IMPLEMENTATION OF EUROPEAN FUNDS IN THE CZECH REPUBLIC IN THE PROGRAMMING PERIOD 2007-2013 COMPARED TO OTHER V4 COUNTRIES

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Abstract
The Czech Republic, as well as other Visegrad Four countries, has been able to draw European Union funds since their accession to the EU in 2004. There are many ways to measure the impact of the implementation of EU funds in programming period 2007-2013, but we have to take into account that countries had different starting positions at the beginning of the programming period in many socio-economic indicators. Prior the implementation of 2007-2013, the Czech Republic was the most affluent country of the group where the GDP per capita was close to 80% of the EU-28 average in 2006 and emerged as a regional leader in many indicators. The level of implementation efficiency of allocated EU funds differs among the V4 countries in 2007-2013. One of the key indicators of implementation efficiency is gap between contracting and payment ratio. As a direct impact of implementation of EU funds, the V4 economies were growing much faster than the EU average in 2007-2015. The situation on the labour market in the V4 countries improved considerably in 2007-2015, is caused mostly by implementation of operational programmes, mostly those programmes which were financed from European social fund. The employment rate increased significantly in the period and came close to the EU-28 average. Especially in the Czech Republic, the unemployment rate was very low in that period compared to other V4 countries, but also to EU-28. In 2016 the Czech Republic became the country with lowest unemployment in EU.

Keywords: Regional policy, Operational Program, Czech Republic, Programming period 2007-2013, EU funds, Visegrad Four, implementation

1 Introduction
Structural Funds are the most important policy instruments used by the European Union (EU) to promote regional development of its member states and to speed up the process of convergence. The role of EU regional policy is to eliminate economic and social inequalities between the 28 Member States of the EU and their regions. EU funds include a wide range of instruments to support the balanced development of the EU regions, with a focus on reducing social and economic disparities. The EU implements the objectives of regional and structural policy within the seven-year cycles, so-called "programming periods". For each of these Member State cycles, they process new programming documents and a framework strategy. The Czech Republic (CR) has been implementing European funds since its accession to the EU in 2004.

In total, the CR had the possibility to draw European funds in three programming periods, and the preparation for the next is starting to run after 2020. Actually the implementation of the 2014-2020 programming period is running, which is the third programming period for the CR and at the same time financially the most favourable.

Structural and cohesion policy is one of the key areas of the policy of European Union (EU), which it pays particular attention to. From the budgetary point of view, about 1/3 of the EU’s public funds are allocated to it. The main role of structural policy is to strengthen economic, social and territorial solidarity, referred to as cohesion in individual member countries of the EU (Wokoun - Mates - Kadeřábková, 2011). It focuses particularly on support for growth and employment in regions whose development is lagging behind. These regions are referred to as structurally weak regions. Cohesion and structural policy is an expression of the EU’s solidarity with its less developed Member States and their regions.

Under the regional policy can be understood management by the state and territorial institutions the scope of which tend towards the creation of favourable conditions for dynamic and versatile development of regions with maximum use of their geographic, human and economic potential (Rajčáková 2005).

The key aspect and the primary objective of the EU’s structural policy is to achieve genuine support for convergence. Its functioning and adjustment should be such that the instrument can realistically reallocate finance in terms of costs, inequalities, disparities and heterogeneity caused in particular by the internal market, the Economic and Monetary Union or the liberalization of the world market. The structural policy of the EU is
necessity and desirability for the countries and regions of the EU with a less developed economy (Wokoun - Mates - Kadeřábková, 2011).

The Visegrad Four (V4) is a group of four Central European countries – the Czech Republic, Hungary, Poland and Slovakia. The countries share a common history, as well as cultural and religious background. After 1989, the countries joined their efforts in the process of integration into the European institutions and joined the European Union (EU) in 2004. The 2004 EU entry can be viewed as a fundamental breakthrough, not only in V4 cooperation but also in the development of individual member states. Having joined the EU and NATO, Czech Republic, Hungary, Poland and Slovakia have met the key target of Visegrad cooperation. By joining the EU in 2004, the V4 countries have become eligible to draw the EU structural funds, which are designed to help overcome inequalities between economically stronger and weaker regions within the EU.

1 Programming period 2007-2013 in CR

Programming period 2007-2013 marks the modification of regional policy instruments, creation of strategic guidelines for regional policy and the adoption of new innovative financial initiatives. Identify the basic features of the regional policy of the EU, reducing disparities based on innovation and knowledge, improving the continuity of the core and peripheral regions and increase internal cohesion of the EU (Ivaničková, 2007).

The EU’s Cohesion policy aims to promote harmonious and sustainable development across the EU and to reduce socio-economic disparities between the regions. For the period 2007-2013, the EU has invested approximately 35% of its total budget on Cohesion Policy. The Structural Funds and the Cohesion Fund are the main financial instruments of Cohesion Policy. There were two Structural Funds during the 2007-2013 period, namely: the European Regional Development Fund (ERDF) and the European Social Fund (ESF). These funds are complemented by the Cohesion Fund.

In the programming period 2007 - 2013, the system of drawings of EU regional policy funds has been simplified, resulting in a reduction in the number of instruments (Výrostová, 2010). Cohesion policy decision makers consider the cohesion policy implementation system (i.e. institutions being able to execute a large funding program) as a major achievement of the 2007-2013 programming period.

In the 2007-2013 programming period, over EUR 347 billion were allocated from the EU budget to Cohesion Policy, of which the CR had the opportunity to spend more than EUR 26 billion. Investments by Member States in that period were concentrated on objectives arising from the European Union strategy for growth and jobs (so-called Lisbon Strategy). The specific strategies and areas for spending the European funds are set in the National Strategic Reference Frameworks.

Table 1: Distribution of EU Funds among the objectives of the 2007-2013 Regional Policy at the beginning of the programming period

<table>
<thead>
<tr>
<th>Objective</th>
<th>Funds for EU27</th>
<th>%</th>
<th>Funds for Czech Republic</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Convergence</td>
<td>283 billion €</td>
<td>81,54 %</td>
<td>25,88 billion €</td>
<td>96,68 %</td>
</tr>
<tr>
<td>Regional Competitiveness and Employment</td>
<td>54,96 billion €</td>
<td>15,95 %</td>
<td>419,09 million €</td>
<td>1,56 %</td>
</tr>
<tr>
<td>European Territorial Cooperation</td>
<td>8,72 billion €</td>
<td>2,52 %</td>
<td>389,05 million €</td>
<td>1,46 %</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>347 billion €</strong></td>
<td><strong>100 %</strong></td>
<td><strong>26,69 billion €</strong></td>
<td><strong>100 %</strong></td>
</tr>
</tbody>
</table>

In 2007-2013 the CR implemented overall 24 operational programmes divided into the three objectives of the economic and social cohesion policy:

Convergence objective

This objective consists of the support for growth and creating new jobs in the least developed Member States and regions. This includes regions with GDP per capita lower than 75% of the EU average and the temporary support (by the year 2013) is provided to the phasing-out regions where the GDP per capita was lower than 75% of its level in the EU-15 (the GDP per capita indicator related to the average improved due to the statistical effect of the EU enlargement). This objective was implemented through eight thematic operational programmes: OP Transport, OP Environment, OP Enterprise and innovation, OP Research and Development for Innovation, OP Human Resources and Employment, OP Education for Competitiveness, Integrated Operational Programme, OP Technical Assistance and seven regional operational programmes (ROP): ROP NUTS II Northwest, ROP NUTS II Moravia-Silesia, ROP NUTS II Southeast, ROP NUTS II Northeast, ROP NUTS II Central Moravia, ROP NUTS II Southwest, ROP NUTS II Central Bohemia.

Regional competitiveness and employment objective

This objective is intended for cohesive support of other than the least developed regions (defined by the GDP/cap indicator lower than 75% of the EU average) and its aim is to assist them in dealing with rapid economic and social changes, globalisation and changeover to a knowledge-based society. It also includes aid for the phasing-in regions, i.e. regions of the former objective No. 1, which thanks to their economic progress cannot be included in the current Convergence objective. This objective was implemented through the two following programmes: OP Prague Competitiveness, OP Prague Adaptability. A portion of the Regional competitiveness and employment objective was used also through the operational programmes Human Resources and Employment, Education for Competitiveness, the Integrated Operational Programme and Technical Aid to Support Nation-wide System Interventions.

European territorial cooperation objective

This means the stimulation of regional cooperation on the cross-border, international and supra-national level with the aim of finding a common solution for problems such as development of cities, rural development and development of maritime regions, development of economic relations and creating small and medium-sized businesses networks. The objective was implemented through: Cross-Border Cooperation: CR – Bavaria, CR – Poland, CR – Austria, CR – Saxony, CR – Slovakia; Interregional Co-operation: all EU states, Norway and Switzerland; Transnational Co-operation: OP Transnational Cooperation (CR, Austria, Poland, parts of Germany, Hungary, Slovenia, Slovakia, parts of Italy and part of Ukraine).

Figure 1: Drawing of operational programmes in programming period 2007-2013 in comparison to their respective overall allocation in %

Source: Ministry of Finance, CR
In programming period 2007-2013 the CR had the opportunity to spend more than EUR 26 billion (585 billion CZK) in comparison to the EUR 2.36 billion (62 billion CZK) allocated in the 2004-2006 programming period. The implementation of all operational programmes has been completed in December 2015, and the CR was able to implement EUR 24.8 billion, which represents 96.4% of the total allocation.

Since 2004, when the implementation of EU funds started in the CR, the Czech economy grew faster than the EU-28 average, with its gross domestic product (GDP) growing by an average of 3.9% per year. EU membership and access to cohesion policy for the CR means raising the standard of living by 12 percentage points (from 78% of the EU average in 2004 to 90% in 2017), a significant reduction in the unemployment rate by 5.3 percentage points (out of 8.3% in 2004 to 3% in 2017) to the historical minimum, which is also unique across the EU (the average is 7.8% in 2017). In addition, the proportion of people at risk of poverty was reduced from almost 20% in 2005 to 13.3% in 2016 (EU average in 2016 is 23.5%). In the case of the CR, cohesion policy accounts for more than 2.5% of GDP in the period 2007-2013 and a similar contribution to the level of 2% is forecasted for the next programming period.

2 The impact of implementation of EU funds in V4 countries in 2007-2013

The programming period 2007-2013 was (after the shortened period 2004-2006) the first full membership period for the V4 countries, in which they were eligible to draw EU funds. Each country had its own available budget, which was negotiated with the EU before the implementation of projects started. Available budget for 2007-2013 is the EU funding contribution without any national contribution or private contribution. This budget was set in each country’s National Strategic Reference Framework. The 2007-2013 programming period was running from 1 January 2007 to 31 December 2013, but the projects were implemented two more years under application of the “n+2” rule under article 31.2 of Regulation 1260/1999 (in this case 2013+2, i.e. 2015).

To study and recognize the impact of the Cohesion policy on macroeconomic indicators, it is necessary to revisit the economic conditions in the V4 countries at the outset of the financial perspective 2007-2013. The macroeconomic conditions in the V4 countries at the outset of the implementation of the 2007-2013 operational programmes were very diverse despite many common features of their economies. The V4 countries differed in terms of economic development, the labour market, and the advancement of transport infrastructure. This was factored into decisions selecting the priorities of interventions co-financed by the EU and impacted the growth rate of macroeconomic indicators in 2007-2013.

In the decade prior to the launch of the financial perspective 2007-2013, all of the V4 countries were gradually closing the gap to the more developed European countries. However, the average GDP per capita in 2006 was still at only ca. 65% of the EU-28 average. The V4 countries were very diverse in terms of economic development. The CR was the most affluent country of the group, where the GDP per capita was close to 80% of the EU-28 average in 2006. Hungary, Poland and Slovakia were moderately advanced in economic growth: their GDP per capita ranged from 51% to 63% of the EU-28 average in 2006.

In addition to being less developed economically, the V4 countries generally had higher unemployment rates, which however differed largely from country to country. Unemployment was the most acute in Poland and Slovakia: despite a reduction of unemployment after EU accession (economic recovery, mass migration out of the country), ca. 14% of the working age population remained unemployed. In the CR and Hungary, however, the unemployment rate was below the EU average.

Accession to the EU in 2004 gave impetus to V4 countries toward economic growth and set direction to structural reform. Growth continued in the first years of the EU membership. In CR, the government passed increases in the Value Added Tax (VAT) in early 2004 and tightened eligibility for social benefits with the intention to bring the public finance gap down to 4% of GDP by 2006. The financial crisis of 2007–2010 did not affect CR much, mostly due to its stable banking sector.

The impact of the interventions can be measured in many different ways. The V4 economies were growing much faster than the EU average in 2007-2015. The average growth in the V4 countries in that period was 2.4%, compared to only 0.72% across the EU. Of all the V4 countries, Poland reported the fastest growth in this period as its real GDP per capita increased from 50.6% to 67.5% of the EU average. Slovakia was also country with fast growth in this region, as the country was growing much faster than Hungary, which had a similar starting position. As a result, Slovakia’s GDP per capita was 77.2% of the EU average in 2016 as the country caught up with the regional leader, the CR.
The growth of the V4 countries during the implementation of the first two programming periods (2004-2015) was substantially higher than that of the EU. Despite the fact that the 2008-2009 crisis broke off, most countries soon recovered, with the exception of Hungary. These data confirm that EU membership has made a significant contribution to higher than average growth and thus to a successful process of closing to EU average.

The growth impulse resulting from investing structural funds and the Cohesion Fund accounts for ca. 25-30% of the real convergence of the GDP of the Visegrad Group countries with the EU average. V4 GDP in 2015 was higher by 5.8% due to cohesion policy intervention. GDP of 40% of V4 regions was in 2014 above the 75% of EU GDP average. EU-15 financial contribution to cohesion policy is offset by direct and indirect export benefits, direct capital benefits as well as positive externalities.

Cohesion policy brings economic benefits both to its recipients and to its main contributors across EU member states. The biggest share of the economic benefits (80%) for EU-15 stands for indirect export benefits resulting from the increased export to V4. It is caused by higher demand in those countries created by cohesion policy related investments. Whereas direct benefits stand for 20% of total EU-15 benefits and come mainly from construction services to large infrastructural projects, electrical machinery and transport equipment supplies being used in cohesion policy investments located in V4 countries. The EU-15 contributions are being offset by a range of benefits that returned to their economies. Total economic benefits for the EU-15 in the period of 2007-15 amounted to EUR 96.6 bn Taking into account that the total EU-15 contribution to cohesion policy in that period was at EUR 121 bn, those countries received back 80% of this amount (82% for the net payers).

These findings prove that the cohesion policy is beneficial both to the recipients of support as well as to its main contributors. In this regard, it is obvious that there are significant benefits to the EU-15 resulting from the general macroeconomic impact of the Cohesion Policy on V4 economies. The interventions co-financed by EU structural funds and the Cohesion Fund stimulate aggregate domestic demand, thus increasing GDP. This, in turn, translates into additional external inflows of consumer products and services (i.e. those sold to final consumers) and investment goods and services (i.e. used as inputs in the production process) mainly from the EU-15.

Table 2: V4 countries information on national accounts and EU funds 2007-2015

Regarding the amount of the contribution from the EU funds in the programming period 2007-2013 within individual V4 countries per capita, the Czech Republic received per inhabitant €2496, which is the 2nd most within V4 group, Hungary received €2529, Slovakia received €2102 and Poland received €1773.

As regards the drawing of EU funds in individual countries, the CR was able to spend to 96.4% of the total allocation, Hungary implemented 91.6%, Slovakia implemented 96.89% and Poland implemented 95.5% of the total allocation.

In the 2007-2013 programming period, V4 countries had access to 130 bn. EUR of EU funds, which constitutes 17.35% of the annual GDP of the V4 region. As demonstrated in Tab. 2, the amount of allocated EU funds differs among the V4 countries. Allocation for Poland is higher as allocation of all three other V4 countries together. Although Poland has the highest budget out of V4, in the per capita ratio of EU funds is last among the V4 countries. Also in EU funds per GDP ratio is Poland below the average of all V4 countries, despite the fact it has the highest population rate and highest allocation of all V4 countries.

As demonstrated in Tab. 3, the level of implementation efficiency of allocated EU funds differs among the V4 countries. At the end of 2015 all V4 countries contracted 100% or more of the available budgets. After 9 years of implementation, the V4 countries contracted together 111% on average of their budget allocated for the programming period. The average payment ratio at the end of 2015 among all V4 countries was 97% on average of their budget allocated for the programming period.

Table 3: V4 countries information on EU funds implementation 2007-2015

<table>
<thead>
<tr>
<th></th>
<th>Czech Republic</th>
<th>Hungary</th>
<th>Poland</th>
<th>Slovakia</th>
<th>Total/average</th>
</tr>
</thead>
<tbody>
<tr>
<td>EU funds (EUR billion)</td>
<td>26,30</td>
<td>24,92</td>
<td>67,19</td>
<td>11,65</td>
<td>130,06/-</td>
</tr>
<tr>
<td>EU funds per capita (%)</td>
<td>2,496</td>
<td>2,529</td>
<td>1,768</td>
<td>2,144</td>
<td>-/2,234</td>
</tr>
<tr>
<td>Contracted grants (EUR billion)</td>
<td>27</td>
<td>29,2</td>
<td>66,9</td>
<td>14,2</td>
<td>137,3/-</td>
</tr>
<tr>
<td>Contracting ratio (%)</td>
<td>103%</td>
<td>117%</td>
<td>100%</td>
<td>122%</td>
<td>-/111%</td>
</tr>
<tr>
<td>Paid grants (EUR billion)</td>
<td>23,3</td>
<td>27,7</td>
<td>61,6</td>
<td>11,3</td>
<td>123,9/-</td>
</tr>
<tr>
<td>Payment ratio (%)</td>
<td>89%</td>
<td>111%</td>
<td>92%</td>
<td>97%</td>
<td>-/97%</td>
</tr>
</tbody>
</table>

Source: (Eurostat, 2015)
Very important indicator to measure the real efficiency level of implementation is the gap between contracting and payment ratio by country. The smaller the difference is in these two indicators, the more efficient EU funds management considered in the country in terms of real implementation. As demonstrated in Tab. 4, out of V4 countries, the most effective implementation in terms of this indicator was performed in Hungary (6% gap), followed by Poland (8% gap), Czech Republic (14% gap) and the worst performance was in Slovakia (25% gap).

<table>
<thead>
<tr>
<th></th>
<th>Contracting ratio (%)</th>
<th>Payment ratio (%)</th>
<th>Gap between contracting and payment ratio (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Czech Republic</td>
<td>103%</td>
<td>89%</td>
<td>14</td>
</tr>
<tr>
<td>Hungary</td>
<td>117%</td>
<td>111%</td>
<td>6</td>
</tr>
<tr>
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<td>100%</td>
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<td>8</td>
</tr>
<tr>
<td>Slovakia</td>
<td>122%</td>
<td>97%</td>
<td>25</td>
</tr>
</tbody>
</table>

Source: (Eurostat, 2015)

The situation on the labour market in the V4 countries improved considerably in 2007-2015. The employment rate increased by 6.4 percentage points in the period and reached 64%, which was close to the EU-28 average. The strong improvement of the employment rate was driven by several concurrent factors. First of all, dynamic economic growth in the V4 countries boosted demand for labour, which helped to create more than 1 million new jobs (includes all jobs created, not only EU projects).

At the outset of the financial perspective 2007-2013, the V4 countries faced a much more difficult position than the other EU Member States in terms of human capital and the labour market. According to the Eurostat, the unemployment rate was higher than in the EU-28 while the employment rate was lower than in the EU-28.

The growth rate of employment depended on prevailing market conditions. The growth was the strongest in the period of economic boom in 2007-2008, followed by a temporary decrease caused by the financial crisis. The next period of strong growth in employment was in 2014-2016, when the V4 countries bounced back from economic slow-down and reported strong GDP growth once again.

The employment rate was also driven by rising labour market participation of elderly citizens and women. This was due, among others, to the gradual phasing out of early retirement options. At the same time, as demand for labour increased, it became easier to enter the labour market.

The improvement on the labour market in the V4 countries was largely helped by implementing operational programmes co-financed by the EU. According to Eurostat, the employment rate in the V4 countries in 2016 was 1.9 percentage points higher and the unemployment rate was 1.6 percentage points lower than in the baseline scenario with no Cohesion Policy funds. This means that the EU funds account for ca. 21% of the increase of the employment rate and 28% of the decrease of the unemployment rate in 2007-2015.

The EU funds played a key role in the period of the economic crisis. The implementation of contracted projects co-financed by EU funds increased demand for investment goods and consequently generated additional demand for labour. As a result, the average unemployment rate in the V4 countries increased to no more than ca. 10%, compared to 13% under the scenario with no EU funds.

Of all the V4 countries, the Cohesion Policy funds improved the labour market most notably in Slovakia, because the country has accounted the largest decrease in unemployment rate, from 13.5% in 2006 to 9.7% in 2016. The employment rate in Slovakia had an increase from 59.4% in 2006 to 64.1% in 2016. The major improvement was reported also in Poland, where the employment rate increased from 54.5% in 2006 to 64.5% in 2016, while the unemployment rate decreased from 13.9% to 6.2%. In Hungary, the unemployment rate decreased from 7.5% in 2006 to 5.1% in 2016.

Table 5: Unemployment rate 2007-2017 in %
Overall, it’s undeniable that the situation on the labour market in the V4 countries improved considerably in 2007-2015, which is caused mostly by implementation of operational programmes, mostly those programmes which were financed from ESF. These ESF projects have played an important role on the labour market. They have allowed stepping up and extending support to the unemployed, and focusing their support on groups in a special situation. Participation in projects has changed the situation of many participants, significantly contributing to finding their work. The ESF also played a major role in the national promotion of local innovations in V4 countries. Especially in CR, the unemployment rate was very low in that period compared to other V4 countries, but also to EU-28. In 2016 the CR was the country with lowest unemployment in EU with 4 %, and in 2017 it was a record setting 2.9 %.

3 Conclusion

EU cohesion policy has considerably accelerated social and economic development progress of the V4 countries. The growth impulse resulting from investing structural funds and the Cohesion Fund accounts for ca. 25-30% of the real convergence of the GDP of the V4 countries with the EU average. Moreover, the level of overall V4 GDP in 2015 was approx. 5.8 % higher than in the case of ‘no cohesion policy’ scenario.

Regarding the CR, although it received EUR 2496 per inhabitant, which is the 2nd most within V4 group, its real efficiency when considering the gap between contracting and payment ratio is the 3rd worst in the V4. In drawing, the CR is also 3rd worst in the V4 since it was able to spend to 96.4% of its allocation. But in many other indicators, the CR was regional leader in V4, for example the GDP per capita rate. Regarding the unemployment rate, the CR had the lowest rate among the V4 group during the whole 2007-2015 period, and in 2017 it was even the lowest in the EU.

Tangible impact of cohesion policy can be seen in improved innovativeness, positive developments on the labor market, higher transport accessibility, strengthened environmental protection as well as enhanced energy efficiency and security.

Thanks to the macroeconomic impact of cohesion policy (the increase in aggregated demand and production capacity) almost all regions of V4 countries reduced their GDP gap to the EU average. In 2004 (the year of V4 accession) only 4 of V4 regions exceeded 75% of the EU GDP per capita average, while 10 years later in 2014 already 40% of V4 regions (14) were above that level. This proves that cohesion policy has contributed significantly to reducing the amount of lagging behind regions in V4 during 10 years of European and Structural Investments Funds interventions.

References