development Plan.

The final tension concerns different spending dynamics. In part due to the Russian crisis, national public investment spending is in decline, while large sums of national resources are required for co-financing interventions of the EU’s pre-accession instruments. In 2001, the Government will allocate for investment purposes more than 1.4 0,5 million less than in 2000. Severe cutbacks in public investments put limits on Lithuania’s capacity to draw down money from EU funds. Already, it has been argued that “there seems to be a clear risk of the lack of national co-financing potentially leading to sizable underutilization of the pre-accession funds available from the EU”. It is obvious that parallel investment planning processes, one for national investments and another for the EU’s pre-accession instruments, are not sustainable because of growing demand for co-financing resources.

Moreover, reductions in public investments coupled with increasing co-financing requirements produce a “substitution” effect when co-financing replaces public investments. This substitution effect has already occurred in the agricultural sector, where price support expenditures of the Rural Support Fund are being replaced by investment support needed to co-finance public

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17 For instance, the Rural Support Fund provides funding for price support schemes and investment programs, including co-financing for SAPARD, whereas the State Investment Program provides investment grants or state-guaranteed loans for infrastructure.
19 Recommendations from the Short Term Experts for Budgetary Impact Analysis, ibid., p. 3.
interventions eligible under the SAPARD.\textsuperscript{40} However, this effect extends beyond specific sectors of economy receiving EU transfers. For instance, according to the new State Investment Program, no new projects will be started unless they will be supported from international financial institutions, including the EU.\textsuperscript{41} In other words, national investment resources will be used for the completion of existing investment projects as well as for co-financing EU-funded investment projects.

In short, different tensions illustrate the magnitude of pressure for adaptation to the EU’s pre-accession instruments. In the area of EU funds the adaptation pressure can be characterized as high\textsuperscript{42} because of extensive EU’s requirements and expectations contradict essential elements of national public investment instruments. It is not surprising that in this situation the definition and implementation of institutional and public policy changes necessary for the adaptation to the EU’s pre-accession instruments is slower, less coherent and extensive compared to other sectors of the acquis. In its latest assessment of candidate countries’ progress towards EU membership the European Commission reported that “strong reform efforts” are needed for Lithuania to accede to the EU’s structural funds."\textsuperscript{43}

### 6.2 Differing dynamics of adaptation: Lithuania’s preparation for SAPARD and PHARE Social and Economic Cohesion

However, there are significant variations in the pressure for adaptation across different EU’s pre-accession instruments. Comparison between two pre-accession instruments, namely SAPARD and the PHARE SEC 2000, below indicates that, although EU’s requirements and expectations are more demanding for accession to SAPARD, the level of mismatch and, in turn, pressure for adaptation is much higher for Lithuania’s accession to PHARE SEC, mainly due to domestic rather EU-level problems. The level of mismatch and the pressure for adaptation is assessed against six main variables (three EU-level and three domestic variables) that are represented in the table below.

After Lithuania’s accession to the EU a large share of resources from the EU budget will be channeled to the agricultural sector. In the pre-accession phase Lithuania will receive EUR 29,829 million each year under the SAPARD program. There are two basic prerequisites for receiving SAPARD funding, namely the approval of the Rural Development Plan and the accreditation of the

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\textsuperscript{40} This “substitution” effect may be beneficial when inefficient national investment instruments are replaced by more efficient EU transfers. However, it unleashes or exacerbates pressures from interest groups threatened to lose their share of national investments. For instance, similar concerns forced the Farmers’ Party to oppose the re-organization of the Rural Support Fund.

\textsuperscript{41} Verslo Zinios, 13 October 2000, “Mazina investicijas i uki”, p. 5.


National Paying Agency. The PHARE SEC program with an annual budget of Eur 14-16 million serves as a precursor for the European Regional Development Fund and the European Social Fund. To comply with the principle of concentration, it was decided to implement the PHARE SEC 2000 in three “target” regions (Klaipeda-Taurage, Utena and Marijampole).

More extensive requirements of the EU in the area of programming generated the higher level of mismatch and, in turn, the pressure for adaptation in SAPARD. The Rural Development Plan was approved by the Ministry of Agriculture on 31 December 1999 and forwarded to the Commission by the end of April 2000. Later, “it was received back from the Commission with around 100 comments” and underwent an ex-ante evaluation. Although the Rural Development Plan (or the multi-annual SAPARD program) for Lithuania was not adopted in early September 2000 together with the same program for more advanced group of candidate countries, a “comitology” committee on agricultural structures and rural development finally adopted Lithuania’s Rural Development Plan in late October, 2000. In contrast to the Rural Development Plan, there was no requirement to approve Regional Development Plans of the target regions under the PHARE SEC 2000, they were only sent to the Commission for information purposes. Instead, the Commission and a PHARE “comitology” committee approved project applications of the target regions for EU funding.

Similarly, in the area of implementation structures Lithuania’s accession to SAPARD is more problematic than to the PHARE SEC. The most serious problem remains the accreditation of the National Paying Agency, which will be responsible for the administration and control of SAPARD funds. The National Paying Agency was set up under the Ministry of Agriculture on 11 November 1999. About 30 staff are presently employed in the National Paying Agency. It is estimated that 1000 pages of documents should be prepared for the accreditation of the National Paying Agency. They include procedures in the area of financial control, internal audit, accounting and payments which need to comply with EU requirements. In contrast, EU’s requirements for the implementation of the PHARE SEC 2000 in the three target regions are less demanding. Since the PHARE SEC 2000 program will be implemented on the basis of “ex-ante” rather than “ex-post” procedures, no accreditation is necessary. Implementation functions will be carried out by the functioning Central Financial and Contracting Unit under the National Fund and regional project units.

Lithuania’s accession to both SAPARD and PHARE SEC is conditional upon 25% of co-financing from public sources. Although Lithuania should contribute 25% of necessary co-financing every year (about Eur 7.5 million).

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45 Agence Europe, 18 September 2000, “Adopting of 2000-2006 SAPARD Programmes (Agriculture) for Poland, Hungary, Bulgaria, Czech Republic, Latvia and Slovenia”.
46 Agence Europe, 27 October 2000, “Union Budgetary Support for Countries Candidates for Membership Could Soon Begin (Except for Romania), if Necessary Administrative Structures are Rapidly Put in Place”.
only a third of necessary resources (Lt 10 million) were earmarked in the Rural Support Fund in 2000. Thus, a senior official from the Ministry of Finance argued that estimates that Lithuania would attract about Eur 30 million from the SAPARD programme are overtly optimistic. An additional Lt 45.5 million of co-financing for the two-year SAPARD program as well as Lt 5 million as public co-financing for the implementation of first-year interventions of the three-year PHARE SEC program were earmarked in the draft budget for 2001.

However, it is a private co-financing requirement that renders Lithuania’s accession to SAPARD more difficult. Lithuania’s capacity to draw down money from the SAPARD program will be hindered by the requirement for applicants to obtain 50% of a profit-generating project budget from private sources. Due to shortages in own financial resources and a collateral requirement for commercial loans project applicants are likely to face difficulties in obtaining a necessary share of private co-financing. The problem of private co-financing will be attempted to solve by providing loan guarantees to project applicants through the Loan Guarantee Fund, which will receive a necessary amount of Lt 70-80 million for guarantee purposes. In contrast, under the PHARE SEC 2000 the private co-financing requirement is less demanding – 100% of the eligible project expenditures can be financed out of the public grant, with the exception of few cases.

Table No. 1 Level of mismatch/pressure for adaptation for Lithuania’s accession to SAPARD and PHARE SEC

<table>
<thead>
<tr>
<th>Level</th>
<th>Title</th>
<th>SAPARD</th>
<th>PHARE SEC</th>
</tr>
</thead>
<tbody>
<tr>
<td>EU-level</td>
<td>Programming requirements (development plans)</td>
<td>High (5)</td>
<td>Medium (3)</td>
</tr>
<tr>
<td>EU-level</td>
<td>Implementation structures (paying and managing authorities) and procedures</td>
<td>High (5)</td>
<td>Medium (3)</td>
</tr>
<tr>
<td>EU-level</td>
<td>Co-financing (public and private) requirement</td>
<td>High (5)</td>
<td>Medium (3)</td>
</tr>
<tr>
<td>Domestic</td>
<td>Institutional framework and co-ordination</td>
<td>Medium (3)</td>
<td>High (5)</td>
</tr>
<tr>
<td>Domestic</td>
<td>Responsibility for public interventions funded by the EU</td>
<td>Low (1)</td>
<td>High (5)</td>
</tr>
<tr>
<td>Domestic</td>
<td>Experience in public investment management</td>
<td>Low (1)</td>
<td>High (5)</td>
</tr>
<tr>
<td>Average</td>
<td></td>
<td>Medium (3,16)</td>
<td>Medium-high (4)</td>
</tr>
</tbody>
</table>

49 Ibid, p. 4.
50 Ibid, p. 4.
However, analysis of other three variables suggests the higher level of mismatch and, in turn, the higher pressure for adaptation for Lithuania’s accession to the PHARE SEC due to the domestic misfit. If Lithuania’s preparations for the centralized SAPARD program are mostly the responsibility of the Ministry of Agriculture and the National Paying Agency under the Ministry of Agriculture, preparations for the decentralized PHARE SEC are managed within complex regional policy “networks” involving representatives from EU institutions, national, regional and local authorities. Unlike the Ministry of Agriculture, the county administrations lack necessary structure, functions, money, investment experience to ensure smooth accession to the PHARE SEC program.

Unfinished transformation at the regional level\(^\text{12}\) hinders Lithuania’s adaptation to the PHARE SEC. The structure of regional government suffers from fragmentation – besides the county administrations, decentralized ministerial departments and government representatives act at the regional level. Thus, Lithuanian regions, being arenas of governmental decision-making at the regional level rather than uniform actors, have limited ability to formulate a coherent regional interest and influence decision-making in regional policy “networks”.

The extent to which the county administrations can influence the design and implementation of EU-funded regional development projects depends on the value of other resources (information, expertise, experience, money, etc.) they can bring to decision-making within these “networks”. The role of the county administrations is constrained by the fact that they have very limited responsibility for economic development and, more importantly, have no responsibility for three main priority areas of the PHARE SEC, namely productive environment, human resources and small-business-related infrastructure.

And finally, Lithuanian regions have little experience in managing public investment programs. The Rural Development Departments of the county administrations, which were involved in the management of investments from the Rural Development Fund, will be re-organized into units accountable to the SAPARD Paying Authority. This factor explains large dependency of the county administration on technical assistance from external sources in carrying out preparations for the PHARE SEC 2000. Moreover, since the county administrations have no investment budget and no powers to raise taxes, they must draw necessary co-financing resources from the central government.

Differing levels of mismatch and pressure for adaptation can be used in assessing the dynamics of preparation for the EU’s pre-accession instruments. It was assumed above that that adaptation would be slower, less coherent and extensive where the pressure for adaptation is higher, because necessary institutional and public policy changes will be hindered by binding constraints. It

\(^{12}\text{An intermediate tier of government in the Lithuanian administrative system expanded primarily at the expense of municipal functions, while planned devolution of functions from the national government to the county administrations failed to materialize. Moreover, in its Program a new Lithuanian Government proposed to replace ten regional government units (the county administrations) with five larger local government units.}\)
is not possible to provide detailed accounts of preparation for each pre-accession instrument. For the purposes of this paper it suffices to note that adaptation for the SAPARD program has been more advanced and involved significant institutional and public policy changes, including the introduction of necessary management procedures, the re-organization of the Rural Support Fund and the Rural Development Departments of the county administrations.

In contrast, Lithuania's adaptation to the decentralized PHARE SEC 2000 program, which was initially advocated by the European Commission (Enlargement Directorate) and supported by the Lithuanian Government, has been more apparent than real. After the project applications of the target regions were adopted by the PHARE "comitology" committee, with the exception of co-financing earmarked in the draft state budget for 2001, there was no real progress. The decentralized design and preparations to implement the PHARE SEC program are increasingly perceived as failures both by domestic players and by EU officials, and more centralized elements are introduced into the design of the PHARE SEC 2001.

7. Conclusion

The analysis proved that the EU is a major independent variable explaining the domestic process of institutional and policy change in Lithuania. In the absence of strong "top-down" reform guidance, a major impetus for policy and institutional reform arose from Lithuania's accession to the EU. Further, the analysis showed how the EU managed to reduce the binding force of internal constraints for institutional and policy change and the limited capacity for reform through its agenda-setting powers and the PHARE program.

It should be recognized that the introduction of new policies and institutional arrangements conflicting with old practices has had some positive effects, as it has brought modern administration practices and forced domestic actors to adapt their behavior to new circumstances by changing old standards of behavior as well as rejecting inherited characteristics of the Soviet legacy.

However, there are several problems associated with the large dependence of institutional and policy change on the EU. If the process of policy and institutional policy change is dominated by the imposition of EU-inspired institutions and policies in a post-communist society with a different culture, the consolidation of these institutions and policies is likely to take a long time. The imposition of numerous EU requirements, which are designed for advanced market economies (in particular in the area of environmental and social policy), does not fit the countries of Central and Eastern Europe undergoing the process of economic transition.

Another problem is that external influence is not usually translated into policy and institutional changes without modifications. The reason for this is that institutional and policy change takes place within the institutional framework that is set not only by external influences, but also by the more or less binding constraints of institutional and policy legacies as well as interests of domestic actors. When external demands are in conflict with deeply institutionalized policies and institutional arrangements, external influences are often
misinterpreted or even deliberately modified by domestic actors to reduce a conflict between external expectations and actors' interests and preferences. Within Lithuania’s civil service there have been many cases when domestic actors played the EU card in an attempt to pursue their self-interest.

Difficulties involved in reconciling external influences with domestic considerations sometimes lead to the adoption of symbolic decisions in an attempt to appease EU institutions. Sometimes problems are tackled in an overtly legalistic way, e.g. by setting up new institutions and adopting laws or entire policies rather than reforming already existing structures in order to solve the essence of the problem. Adaptation is most apparent in the content of policies and institutional arrangements, but informal practices of the public policy process as well as the implementation and enforcement of transposed public policy decisions are resistant to change. The corollary of such symbolic politics is old policies and institutional arrangements hiding behind the “Europeanized” policy and institutional surface.

Sometimes it is assumed that candidate countries will be ready for EU membership when they will fulfill all requirements and expectations posed by the EU. It can be argued that meeting EU requirements and expectations can ensure convergence in form, but divergence in process and substance will continue to stay for a longer period of time. Novel policies or institutional arrangements may be similar to those in the EU member states, but their informal aspects will continue to reflect old practices inherited from the past. It should not be surprising that the reformed institutional set-up will co-exist with old practices of decision-making for some time.

It can be argued that the key problem in solving this most important question is the internal capacity for reform. The binding force of institutional constraints that hinders the development of governmental capabilities is currently more conditioned by internal factors than external factors. The lack of commitment to public administration reform is far more serious than the EU’s numerous requirements and expectations.

It is necessary to note that external influence stemming from Lithuania’s accession to the EU has not fully materialized yet. Increasing integration with the EU will generate further challenges to the Lithuanian administration. Further, in the future the state bureaucracy will come under increasing attack from the public concerned with the quality of public services and the lack of accountability. For Lithuanian decision-makers this means that significant institutional and policy reform efforts aimed at the sustained development of institutional capacity need to be carried out urgently.