

CZECH UNIVERSITY OF LIFE SCIENCES PRAGUE
FACULTY OF ECONOMICS AND MANAGEMENT
DEPARTMENT OF ECONOMICS



DIPLOMA THESIS

Application of the EU Regional Policy in a Chosen Region
Aplikace evropské regionální politiky ve vybraném regionu

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DIPLOMA THESIS ASSIGNMENT

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Thesis title

Application of the EU Regional Policy in a Chosen Region

Objectives of thesis

The aim of this thesis is to examine the application of European regional policy in the Northwest region in the Czech Republic. Objective of this work is to contribute to the understanding of the mechanisms of the disbursement of EU funds and evaluates these mechanisms.

Methodology

This thesis is divided into two basic parts. The first one, the theoretical one uses the analytical approach, based on descriptive and analytical research method. The basic terms and mechanisms are defined. The second, empirical or theoretical part contains analysis and synthesis of data about specific application of the EU regional policy in the Czech Republic.

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Declaration

I declare that I worked on this diploma thesis titled “Application of the European Regional Policy in a Chosen Region” completely on my own and that I marked all quotations in the text. The literature and other sources I have used are mentioned in the references of the diploma thesis.

In Prague, March 28, 2014

.....

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Souhrn

Tato diplomová práce se zabývá implementací regionální politiky Evropské unie v České republice, konkrétně v regionu soudržnosti Severozápad.

První kapitola se zabývá regionální politikou EU obecně, jejím vývojem a hlavními principy a cíli v programovém období 2007-2013 a v současném období 2014-2020. Dále práce charakterizuje jednotlivé zdroje financování, Evropský fond regionálního rozvoje, Evropský sociální fond a Fond soudržnosti. Práce popisuje implementaci politiky v ČR, její specifika, dokumentární zachycení a její hlavní aktéry.

Praktická část se zabývá konkrétní implementací v Regionálním operačním programu Severozápad. Analyzuje realizaci v programovém období 2007-2013. Tento region má mezi ostatními ROP v ČR specifické postavení z toho důvodu, že je spojován s korupcí. Popis této kauzy je také součástí diplomové práce. Součástí empirického výzkumu je dotazníkové šetření ohledně vnímání fungování ROP Severozápad občany Ústeckého a Karlovarského kraje. Práce obsahuje doporučení pro programové období 2014-2020.

Klíčová slova

Evropská unie, evropská regionální politika, strukturální fondy, regionální operační program, region soudržnosti Severozápad, korupce, Ústecký kraj, Karlovarský kraj

Summary

This diploma thesis focuses on the application and implementation of the European regional policy in a chosen region. Specifically, the work deals with the Czech Republic and the Cohesion region Northwest.

The first chapter deals with regional policy of the European Union in common, its development and its main goals in the period 2007 - 2013 and in the current period 2014 - 2020. Furthermore, the thesis presents individual Structural Funds and the Cohesion Fund. The work describes the implementation of the policy in the Czech Republic, its specific features, strategic documents and its main actors. The thesis deals with the application of the European Regional Policy in the Cohesion Region Northwest. This region has a specific position among others NUTS 2 for that reason, that the way of dealing with the financial resources from the EU was questionable. The empirical part is devoted to description of the region, its characteristic and the declared priorities of the European regional policy in 2007-2013. The financial flows in the period, especially regarding the priority axes and regions are described and analysed. Another part of the empirical research is the perception of working of the Regional Operational Program Northwest by the citizens of the region the ROP consists of.

Key words

European Union, European Regional Policy, Structural Funds, Regional Operation Programs, Cohesion Region Northwest, corruption, Ústí nad Labem region, Karlovy Vary region

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List of abbreviations

CF Cohesion Fund

CR Cohesion Region

CoR Committee of the Regions

ESF European Social Fund

ERDF European Regional Development Fund

MoRD Ministry of Regional Development

NCA National Coordination Authority

NUTS Nomenclature of territorial units for statistics

IROP Integrated Regional Operational Program

RC Regional Council

ROP Regional Operational Program

ROP NW Regional Operational program Northwest

1 Introduction

Accession to the European Union in 2004 opened to the Czech Republic the possibility of making full use of funds within the economic and social cohesion. Policy of economic and social cohesion (regional and structural policy) is one of the most important policies of the European Union. Regional and structural policy of the EU aims to promote the harmonious, balanced and sustainable development¹ of economic activities, a high level of employment, equality between men and women and a high level of protection and improvement environment. [1]

The European Union's regional policy seeks to reduce structural disparities between EU regions, foster balanced development throughout the EU and promote real equal opportunities for all. [2]

This thesis deals with its implementation in the Czech Republic, specifically in the Cohesion region Northwest. It focuses on the region Northwest mainly because this region belongs to the most problematic and questionable ones in the Czech Republic. The suspicion of corruption has become a certainty and the supreme representatives of the Cohesion region Northwest are nowadays in jail for their crimes. Development of recent events has shown that the Cohesion region Southwest has to deal with a similar situation, but to maintain the consistence, this thesis takes into account only the affairs in the northern part of the Czech Republic.

¹ According to § 6 of Act No. 17/1992 Coll., on the environment, is a sustainable development "development that current and future generations retains the option of meeting their basic needs while reducing biodiversity and conserving natural functions of ecosystems".

2 Aims and methodology

2.1 Aims of the thesis

The aim of this thesis is to provide a comprehensive overview about implementation and working of the European regional policy and its specific implementation in the Regional operational program Northwest in the Czech Republic. The thesis analyses the implementation in the period 2007-2013, its problematical parts, describes the current status, suggests measures to improve the current situation and predicts the future development.

The thesis tries to answer following research questions:

- How was the European regional policy implemented in the Cohesion Region Northwest in the period 2007-2013?
- What has been the progress of the corruption case in the Northwest ROP and what consequences were drawn?
- How is the proposed future development of providing subsidies in the Regional operational program Northwest?
- How do the inhabitants of the Ústí nad Labem and Karlovy Vary regions perceive the functioning ROP NW?

To the objectives of the thesis belong a critical evaluation of the working the Council of the Cohesion region Northwest and the monitoring mechanisms, both the European Union and by the Czech Republic.

2.2 Methodology

The presented work is divided into two basic parts – into the theoretical and the practical one. The theoretical part is made up from a literature overview and definition of the basic terms regarding the topic European regional policy and its implementation in the Czech Republic. The scientific literature and relevant European and Czech legal framework are used.

The practical or empirical part is a case study that examines and evaluates implementation of the EU regional policy in a chosen region – in the Regional Operational Program Northwest in the Czech Republic. The thesis provides a critical analysis of the internal documents of the Council of the Cohesion Region Northwest, its functioning and the future development.

Sum of the absolute utilization indicators are used for the purposes of the analysis. For creating outputs serve in addition to absolute indicators the indicator ratios. At the same time, the conclusions of the analysis are based on a quantitative method processing of data obtained from available databases and it will also be utilization of both types of quantitative methods, i.e. relative and absolute methods.

Absolute method involves the use of data excluded from the relevant database without their previous comparison with other indicators; the absolute figures therefore show a phenomenon without any relation to another one. Because the absolute figures have only limited information value, the aim is to always relate the figures to some other indicator to get objective information. The basis of the method is a relative measure the observed data and the method and indicates the relationship two different phenomena. The relative approach is used for example in the case of indicators per capita.

Graphs and charts are accompanied by a text summary of the findings. Individual conclusions are at the end of the thesis summarized in total final output, which is a proper assessment of the acquired knowledge.

As source of the data serve various internal documents of the Regional Operational Program Northwest. The internal documents that are used are namely the budgets for every year of the programming period, project documentation, evaluation reports and the annual

reports list R17. The R17 is a statistical document that is monthly updated by Office of the Regional Council, inter alia, the evidence of submitted applications for assistance from the ROP Northwest, identification of applicants for subsidies the resources of the financial means in the ROP NW. Those data contained in a list R17 are accessible under the Act No. 106/1999 Coll. on free access to information.

The analysis focuses on the allocation of entrusted resources by the priority axes of the ROP Northwest and another point of view is allocation by regions. The development of the budget in the particular years is also analysed.

The theoretical and practical information are evaluated by the method of synthesis of knowledge and results in a set of recommendations for substantive change in the programming period 2014-2020.

The research questions regarding the perception of the working of the Regional Operational Program Northwest are answered with the help a quantitative empirical method, with a questionnaire². The questionnaire consists of 11 questions, of which were 2 semi-closed and 9 closed. The respondents were the inhabitants of the Ústí nad Labem and Karlovy Vary region with access to the internet. The questionnaire was published for the period of 5 days on the specialized website www.vyplnto.cz. The total number of respondents was 114.

² The questionnaire is in the translation into English is attached at the end of this thesis in the Appendices.

3 Regional Policy of the European Union

3.1 History overview

This chapter provides a basic overview of the history and development of the European regional policy since its very beginning till the present day.

Already the Treaty establishing the European Economic Community (EEC Treaty)³ defines as the task of the Community take action to ensure "sustainable and balanced" development of the member countries. [3]

Given the fact that among the original six members of European Community there weren't significant economic differences and between regions within Member States with the exception of Italy and France also not, the EC member countries predicted rather spontaneous equalization of regional disparities with help of the free market.

On the basis of the Treaty establishing the European Economic Community was established the European Investment Bank, whose aim is to promote the development of the less developed regions of the Community through loans and guarantees for projects. [42] Furthermore, under this agreement was established the European Social Fund, which seeks to increase education and employment and the European Agricultural Guarantee and Support Fund. Both of these funds had admittedly positive regional impact. However it is not possible to speak about a coherent regional policy of the European Economic yet. Gradually during the 60's the States of the Community have changed their approach to the regional policy and sought to coordinate it at least on a transnational level that led to the creation of the Directorate - General for Regional and Urban Policy in 1968. As the beginning of the regional policy as we know it now can be considered the year 1975, when the European Regional Development Fund (ERDF) was established.

Coordination of regional policy increased with establishment of the ERDF strengthened and financed from the supranational level. Regional policy of this period worked on the

³ The EEC Treaty, signed in Rome in 1957, brings together France, Germany, Italy and the Benelux countries in a community whose aim is to achieve integration via trade with a view to economic expansion.

basis of fixed quotas, which meant that each Member State had allocated a fixed amount of financial means. [4]

The member states used the grants at the Community level to pay their own investments in regional development, which was in conflict with the principle of additionality, which reckoned that Community investment will be complemented by investments of the member states. [5]

Given the above mentioned facts, the resources were distributed unnecessarily; they just replaced the national investments. In addition, fixed quotas prevented the needed regions from being more supported, and led rather to compare the level of maturity of the regions on the national level than Community level, which is the main objective of the regional policy. The Commission has sought the cancellation or limitations of these quotas between 1978 and 1985. Despite the Commission's efforts remained the system in force until the reform of the Structural Funds in 1988. [6]

Due to the imminent accession of Spain and Portugal, and the difficulties of regions of developed countries of the Community, it was necessary to reform the regional and structural policy. The amount of funds for regional policy has been increased and the role of the EC in this area was strengthened. The regional policy was integrated with part of the agricultural and social policies. The Fifth chapter, titled Economic and social cohesion, was added to the Treaty establishing the European Economic Community. The result of this reform was an element of the medium - term planning and implementation of principles of regional programs. [7]

It first appeared conceptual element of coordinated multi-development programs. Based on the principles of programming, two basic forms of assistance were created, that have been financed by the Structural Funds since 1989, namely initiatives on national level of individual states and also initiatives on Community level. [8] The main economic reasons that reform were the European Commission efforts to create a single internal market and the underdevelopment of certain regions. If the differences between the level of individual regions weren't mitigated the economic performance of the internal market would be affected negatively. Further, in this period, European Office for Statistics was established

for the purpose of distribution of structural funds and comparison of individual regions zoning system NUTS.⁴

The trend of increasing the amount of financial means in funds for regional policy and the importance of this policy is also reflected in the EU Treaty, in which three new funds to support the Cohesion were established : European Investment Fund, the Cohesion Fund and the European fisheries fund. [9]

The European Investment Fund was established to support risky projects of small and medium-sized enterprises in European regions. European fisheries fund aims to promote fisheries in all coastal areas and to finance measures, such as the modernization and restructuring of the fleet, the development of aquaculture, marketing and production services or port facilities. In this period, the Committee of the Regions (CoR) was founded as a new consultative body of the EU. The role of the Committee of the Regions is to put forward local and regional points of view on EU legislation. It does so by issuing reports ('opinions') on Commission proposals. [10]

A reform of regional policy based on initiative of Madrid and another meeting in Berlin was introduced for the financial perspective 2000 - 2006. The aim of this reform was to increase activity effectiveness of structural funds. As structural funds can be considered the European Social Fund, the European Regional Development Fund, the European fisheries fund and the European Agricultural Guidance and Guarantee Fund , or supportive of this funds [11].

Increase in the efficiency of these funds should be achieved by increasing the amount of funds for regional policy, reducing the number of objectives and flatness of the assistance provided, improving the control and management of funds and simplifying the whole process. There were three objectives defined on the financial perspective:

⁴ The NUTS classification (Nomenclature of territorial units for statistics) is a hierarchical system for dividing up the economic territory of the EU for the purpose of collection, development and harmonisation of EU regional statistics. There are three levels of the units: NUTS 1: major socio-economic regions; NUTS 2: basic regions for the application of regional policies; NUTS 3: small regions for specific diagnoses.

- Development promotion and structural adjustment of lagging regions,
- economic and social conversion of areas facing structural difficulties,
- adaptation and modernization policies and systems of education, training and employment. [12]

The first two objectives mentioned above are based on long-term purpose of the Structural Funds. The third objective is closely linked to the Social Policy and the Lisbon strategy.⁵

In the financial framework for the programming period 2007 - 2013 there was a significant increase of the cohesion policy. This policy now represents approximately 35% of the total EU budget expenditures. [12]

The European regional policy as it is understood nowadays is divided into time period of seven years. This diploma thesis deals with the programming periods of 2000-2006, 2007-2013 and the current period of 2014-2020. The main characteristics and specifics are described in a Chapter 3.5 in relation to implementation in the Czech Republic.

⁵ The Lisbon Strategy is a commitment of the Community to transform the EU till 2010 into the most dynamic and world's most competitive knowledge-based economy, the principles of sustainable development and social cohesion. This commitment has so far failed to fulfill mainly due to the deficit of the EU the use of the latest scientific knowledge in the industry and a lack of private sector investment in science and research.

3.2 Basic principles of the EU regional policy

There are some basic principles of the EU regional policy and the following chapter aims to sum them up.

The current EU regional policy is based on certain principles that are reflected in legal and programmatic framework for the entire process of providing assistance to less developed regions of the European Union. Regional policy principles were developed gradually with the development of a changing attitude of individual EU member states. The main principles of the current regional policy include:

- Principle of complementarity (additionality). This is based on the principle that state funds are not the majority but only an additional source (with the possible exception of municipalities or regional authorities) which contributes to the promotion of activities emerging in the region.
- Programming principle. It is based on the need for a conceptual approach to ensure the development of the various regions; including program coordination activities of the different actors involved in the development of the given region.
- Principle of partnership (complementarity). It is based on the need for close cooperation between the competent state administration bodies, local authorities and other bodies and organizations in both the horizontal level (e.g. community and regional cooperation among themselves) and vertical (e.g., ministerial cooperation with regions or municipalities).
- principle of interdependence,
- principle of coordination and consistency,
- principle of territorial the level of implementation,
- principle of shared management,
- principle of proportional intervention,
- principle of non-discrimination,

- principle of sustainable development [12]
- and the principle of monitoring and evaluation [13]

3.3 The objectives of EU regional policy for the programming period 2007 – 2013

As was already mentioned, the European regional policy and its goals and priorities are divided into periods of seven years. The programming period 2007-2013 represents the core of this diploma thesis, for that reason it will be described in more detail.

In the programming period 2007-2013 the amount of money that was dedicated to the European regional policy represents more than a third of the budget of the European Union. In other words, 347 billion euros represent 35.7% of the total EU budget. [14]

The main objectives of EU cohesion policy for the period include: Convergence, Regional competitiveness and employment and European territorial cooperation. The next chapter will define these three objectives one by one.

A) Convergence

The European cohesion policy is governed by Articles 2 and 4 and Title XVII of the Treaty establishing the European Community. In the Article 158 it is mentioned that the EC “*shall aim at reducing disparities between the levels of development of the various regions and the backwardness of the less favoured regions or islands, including rural areas.*”

More than 80% of the cohesion policy budget goes to the poorest regions. The criterion that defines the poorest region is that the Gross Domestic Product per capita in this region is less than 75% of the EU average (or slightly above). These regions are referred to as "convergence". The purpose of this objective is to stimulate economic growth, including projects relating to transport or infrastructure development. The aim is to help the weaker regions to be better off.

This objective covers a total of 84 regions in 18 Member States of the European Union of 154 million people and another 16 regions with 16.4 million inhabitants, which have a GDP only slightly above 75% of the EU average (the so-called "phasing-out" regions).

B) Regional competitiveness and employment

Approximately 170 regions that do not qualify for financial aid through the Convergence Objective, allocate among themselves annually the amount of 8 billion euro. The financial means are given over to support of strengthening competitiveness and employment in these regions, specifically for projects that promote economic cohesion through innovation and entrepreneurship, the environment, improving transport links, retraining the workforce and investment in human resources.

This objective includes also the so-called "phasing-in" regions, it means regions that used to belong under the Convergence Objective. Currently there are 13 "phasing-in" regions and live in them 19 million inhabitants.

C) European territorial co-operation

The main task is to support cross-border, transnational and interregional co-operation programs. The budget of €8.7 billion for this objective accounts for 2.5% of the total 2007-13 allocation for cohesion policy, including the allocation for Member States to participate in EU external border co-operation programs supported by other instruments (IPA and ENPI). [15]

Table 1: Indicative allocation by Member States, 2007- 2013, in millions of euros

	Convergence			Regional Competitiveness and Employment		European Territorial Cooperation	Total
	Cohesion Fund	Convergence	Phasing-out	Phasing in	Regional Competitiveness and Employment		
Belgium			638		1425	194	2258
Bulgaria	2283	4391				179	6856
Czech Republic	8819	17064			419	389	26692
Denmark					510	103	613
Germany		11864	4215		9490	851	26340
Estonia	1152	2252				52	3456
Ireland				458	293	151	901
Greece	3697	9420	6458	635		210	20420
Spain	3543	21054	1583	4955	3522	559	35214
France		3191			10257	872	14319
Italy		21211	430	975	5353	846	28812
Cyprus	213			399		28	640
Latvia	1540	2991				90	4620
Lithuania	2305	4470				109	6885
Luxembourg					50	15	65
Hungary	8642	14248		2031		386	25307
Malta	284	556				15	855
Netherlands					1660	247	1907
Austria			177		1027	257	1461
Poland	22176	44277				731	67284
Portugal	3060	17133	280	448	490	99	21511
Romania	6552	12661				455	19668
Slovenia	1412	2689			104	4205	
Slovakia	3899	7013			499	227	11588
Finland				545	1051	120	1716
Sweden					1626	265	1091
United Kingdom		2738	174	965	6014	722	10613
Interregional/ Network Co-operation						445	445
Technical Assistance							868
Total	69578	199322	13955	11409	43556	8723	347410

Source: European Commission, own processing

From the table is it obvious that the biggest amount in total receives Poland. As was mentioned in the introduction, the absolute number is not very meaningful figure.

Considering the allocation in relation to the number of inhabitants of the country⁶, Estonia receives the most of money in the European Union, it is 2658 € per capita. In second place there was the Czech Republic with 2616 € per capita, followed by Hungary with 2556 € per inhabitant. In the first five places belong also Slovakia with 2145 € and Latvia with 2100 € per capita. These figures show that the newer member states from the Central Eastern Europe receive the higher amounts of money within the European regional policy.

Table 2: Allocation of the financial means among the objectives of the EU Regional policy in 2007-2013

Objective	Funds for the whole EU		Funds for the Czech Republic	
Convergence	252.2 billion €	81.54 %	25.88 billion €	96.98 %
Competitiveness and employment	49.1 billion €	15.95%	0.42 billion €	1.56 %
European territorial cooperation	7.8 billion €	2.52 %	0.39 billion €	1.46 %
Total	308.0billion €	100.00%	26.69 billion €	100.00%

Source: Ministry of Regional Development of the Czech Republic, own processing

This table shows the distribution among the objectives of the European regional policy. It is completely obvious that the convergence objective is crucial. It represents more than 80% of the total amount of the financial means. The dominance of the convergence objective is in the case of the Czech Republic even more obvious. More than 25 billion euros are intended to be used to support this intention, the objectives competitiveness and employment and European territorial cooperation represent about 1.5 % of the total amount of the funds for the Czech Republic each.

⁶ The figures per capita were calculated with the data for 2013 from Eurostat. Available on: <http://epp.eurostat.ec.europa.eu/tgm/table.do?tab=table&init=1&plugin=1&language=en&pcode=tps00001>

3.4 The current period 2014-2020

Because the thesis is written on the border between the two programming periods, the author of this thesis finds it suitable to pay attention to the current one as well. There are ten points of the reform of the European regional policy that aim to make it more effective and the investments to have the most effective impact possible. In the programming period 2014-2020 there were 351 billion euros allocated in this area. [16] The main points of the reform are: [17]

1. Investing in all EU regions and adapting the level of support and the national contribution (co-financing rate) to their levels of development: Less Developed regions (GDP < 75% of EU-28 average), Transition regions (GDP 75% to 90% of EU-28 average) and More Developed regions (GDP > 90% of EU-28 average)
2. Targeting resources at key growth sectors
3. Fixing clear, transparent, measurable aims and targets for accountability and results.
4. Introducing conditions before funds can be channelled to ensure more effective investments.
5. Establishing a common strategy for more coordination and less overlap.
6. Cutting red tape and simplifying the use of EU investments through a common set of rules for all European Structural and Investment Funds as well as simpler accounting rules, more targeted reporting demands and more use of digital technology (“e-cohesion”).
7. Enhancing the urban dimension of the policy by earmarking a minimum amount of resources under the ERDF to be spent for integrated projects in cities - on top of other spending in urban areas.
8. Reinforcing cooperation across borders and making the setting up of more cross-border projects easier.
9. Ensuring that Cohesion Policy is better linked to wider EU economic governance:.
10. Encouraging the increased use of financial instruments to give SMEs more support and access to credit.

Table 3: Total EU allocations in cohesion policy 2014-2020, million €, current prices

	Cohesion Fund	Less Developed Regions	Transition Regions	More Developed Regions	Outermost and northern sparsely populated regions	European Territorial Cooperation		Youth Employment Initiative (additional allocation)	Total
						Cross-Border Cooperation	Transnational Cooperation		
Belgium	0	0	1040	939	0	219	44	42	2284
Bulgaria	2278	5089	0	0	0	134	31	55	7588
Czech Republic	6259	15282	0	88	0	297	43	14	21983
Denmark	0	0	71	255	0	204	23	0	553
Germany	0	0	9771	8498	0	627	339	0	19235
Estonia	1073	2461	0	0	0	50	6	0	3590
Ireland	0	0	0	952	0	151	18	68	1189
Greece	3250	7034	2306	2528	0	185	46	172	15522
Spain	0	2040	13399	11074	484	430	188	943	28559
France	0	3408	4253	6349	443	825	265	310	15853
Croatia	2560	5838	0	0	0	128	18	66	8609
Italy	0	22325	1102	7692	0	890	247	568	32823
Cyprus	270	0	0	422	0	29	3	12	736
Latvia	1349	3040	0	0	0	84	9	29	4512
Lithuania	2049	4629	0	0	0	100	14	32	6823
Luxembourg	0	0	0	40	0	18	2	0	60
Hungary	6025	15005	0	464	0	320	41	50	21906
Malta	218	0	490	0	0	15	2	0	725
Netherlands	0	0	0	1015	0	322	68	0	1404
Austria	0	0	72	906	0	223	34	0	1236
Poland	23208	51164	0	2242	0	543	157	252	77567
Portugal	2862	16671	258	1276	116	79	44	161	21465
Romania	6935	15059	0	441	0	364	89	106	22994
Slovenia	895	1260	0	847	0	55	8	9	3075
Slovakia	4168	9484	0	44	0	201	22	72	13992
Finland	0	0	0	999	305	139	22	0	1466
Sweden	0	0	0	1512	207	304	38	44	2106
United Kingdom	0	2383	2617	5768	0	612	253	206	11840
Interregional cooperation									572
Urban innovative actions									372
Technical assistance									1218
EU28	63400	182172	35381	54350	1555	7548	2075	3211	351854

Source: European Commission, own processing

The allocation of the financial means among the member states including Croatia that joined the European Union in July 2013.

Compared to the previous period, there is a slight difference in the total amount of money allocated in the European regional policy – 347 billion of euros compared 351 billion of euros mean 1.5 % increase.

3.5 Financial flows in the European regional policy

The previous chapters have provided the basic overview of the principles and objectives of the EU regional policy; the following is focused on the financial means that are used to reach the declared goals.

The main instruments of regional policy are the Structural Funds, whose task is to remove differences between EU regions in terms of their level of development through the financing of development projects of the member states. The Structural Funds can draw support to those regions whose GDP per capita is less than 75 % of the EU average. Another condition for a non-reimbursable grant is the submission and approval of projects managed by the relevant national or regional authorities. [18]

There are currently two Structural Funds: the European Regional Development Fund and European Social Fund. European Regional Development Fund (ERDF) was established in 1972 and since 1988 is integrated into regional policy. Its scope includes support of public and private investments helping to reduce regional disparities. ERDF aims to support transport infrastructure, environmental protection, capacity building for research and development and to support small and medium-sized enterprises. ERDF is the most important structural fund and redistributes the largest amount of money from regional funds. It is used in all the three objectives of regional policy. [19]

The second of the Structural funds is the European Social Fund (ESF) which was established in 1957 and this date makes it the older one of the structural funds. ESF is the main source of financial support for social policy, employment policy development and increasing number of working places.

Besides the structural funds, the other financial tool of the European structural policy is the Cohesion Fund that was established in 1993 in the Maastricht Treaty. Its purpose is to help countries that had problems related to the establishment of economic and monetary union. The Cohesion Fund is not a structural fund, although it is often considered as one. Resources from the Fund may be used by the member states in which the Convergence objective is aimed and whose gross national income per capita is lower than 90 % of the EU average. The fund aims to finance larger projects of member countries in the field of environment, infrastructure, energy policy and renewable energy. [20]

3.6 Implementation of the EU regional policy in the Czech Republic

Since the main focus of this thesis is the implementation of the EU regional policy in the Czech Republic, this chapter deals with this issue in more detail.

There was regional policy in the Czech Republic before the accession to the European Union in 2004, but the Czechoslovak or later Czech government didn't attach great importance to it. The situation changed in 1995, as the Europe Agreement establishing an association between the Czech Republic on the one part, and EC and their Member States on the other part (known also as the Association Agreement) entered into force. It was an impetus for a greater focus on Czech regional policy, especially in relation to the possible use of funds from the pre-accession funds (PHARE, ISPA and SAPARD). In 1996, the Ministry of Regional Development was established, which became the central coordinator for the use of EU funds in the Czech Republic.

Nowadays, The Czech Republic, as a less developed country⁷ in the European Union uses and benefits from the European regional policy.

Regional policy in the Czech Republic can be understood as an activity of the state, regional and local authorities, whose aim is to contribute to the harmonious development of individual regions in the Czech Republic, to reduce disparities between the levels of development of individual regions and to improve the regional economic structure.

The following table shows the development of the implementation of the European regional policy in the Czech Republic since the 90's till the year 2014.

⁷ The Czech Republic meets the condition for getting financial support to the cohesion regions – the GDP of the regions per capita is lower than 75% of the average for the whole European Union. According to the World Bank, the GDP per capita in the Czech Republic was 26,590 USD and the EU average was 33,527 USD.

Table 4: Overview of the implementation of the European Regional Policy in the Czech Republic

Level	1990-1995	1996-1999	2000-2004	2004-2006	2007-2013
NUTS I	Regional policy is an integral part of the policy of economics	1996: Ministry of Regional Development of the Czech Republic was established	Act No.248/2000 Coll. of June 29, 2000 on Support to Regional Development	Ministry of Regional Development coordinates so-called COMMUNITY SUPPORT FRAMEWORK	Ministry of Regional Development coordinates so-called NATIONAL STRATEGIC REFERENCE FRAMEWORK
NUTS II	THERE WASN'T THIS LEVEL	THERE WASN'T THIS LEVEL	8 Cohesion Regions were established – pre-accesion period	8 Cohesion Regions without legal status	8 Cohesion Regions with legal status, managing Regional Operational Program
NUTS III		THERE WASN'T THIS LEVEL	14 Regions	14 Regions	14 Regions
LAU I	Districts	77 Districts	Districts (the District Offices were cancelled in 2002)	77 Districts (Statistical units)	77 Districts (Statistical units)
LAU II	Cities	Cities	Cities	6250 Cities	6250 Cities

Source: Ministry of Regional Development, own processing

The implementation of the European regional policy in the Czech Republic is done using the operational programs, that are divided into four groups: thematic and regional operational programs, operational program Prague and the European territorial cooperation.

Among the **thematic programs** of the convergence objective belong: [21]

Operational Program Enterprise and Innovation

Operational Program Enterprise and Innovation is focused on the development of business environment and transfer research results into business practice. It supports the creation of new and development of existing companies, their innovative potential and use of modern technologies and renewable energy sources. Allows improvement of infrastructure and services for business and cooperation between enterprises and research institutions.

Operational Program Environment

Operating Environment program focuses on improving the quality of the environment and thus the health of the population. It contributes to the improvement of the air, water and soil, solves the problem of waste and industrial pollution , promotes care for the landscape and the use of renewable energy sources and infrastructure for environmental education.

Operational Program Transport

Transport Operational Program is aimed at improving infrastructure and interconnectivity of rail, road and inland waterway transport in the framework of the trans-European transport networks. It is therefore an infrastructure of national importance in the case of road infrastructure in terms of motorways, highways and main roads.

Operational Program Education for Competitiveness

Operational Program Education for Competitiveness is focused on improving and modernizing the initial, tertiary and further education, integrating them into a comprehensive system of lifelong learning and to improve the conditions for research and development.

Operational Program Research and Development for Innovation

Operational Program Research and Development for Innovation is aimed at strengthening the research, development and innovation potential, especially through universities, research institutions and their cooperation with the private sector. Supports research centers with modern equipment technology, building new research facilities and increasing the capacity of tertiary education.

Operational Program Human Resources and Employment

Operational Program Human Resources and Employment is focused on reducing unemployment through active labor market policies , vocational training , as well as the inclusion of socially excluded people back into society , improving the quality of public administration and international cooperation in these areas.

Regional Operational Programs

Under the Convergence objective for the period 2007-2013 are a total of seven regional operational programs designed for the entire territory of the Czech Republic with the exception of the City of Prague. Regional Operational Programs cover several thematic areas with the aim of increasing regional competitiveness, accelerate their development and more attractive for investors. [21]

Figure 1: Map of the regions (NUTS 3) and cohesion regions (NUTS 2) in the Czech Republic



Source: Cohesion region Southeast [online] <http://www.jihovychod.cz/en/rop-south-east/south-east-cohesion-region>

There are eight Cohesion Regions (and the regional operational programs) in the Czech Republic. Prague has a special position among other regions, it is not supported within the convergence objective, but within the objective Regional competitiveness and employment. The Cohesion Regions in the Czech Republic are:

Middle Bohemia: consists of the territory of the Central Bohemia Region

Southwest: consists of the territory of the South Bohemian and the Pilsen Region

Northwest: consists of the territory of the Karlovy Vary and Ústí Region

Northeast: consists of the territory of the Pardubice, Hradec Králové and Liberec Region

Southeast: consists of the territory of the Vysočina and South Moravian Region

Middle Moravia: consists of the territory of the Olomouc and Zlín Region

Moravia-Silesia: consists of the territory of the Moravian Silesian Region.

European Territorial Cooperation

The European Territorial Cooperation is related to each NUTS 3 border regions of neighboring regions in another Member State of the European Union. For the Czech Republic, there are operational program for cross-border cooperation with Poland, Saxony, Bavaria, Austria and Slovakia. [22]

In the Czech Republic, the amount of 389 million euros is assigned to the European Territorial Cooperation Objective.

All the operational programs, being official documents approved by the European Commission, define what problems the Czech Republic wants to solve using the finances received from the European budget and what it wants to achieve in the programming period 2007-2013. They guarantee the projects to be financed. The projects are not selected on a random basis but according to whether they help to achieve the aims of the cohesion policy. Every OP is divided into priority axes that define more specifically what the finances assigned to the concerned operational program may be spent on. The priority axes further consist of areas of support or even sub-areas of support respectively.

3.6.1 The programming period 2014-2020

There has been made significant changes in the implementation of the EU Regional policy in the Czech Republic in the current period 2014-2020. The Ministry of Regional Development is in charge of the preparation of the changes, but it cooperates with other institutions and organisations on regional, national and local level to fulfil the principle of partnership.⁸

The regional operational programs will be replaced by an integrated one. [23]

Integrated Regional Operational Program (IROP) is an emerging program for those interested in a grant from the European Union in the period 2014-2020. In June 2014, the IROP is expected to be submitted to the Czech government for approval. In July 2014, after the submission of the draft program IROP the European Commission for the negotiation and approval.

IROP will be comprised of four priority axes. [23]

The first priority axis is devoted to increasing the competitiveness of the territory, and within it projects will be financed that are aimed at modernisation and development of the regional roadway infrastructure, development of transport systems and support for destination marketing. The second priority axis will be divided into two parts. The first is focused on the social and health area, and the second is focused on investments into education, knowledge and life-long learning. The aim of the third priority axis is modernisation of public administration, along with increasing transparency, effectiveness and efficiency of processes in public administration. The goals are generally intended to increase the competitiveness of the Czech Republic in terms of the performance of

⁸ The partners are selected ministries - representatives of the Ministry of Finance, Ministry of Labour and Social Affairs, Ministry of Education, Youth and Sports, Culture, Ministry of Transport, Ministry of Industry and Commerce, Ministry of Environment or Ministry of Agriculture. The regional and local authorities are for example Association of Regions of the Czech Republic or the Union of Towns and Municipalities of the Czech Republic. The non-profit sector, economic and social partners are represented by the National Network of Local Action Groups in the Czech Republic, Czech Chamber of Commerce or the Czech Moravian Confederation of Trade Unions.

institutions at the local and central levels. Priority axis Technical Assistance is focused on effective management of the operational program. This is a broad priority area that applies to other priority axes. Technical assistance is included in all of the operational programs and fulfils the same function, and therefore we will not comment regarding it in relation to the following OP.

PA 1: Boosting competitiveness in the territory

PA 2: Improving the quality of public services in the territory

PA 3: Boosting the institutional capacity of public administration

PA 4: Technical Assistance

3.6.2 The main actors in the Czech Republic

The main actors in the Czech Republic are primarily the parliament and executive branch of state (central authorities, government). Other key players are the various regional councils, local authorities at provincial and municipal levels, control and monitoring authorities (National Programming and Monitoring Committee, the Regional Steering and Monitoring Committees).

The central government authority in matters of regional policy is the Ministry of Regional development according to the so-called Competence Act No. 2/1969 Coll. and the amendment to Act No. 272/1996:

"Ministry of Regional Development is a central government authority in matters of regional policy, including regional business support, housing policy, development of housing and leasing of residential and non-residential facilities, zoning and building regulations, investment policy and tourism. MRD manages funds for the provision of housing policy and regional policy of the state, coordinates the activities of ministries and other central government in the housing policy and regional policy of the state, including coordination of financing these activities, if these funds directly affiliated. Ministry of Regional Development provides information methodological assistance to superior self-

governing territorial divisions units, municipalities and their associations. Ministry of Regional Development provides activities associated with the process involving local bodies to European regional structures."

Not only the Ministry of Regional Development is participating on the field of regional policy, other ministries are also competent in the areas that they concern. According to the Act on regional support in its § 11 the main responsibilities of individual ministries are cooperation in the development of Strategy of regional development and public programs to support regional development, as well as contributing to disparities in the levels of individual territorial units.

The most important institution for the purposes of this thesis is the Regional Council of the ROP. Its functioning and organization will be described in more detail in the following chapters.

Other regional policy actors are self-governing regional authorities and self-municipal authorities that cooperate with the county in the preparation and implementation of the regional development and that can support business activities necessary for the development of their region.

3.6.3 Strategic documents

The fundamental strategic document for the regional policy of the Czech Republic is the "Regional Development Strategy of the Czech Republic for 2014-2020"⁹ effective and efficient use of the funds of the European Union in order to achieve the Europe 2020 strategy objectives. On the basis of Resolution No. 867 of 28 November 2012, the Ministry of Regional Development of the Czech Republic is in charge of the preparation of the programs co-funded from the EU funds for the 2014 to 2020 programming period in the Czech Republic. This strategy secures interdependency of the regional policy of the Czech Republic with the regional policy of the European Union and with other sectoral policies that affect life in the country. This document is a base for regionally focused programs that are financed from national sources or co-funded by the European Union. It also determines

⁹ Available online on the sites of the Ministry of Regional Development:
<http://www.mmr.cz/getmedia/08e2e8d8-4c18-4e15-a7e2-0fa481336016/SRR-2014-2020.pdf>

the orientation of the regional development policy of the Czech Republic during the given period. This document is based on the “Strategy of sustainable development in the Czech Republic” and the “Economic Growth Strategy“.

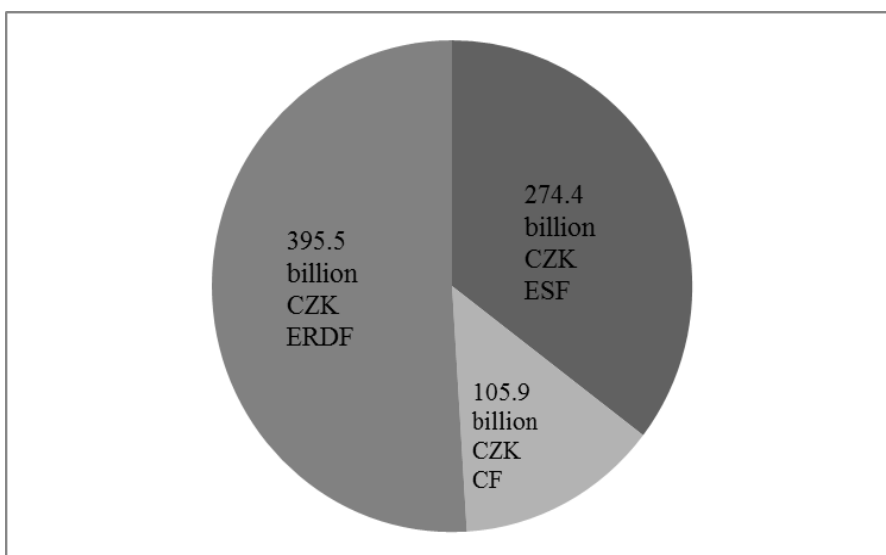
It follows the document “Regional Development Strategy of the Czech Republic for 2007-2013.” Compared to the previous one, its structure seems to be defined in more detail and formulated more directly, thus leaving less space for impromptu or variable access.

3.6.4 Financial flows in the Czech Republic in 2007-2013

This chapter describes and analyses the use and distribution of the financial means that were allocated in the Czech Republic within the European regional policy in 2007-2013.

The following graph shows the allocation of the financial means from the European Union according to the instruments that are used to distribute them.

Figure 2: Allocation in 2007-2013 by sources, billions CZK

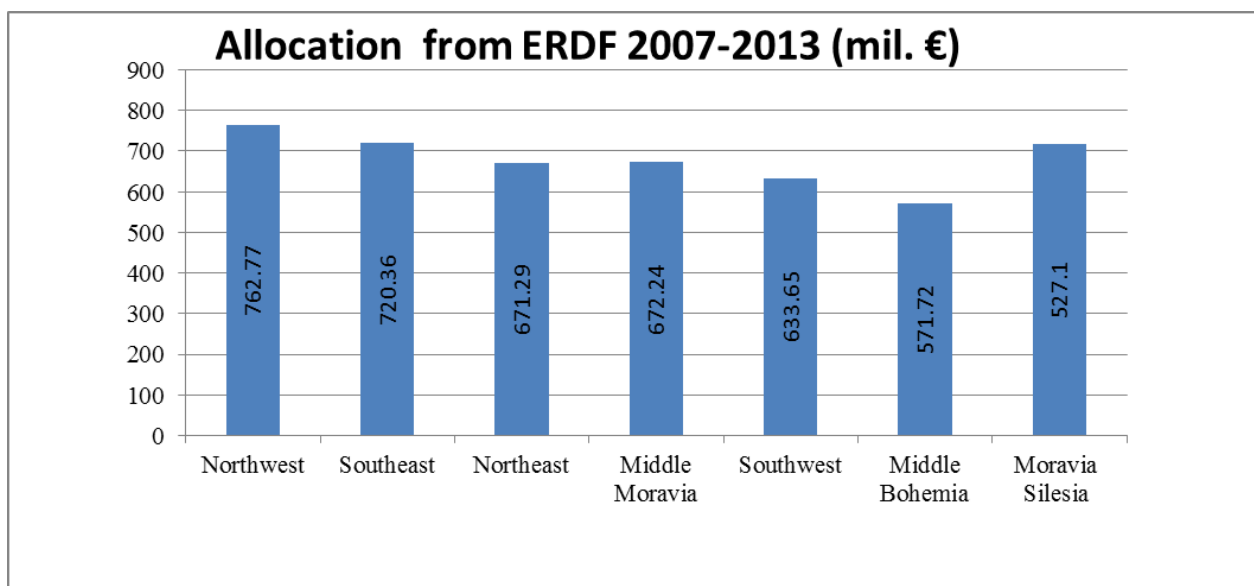


Source: European Commission, own processing

The figures show us, that more than a half of the total amount (52.8 %) is allocated with the help of the European Regional Development fund. The other third (33.1%) is allocated using the European Social Fund and the rest – 14.1 % represents the financial means in the Cohesion fund.

The next graph shows the comparison of the regional operational programs (with the exception of the city of Prague). The biggest amount of money received in the programming period 2007-2013 the region Northwest, the smallest sum of money went to the region Middle Bohemia. The Northwest ROP received 762.77 million of euros, that equals around 16 % of the total budget of the allocation from ERDF to the Czech Republic.

Figure 3: Allocation from ERDF in the Czech Republic in 2007-2013



Source: strukturalnifondy.cz, own processing

This absolute figures aren't very representative, for such purpose is it better to use an indicator of the total allocation of the operational program in per capita. From this perspective, the largest amount of financial means flows into ROP Northwest - 767.2 euros per capita for the period 2007-2013. Conversely, the least resources per capita amounting to € 497.2 are heading to regional operational program Southeast.

Table 5: Allocation 2007-2013 in ROP in the Czech Republic

	ERDF mil. €	CZ mil. €	per inhabitant (€)
Northwest	762.77	131.63	767.2
Southeast	720.36	124.31	497.2
Northeast	671.29	115.85	511.5
Middle Moravia	672.24	116.01	627.2
Southwest	633.65	109.35	602.7
Middle Bohemia	571.72	98.66	527.2
Moravia Silesia	716.09	126.37	675.4

Source: Ministry of Regional Development, own processing

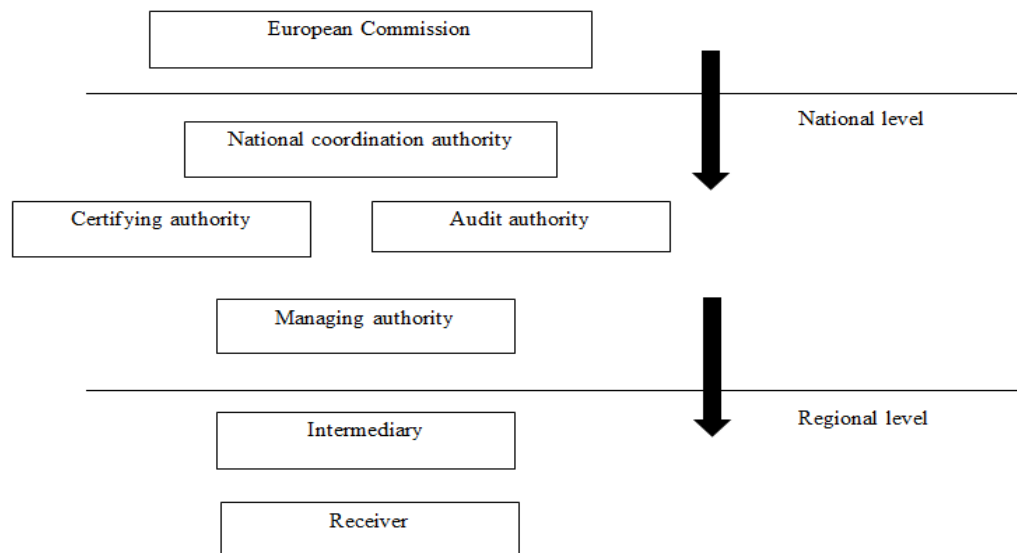
3.7 Control mechanisms

In the process of drawing subsidies from EU funds in the Czech Republic; that were described in the chapter 4, there are various entities on three levels:

- Transnational level - the European Commission;
- National level - the certifying authority, audit authorities and governing bodies;
- Regional level - intermediate bodies and final beneficiaries of subsidies.

The subjects and their hierarchy are presented in the following diagram.

Figure 4: Authorities of the process gaining financial support from the EU



Source: Ministry of Regional Development, own processing

On the transnational level is the European Commission the most important authority. If significant problems are detected, the Commission and the national authorities will agree on a plan of action to redress the situation. If the national authorities do not take prompt action, the Commission may stop or suspend payments. The Commission also takes account of audits by the European Court of Auditors [24] and investigations by the European Anti-Fraud Office. [25]

This work is focused on financial flows of EU subsidies in the Czech Republic - attention is concentrated on the actors at the national level. The competences are divided between:

- National coordination authority
- Managing authority
- Payment and Certifying authority
- Audit authority

National coordination authority

The National Coordination Authority (NCA) is the authority covering all of the operational programs in the Czech Republic financed from the structural funds and the Cohesion Fund. It works within the Czech Ministry of Regional Development, which was appointed as the central methodological and coordination authority for economic and social cohesion in the 2007-2013 period. The central methodical and coordination role of NCA is based on the following fundamental principles of effective management:

- existence of one administrator of the monitoring system
- existence of one central methodical authority in the area of the implementation environment, financial flows and controls
- existence of one central authority for the area of publicity and building of the absorption capacity with an efficient regional network

A tool for coordination of the economic and social cohesion policy for the program period 2007-2013 is the Operational Program Technical Assistance, which is, in relation to the managing authorities, focused on horizontal areas of the operational programs implementation. [26]

Managing authority

In the Czech Republic are the managing authority mainly Ministries and Regional Councils. For the programming period 2007-2013 they were determined by the governing bodies.

Each managing body is the controller of a relevant budget chapter of the project and responsible for the development and maintaining the management and control system. To the responsibilities belongs its synergy with the requirements of the European Commission and EU regulations and the Czech Republic and in particular:

- Acceptation of the project application from the applicants and approves projects with regard to compliance with a criterion approved for the program monitoring committee, that it chairs at the same time;
- Ensuring compliance of current operations with Czech and EU rules on eligibility of expenditure public procurement, state aid, environmental protection, equality between men and women and illegal discrimination and verification the actual expenditure incurred;
- Providing the basis for payment and certification body for certification purposes and requests a summary of the information system MSC2007¹⁰ payment recipients that were pre-financed from national sources, whose copy is submitted to the government, which the governing body or agency concerned;
- Providing financing programs of public resources and by monitoring in the central information system MSC2007 checks that they were provided to finance final beneficiaries;
- Is responsible for recording, reporting and investigation of irregularities and inform the audit authority on all changes in the management and control systems;
- Submission of the annual and final reports to the European Commission and forwarding the information to assess major projects (under Article 39 of Council Regulation (EC) No 1083/2006 have large projects 32 total cost exceeding EUR 50 million , financed by the European Fund for ERDF or the Cohesion Fund) .

The Managing Authority may delegate some of its powers to the intermediate body, but not overall responsibility for the implementation, management and control programs. The final responsibility has the managing authority.

¹⁰ MCS 2007 is an information system as a tool to monitor the implementation (execution) of programs and projects co-financed from EU funds. It has three levels: central module MSC2007 - used for monitoring (physical and financial) of all programs and projects financed from EU funds is managed by the Ministry for Regional Development as a National Authority to coordinate the use of EU funds. [32]

The Payment and Certifying Authority

Payment Authority is the National Fund Department of the Ministry of Finance, which ensures the financial flows for all operational programs in the Czech Republic.

The main tasks of the Payment and Certification Authority are:

- Managing of the EU budget in accounts opened in the Czech National Bank;
- Preparing and submitting applications for intern payments and payments of the balance to the European Commission for all programs on the basis of statements of expenditure submitted by the Managing Authority;
- Receiving payments from the European Commission;
- Based on the control of the correctness of summary applications submitted by the Managing Authority transfers from the EU budget on the revenue accounts of the administrators of individual chapters of the state budget;
- Certification of expenditures and submitting them to the European Commission;
- Carrying out on-site inspections for the purpose of certification, taking into account the results of all audits carried out by or on behalf of, including the annual control report and opinion as to whether the management and control system functions effectively;
- Refund of expenditure paid, including interest thereon , the European Commission, unless in accordance with the EC decision on their reallocation within the program, in which the unauthorized drawing occurred;
- Return of unused funds to the European Commission. [27]

Audit Authority

Audit Authority is the Central Harmonisation Unit, a sub department in the Control Department in the Ministry of Finance. The department is functionally independent of the other authorities and the Payment and Certification Authority.

Central Harmonisation Unit is centrally responsible for conducting audits to verify the effective functioning of the management and control system of implementation of the regional policy. For this purpose, the European Commission forwards messages, strategies and other documents.

To the main tasks of the Central Harmonisation Unit belong:

- Proposing strategies for the development of the concept of public administration control, internal audit and management control in public administration and related policy documents in this area;
- Supervision, whether public authorities respect the law and internationally recognized standards when implementing, maintaining and developing financial control mechanisms, including internal audit;
- Analysis of the effectiveness of control methods and procedures for financial control (including internal audit) of public funds and submission of proposals for the effective and efficient use of best practices;
- Ensuring contact and cooperation with internal audit services of the European Commission and participation in meetings with foreign institutions and organizations dealing with financial control,
- Developing proposals for legislation on the management review of the Territorial self-governing units, Voluntary Associations of Rural Municipalities and Regional Councils, examination of legislation in this area and proposals to amend the following legislation. [28]

4 The Regional Operational Program Northwest

4.1 Basic socio - economic characteristics of the Cohesion Region

The Northwest region is situated in Central Europe, on the border of the Czech Republic and the Federal Republic of Germany – the Free State of Saxony and the Free State of Bavaria. The position of the Northwest region could be in the context of Central Europe assessed as advantageous, especially because its northeastern part is situated at the junction major trans-European development axis between Berlin, Prague and Vienna.

Regarding statistical reason and European administration, the territory of the Northwest Cohesion Region is divided into two regions (NUTS 3): Karlovy Vary and Ústí nad Labem Regions.

Ústí Region

The area of the Ústí Region is divided into seven districts of Ústí nad Labem, Teplice, Most, Chomutov, Louny, Litoměřice and Děčín. It is the fifth most populated region in the Czech Republic, the total number of inhabitants was in 2012 828 026. [29]

Agricultural land covers more than 50% of the Region's territory; forests represent 30% and water areas take 2% of the territory. For the agriculture sector are important mainly vegetables and hops growing. There are rich mineral resources in the Ústí region, especially the lignite coalfield. It is important for the power and chemical industries connected with the coalfields.

Karlovy Vary Region

The Karlovy Vary Region was formed from the districts of Karlovy Vary, Cheb and Sokolov. It is one of the smallest regions of the Czech Republic, smaller area have only the Liberec Region and the Capital City of Prague. As for the number of inhabitants is the smallest in the whole Czech Republic, the total number of inhabitants is 303 165. [29] Forested area covers 43.1 % of this region. The most important sectors include the building, energy, mining and forestry industries. This area also has a long-standing tradition of manufacturing fine porcelain and glassware. Another industry that is extremely important for this region is the spa industry. The Karlovy Vary Region sets itself apart

from the rest of the Czech Republic because of its underground network of hot and cold mineral springs which have made Karlovy Vary one of the largest and most famous spa treatment centres in the whole Europe.

Considering the both NUTS 3 regions together, the population is approximately 1.13 million in total in 2012 – it represents one tenth of the population of the Czech Republic. In terms of population, the Northwest is the smallest Cohesion region in the Czech Republic.

This region has a specific position among others in the Czech Republic; it is one of the poorest. The GDP reached 77.1% of average of the Czech Republic and 62.0% of the EU average. Regarding the creation of GDP of the Czech Republic, this region contributes by 8.3%. [30]

The registered unemployment rate in 2012 was 13.13%.¹¹ This is the highest unemployment rate among all eight cohesion regions in the Czech Republic.

Figure 5: Logo of the Regional Operational Program Northwest



Source:Regional Council ROP NW [online]

¹¹ The average unemployment rate for the whole Czech Republic is 8.2%.

4.2 Organisational structure of the ROP

The history of this cohesion region is relatively short. The European Commission approved on 3 December 2007 a regional operational program in the Czech Republic for the period 2007-2013, entitled the Regional Operational Program "Northwest". This program involves Community support for this region within the framework of "Convergence" objective.

The management and executive body of the Cohesion Region is the Council of the Cohesion Region. The Regional Council is a legal person, established with effect from July 1st 2006 in the territorial district of the statistic unit NUTS 2, region Northwest and it's based on amendment of the act Nr. 248/2000 Coll. on regional development support, as later amended; on act Nr. 138/2006 Coll., amending some acts in connection with the adoption of the Act on public procurement contracts. [31]

The following chapter will describe the organizational structure of the Regional Operational Program and the key responsibilities of the particular sections.

The Regional Council continuously provides implementation of the Common Regional Operational Program. It is the successor institution in activities of the Secretariat of The Regional Council, which was cancelled with effect from the date of mentioned amendment of the Act on regional development support. The mission of the Regional Council is to ensure the preparation, implementation and coordination of programs economic and social cohesion at regional level. The decision to use financial resources from EU funds; is responsible for the effective use of these funds for control the management and implementation of the adopted control measures. The Regional Council is within ROP Northwest entrusted to carry out management functions consisting of the projects and the implementation of the financial resources from the EU Structural Funds. In September 2013, the number of employees was 73.

The Regional council consists of following bodies:

- Chairman of the Regional Council
- Committee of the Regional Council

- Bureau of the Regional Council,
- The Regional Council Committee (hereafter Committee)

Regional Council Committee is appointed on the basis of the Act. Members of the Committee are elected from among the members of the Karlovy Vary and Ústí nad Labem regions' regional authority.

The Committee acts and decides of issues connected with ROP implementation, namely approves of:

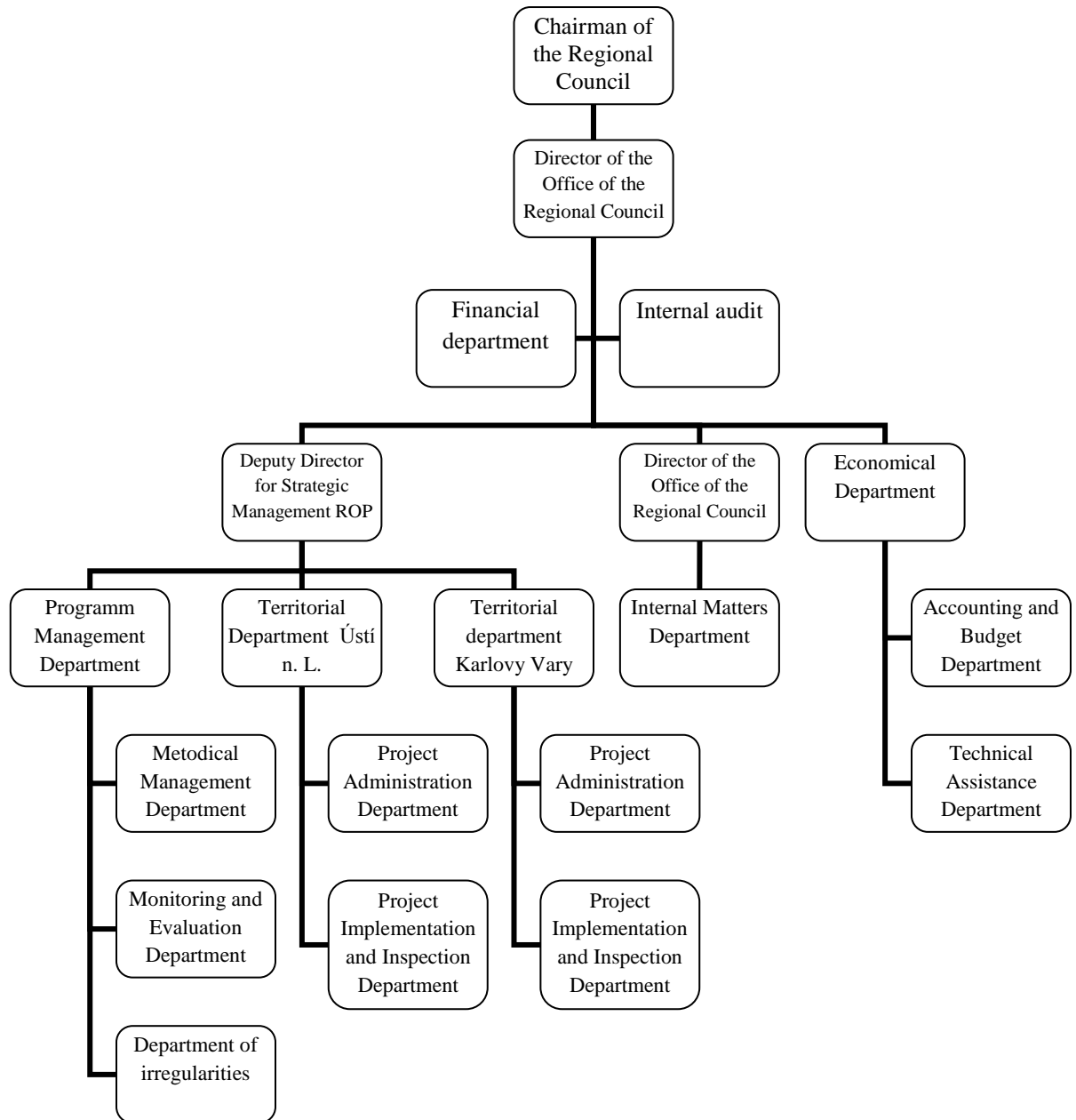
- implementation and controlling documents of the Regional Operational program;
- measures pertaining to publicity and information on the Regional Operational program;
- the selection of projects for which subsidy or non-refundable financial aid is provided by the Regional Council;
- annual and final report of realization, eventually other reports and documents connected with ROP realization;
- organization structure, number of employees and the Bureau of the Regional Council budget;

The Regional Council Chairman

The chairperson is the Regional Council's statutory body that represents the Council outwardly. It is accountable for its activity to the Regional Council's Committee. It convenes and chairs the Committee's meetings and proposes Director of the Bureau to the Council.

Following diagram shows the organisational structure of the Bureau of the Regional Council

Figure 6: Organisational Structure of the Bureau of the Regional Council



Source: Regional council of the ROP Northwest; own processing

Bureau of the Regional Council

Pursuant to Section §17 Act No. 138/2006 Coll., the Bureau is the Regional Council's executive body ensuring all tasks related to the function of ROP Managing Authority, with the exception of matters with which the Committee is entrusted according to the Act. The Bureau also attends to tasks related to expert, organizational and technical securing of the activity of the Regional Committee.

The Bureau is led by the Director who is appointed and recalled by the Committee at its Chairperson's motion. Once appointed, the Director is employed by the Regional Council and subordinated to its Chairperson.

The Director has following duties:

- to represent the statutory body of the employer towards RC employees,
- to fix RC employees' salary,
- to superordinate all RC employees and to monitor their working activity.

The Act 248/2000 Coll., on regional development support specifies the scope of competence of the Regional Council.

Bc. Jana Havlicová is nowadays in the office of the Director. She is accused of undue payment of rewards two former officials, more information this subjects are stated in chapter 4.6.

4.3 Financial support 2007-2013

“VISION ENDS UP BEING A DREAM”¹²

For the period 2007-2013, the total amount of financial means given to the implementation of the EU Regional policy to this region was € 745 911 021. It is approximately CZK 19 billion; the figure varies depending on the exchange rate movements. [32]

It represents approximately 2.79% of all funds allocated from funds for the Czech Republic as well. The National sources for ROP Northwest are € 131.63 million. [33]

From this amount, CZK 13.2 billion have been already paid off (after resuming ROP NW already reimbursed approximately 3 billion CZK). Approximately 1.3 billion CZK are under contract but not paid yet. The projects are being implemented or there has to be done requests check for payment. For the certification, 6.7 billion CZK has been submitted (Including funds submitted for certification in November 2013). [31]

The total numbers of supported projects shows the following table.

Table 6: Overview of supported projects 2007-2013, millions CZK

Project status	Number of projects	Subsidies EU (mil. CZK)	Subsidies RC (mil. CZK)
Presented projects	1008	32,784.25	3,084.79
Projects with contract	339	14,598.61	1,316.61
Finished projects	277	11,451.83	999.71
Amount of reimbursement	x	12,469.98	1,098.64
The amount of the allocation from EU to support			19,635.12
Share of total EU allocation to support area (in%)			100
Under contract (%)			74.35
Paid out (%)			63.51

Source: Supported projects 2007-2013 [41], own processing

¹² Motto of the ROP Northwest

The total number of projects that were submitted with an application for a subsidy is 1008 and the number of approved projects is 339 – it means that the success rate is 33.6%. The share of paid out contracts is 63.51%, the delay is caused mainly by the payment suspensions of subsidies in 2012. This issue is described in the chapter 4.6 in more detail.

The financial means flow between the European Commission and the Czech Republic: these are ongoing financial flows between the European Commission and the Ministry of Finance, respectively the national Fund. Financial flows between the Regional Council of the Cohesion Region NW and the beneficiary: these are ongoing financial flows between the Regional Council and the beneficiary. Payments to beneficiaries perform the Regional council from its budget, respectively CZK current account held by the Komerční banka.

Table 7: Overview of the income and its structure in 2007-2013 in thousands of CZK

	2007	2008	2009	2010	2011	2012	2013
Non-capital transfer	34362	88823	95416	93127	92767	91465	83484
from that: Ústí region	22679	8059	9024	1872	8080	11929	11056
Karlovy Vary region	11683	4029	4512	3937	4015	5965	5528
Ministry of Regional Development	0	76735	81880	81318	80724	73571	66900
Investment transfer ¹³	5644	62807	34200	34600	30200	72820	72820
from that: Ústí region	3725	11841	15554	17332	15156	44654	86456
Karlovy Vary region	1919	5921	7777	8665	8078	22327	43228
Ministry of Regional Development	0	45045	10869	8603	5966	5839	3306
Total income	40156	151780	129766	127927	123267	164285	216474

Source: Budget of the ROP Northwest, own processing

Regional Councils are therefore financed from two sources, from the state budget and finances, which contributes region. Subsidies from the state budget are primarily intended for co-financing and pre-financing of projects that will be covered by the EU. Subsidies from the Regions are used to co-finance as well, but also to cover other costs associated with the activities and operation of the Regional Council.

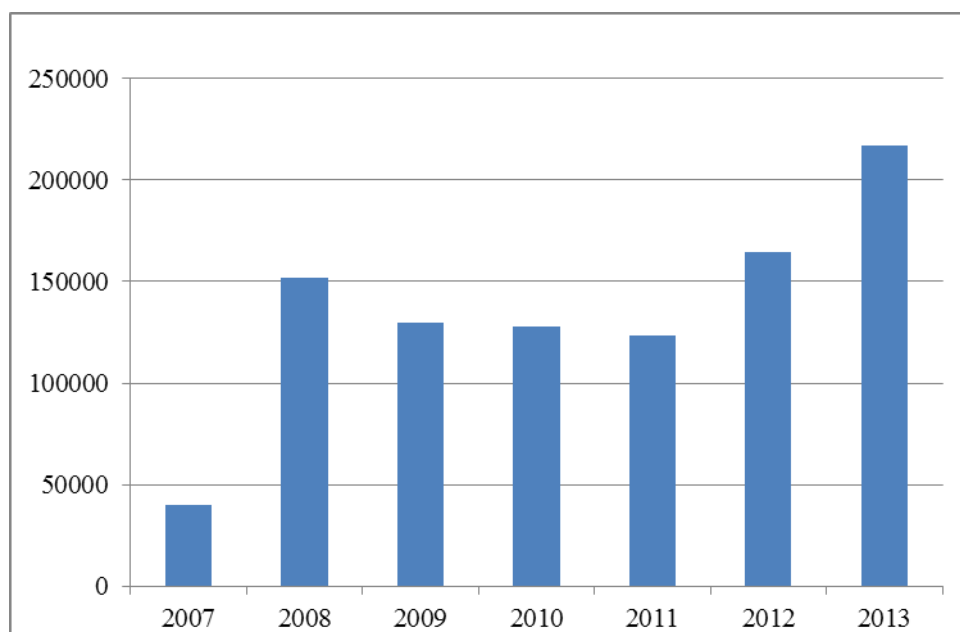
The table provides the reader a comprehensive overview of the incomes of the Regional Operational program Northwest in 2007-2013. The increasing trend of the total incomes is

¹³ Investment transfer is a transfer that is intended to finance long-term assets of the beneficiary who acquires the property, with the exception of small tangible assets.

entirely obvious – the amount of total incomes in 2013 is more than 5 times higher than in 2007.

Undoubtedly the largest components of the revenue side of the budget of the ROP NW are subsidies from the Ministry of Regional Development that represents the financial flows from the state budget of the Czech Republic. The trend in both cases, by non- capital transfer and by the investment transfer is opposite from the total incomes, the year 2008 represented the upper value (total amount from the MoRD 121 780 000 CZK), in 2013 was the amount significantly lower – 70 206 000 CZK).

Figure 7: Expenses of the ROP NW in 2007-2013 in thousands CZK



Source: Budget of the ROP Northwest, own processing

The above graph illustrates the trend of the development of the expenses. It could be also graph illustrating the incomes at the same time, because the balance of incomes and expenses in all years (with the exception of the year 2013) is zero. In the year 2013 there is a negative balance of 420 000 CZK.

4.4 Priority Axes for 2007-2013

There is a global goal of the ROP NW for the programming period, namely: “Improving the quality of the physical environment and the transformation of economic and social structures of the region, which will increase the region's attractiveness for investment, business and life. Through increase the attractiveness of the region will lead to the convergence of the average level of the socio-economic development of the EU / Czech Republic.” [34]

This global goal was developed and the priority areas were defined. For the programming period 2007-2013 five priority axes of the Regional Operational program were set. Priority axes of the ROP Northwest were:

PA 1 Urban regeneration and development

- Area of intervention 1.1 Support of regional development poles
- Area of intervention 1.2 Support of revitalization and regeneration of medium and small cities
- Area of intervention 1.3 Support of human resources

PA 2 Integrated support of local development

- Area of support 2.1 Developing local development capacities, public information and education
- Area of Intervention 2.2 Investments to improve physical infrastructure

PA 3 Availability and serviceability

- Area 3.1 Development of traffic infrastructure of regional and supraregional importance
- Area of Intervention 3.2 Development of the region's transport services

PA 4 Sustainable development of the travel industry

- Area of Intervention 4.1 Building and developing touristic attraction and infrastructure
- Area of Intervention 4.2 Improving the quality and offer of accommodation and catering facilities
- Area of intervention 4.3 Support of marketing, creation and development of tourism products

PA 5 Technical Assistance

- Area of intervention 5.1 Support the implementation of ROP Northwest
- Area of intervention 5.2 Support the development of absorption capacity and publicity

The priority axes will be described in more detail one by one.

4.4.1 Urban regeneration and development

PA 1 Regeneration and Urban Development – This priority axis is important specifically for this region, because it was for centuries center of industry of the Czech country and although it has been regenerated in the last decades, the whole region still needs a lot of support and intervention.

- Area of intervention 1.1 Support of regional development poles

The aim of this area of intervention is mainly to revitalize and create more attractive boroughs, i.e. provide renovation or completion buildings and related transport and technical infrastructure, public lighting, green spaces and leisure facilities. The goal is also to regenerate the brownfield sites - areas formerly used for industrial, transportation, military, administrative and other purposes in the cities - for further public use, including solution for decontamination of affected areas and associated transport and technical infrastructure as a part of the wider regeneration of the concept of a territory. In addition it includes modernization of infrastructure for human resources development, modernization of public transportation and increasing of know-how in the field of regeneration and

revitalization of cities, including the sharing of "good practices "in other EU member states. Recipients may be cities having over 50 000 inhabitants. The total amount allocated in this area is 118 269 581 CZK.

- Area of intervention 1.2 Support of revitalization and regeneration of medium and small cities

The main purpose of this area of intervention is modernization, renovation and development of urban centers, plazas, public spaces and green areas, including additional infrastructure. Another point is revitalization and increase in attractiveness of boroughs, i.e. building renovation or completion buildings, including the related issue of transport and technical infrastructure, public lighting, green spaces and leisure facilities. Recipients may be cities with 5000- 49 999 inhabitants. The total amount of funds allocated in this area is 103 453 268 CZK.

- 1.3 Infrastructure in the human resources area

This area of support is focused on support of all levels and ways of education - modernization and reconstruction of primary and secondary schools, modernization of equipment secondary and higher vocational schools (e.g. equipment for workshops, laboratories and computer rooms). Recipients may be cities with up to 5000 inhabitants. The total amount of resources allocated in this area is 80 038 382 CZK.

4.4.2 Integrated support of local development

Although the main engines of economic development in the Northwest region are cities, rural areas represent a natural part of its territory. They are mainly important at the border of the region. An important factor that affected the development of rural areas is almost complete replacement of settlement after the Second World War as a result of the expulsion of the German population. There was not only for severing ties and ownership cultural traditions, but even to the complete depopulation of large areas of a liquidation or marginalization of a significant number of municipalities. The economic structure of the region is in general significantly influenced by the negative consequences of the process restructuring and transformation affects the low economic performance and business

activities also in the country, there is a loss of crafts and loss of traditions. Negative consequences for economic stability of rural areas also have considerable attenuation of its agricultural function. This process started as a result of large-scale depopulation of rural areas after 1945, intensified especially after 1989.

The main general aim of this priority axis is to revive a balanced development of rural areas and their communities through the implementation of targeted integrated projects that are based on local demand. The recipients may be in both cases cities and territorial units with 500 – 4999 inhabitants.

- Area of support 2.1 Capacity building for local development, public awareness and education

This area of support sets as its goal activation of local entities by the local authority (joint meetings, managed discussion, exchange of experience and good practice) leading to the establishment of informal local partnerships, assessment of local needs and developing simple local action plan. It is setting objectives in the medium term and containing the agreed strategic projects and plans, including the identification necessary resources and organizations needed to implement this plan. It should provide information and communication materials and media for local citizens and the outside world and relating not only to the local development initiatives, but also to local services, territory, its history, culture, nature and people (magazines, web pages, including electronic information boards, publications, etc.). The total amount of funds allocated in this area is 2 065 921 CZK.

- Area of Intervention 2.2 Investments to improve physical infrastructure

The financial means invested in this area of intervention should secure revitalization, regeneration and development of municipalities and their parts through redevelopment and extension of public spaces (including rural non-agricultural brownfields), squares, architectural elements, construction, reconstruction and equipment of civic amenities, for cultural and community life. It should also develop the infrastructure for human resources development. The total amount allocated in this area is 48 670 130 CZK.

4.4.3 Availability and serviceability

The economic and social problems of the Northwest region are caused also by poor accessibility of the region. Cohesion Region faces not only the poor transport links to neighboring regions, but also the poor interregional traffic interconnection, especially hindering transport between centers of the region and their catchment and peripheral areas. Transport infrastructure and related transport services of public transportation significantly affects the mobility of the labor force in a given territory. This can be in the cohesion region Northwest marked as insufficient; moreover the overly generous welfare system could be one of the main obstacles to the growth of competitiveness Northwest region as a whole. The current state of communications, mainly roads and rail networks is not satisfactory to ensure existing transportation needs, neither in relation to requirements for the creation and protection of the environment and also does not match common European standards.

- Area 3.1 Development of traffic infrastructure of regional and supraregional importance

This area should ensure renovation, modernization and construction of communications II. and III. class¹⁴, providing connection to the TEN-T and / or higher-class roads, constructing the bypasses limiting the negative impact of transport on the population and conducting the operation of the centers of communities. The Regional council allocated for this area of intervention 182 005 192 CZK.

- Area of Intervention 3.2 Development of the region's transport services

is focused on preparation of policies, programs and projects aimed at addressing the development of transport services in the region and its parts, including the preparation of any necessary documentation, then implementation of comprehensive integrated development projects of transport services geared to development, modernization and reconstruction of necessary infrastructure and the development of related services (building

¹⁴ According to the Act no. 13/1997 Coll., On the Road Network, as amended is the communication of the II. class is intended for transport between districts and the road of III. Class is designed to enhance the connection municipalities or their connection to other road.

information and chip clearance systems, the deployment of intelligent transport systems, promotion and publicity of public transport ...). Another important task is to improve the accessibility of public transport for specific population groups (elderly and handicapped people). The total amount of funds allocated to fulfill these aims is 83 719 973 CZK.

4.4.4 Sustainable development of the travel industry

The position of tourism has a various level of development in the Cohesion Region. Ústí region belongs to the less visited ones in the Czech Republic; on the other hand, Karlovy Vary Region is famous for its spa. But the region has significant areas with high natural values; mainly represented by the National Park Czech Switzerland and protected landscape areas of the natural reserve and Lužické mountains. The cohesion region is rich in historical objects. The shortcoming of the Cohesion Region can be partly attributed to the negative image of northern Bohemia, which historically created in the minds of residents and visitors. Due to air pollution and disturbed environment, the area was considered inadequate for recreation and tourism.

- Area of Intervention 4.1 Building and developing attractions and tourism infrastructure

The aims should be achieved by construction, renovation, expansion and modification of basic and supporting infrastructure for tourism and tourists (hiking trails, nature trails, sports and leisure centers and resorts, ski trails and facilities, including shelters, rest areas , signage systems , equipment for trails , harbors and piers for water sports , and other activities for the management of ecotourism , etc.). Another tool is revitalization of cultural, technical and industrial monuments and cultural heritage and other significant tourist objects for their use in tourism (e.g. observatories, museums, exhibition, gallery, information center), modernization and spa treatment infrastructure to improve the standard and quality of service for both traditional and modern forms of spa (" wellness "), the implementation of barrier-free access and other adjustments for disabled visitors. It should be all put into practice using 89 150 629 CZK.

- Area of Intervention 4.2 Improving the quality and range of accommodation and catering facilities

Renovation, modernization of existing hotels, etc. (including any part of the restaurant) of all levels of accommodation (high standard, middle standard, motels, public campsites, caravan sites, chat settlements etc.). The total amount of money earmarked for this purpose is 29 202 610 CZK.

- Area of intervention 4.3 Support marketing and the creation and development of tourism products

This area of intervention should support for the establishment and operation of regional partnerships in tourism (e.g. establishment and promotion of the activities of a regional forum for ensuring tourism coordinating the implementation of marketing strategies in the Northwest region, support regional or local destination management). It should also involve development of information and reservation systems and the creation of a regional network of information centers and support the implementation of marketing activities to promote the development of tourism and spa - condition survey, processing of analytical studies and strategic documents tourism and documents to ensure effective management, processing marketing studies, master plans and concepts for the development of tourism promotion traffic monitoring, product development and marketing, the introduction of a system of certification facilities and tourism services, etc. This area is supported by the amount of 6 050 619 CZK.

4.4.5 Technical assistance

Technical Assistance priority axis ensures smooth management, coordination, monitoring and evaluation of program, as required by the Structural Funds regulations, including publicity and awareness. Particularly, it provides various types of services and activities for effectiveness in pursuing planning and management of implementation processes in co-financed projects through innovative and traditional tools and methodologies.

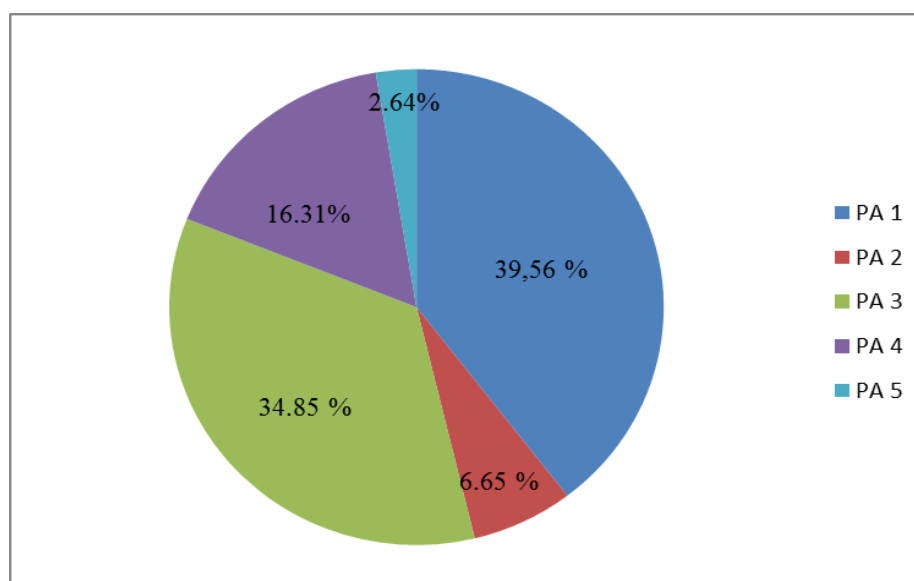
- Area of intervention 5.1 Support the implementation of ROP Northwest

The assistance will be focused mainly on the support of the activities of the Regional Council Northwest (Managing Authority of ROP Northwest) in the implementation of joint activities resulting from the provisions and guidelines of the EU SF. These activities will be financed with 18 747 440 CZK.

- Area of intervention 5.2 Support the development of absorption capacity and publicity

The subject of this support area will provide assistance to potential applicants and applicant groups (communities) in which the program is directed and who are expected active approach to the preparation of appropriate projects and related background studies and analyzes. Candidates with good project plan will be provided support through training, education and skills necessary for the preparation and quality control project plans. Finally, the expected support area and preparation support of quality projects through support in the form of small grants distributing resources for the preparation of projects that have been undertaken potentially eligible and feasible projects which will help the overall successful implementation of the program. For this support 1 392 156 CZK was allocated. Beneficiaries may be the Regional Council of the Northwest (as the Managing Authority of ROP Northwest), Counties or Organizations established or founded by Ústí or Karlovy Vary region.

Figure 8: Allocation by priority axes in 2007-2013



Source: Supported projects 2007-2013 [41], own processing

The figure graphically shows the distribution of financial help according to the particular priority axes. The allocation of funds has to fully reflect the strategy of the program itself and the status of program in relation to other Operational programs, including the Rural Development Program.

The most supported area is the Priority Axis No 1, it is the main and pivotal axis of the overall strategy ROP Northwest. This was also reflected in the draft of financial plan for this area devoting a significant portion of the funding program. The proposed level of funding reflects not only the importance of the priority axis, but also the funds required to implement a provided number of projects in the area.

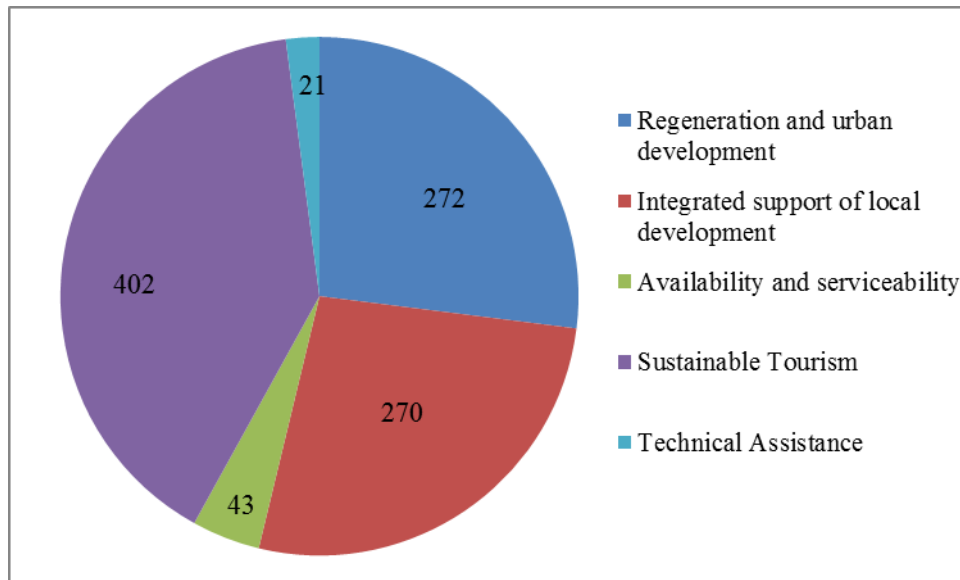
The priority axis No 3 and its devoted financial support illustrated the equal importance of the availability of transport services. This priority axis was accompanied by significant national OP Transport and allows the region to use fully the activities implemented under this OP in the development of the region.

The next chapter are Priority Axis 4 - Sustainable development of tourism, mainly focused on supporting the development of tourism infrastructure and Priority Axis 2 - Integrated support local development.

A specific area is then Priority Axis 5 focused on activities to support implementation of technical assistance activities in the management and implementation of the program, both technical activities incidental to the actual implementation of the program and the horizontal activities such as the promotion of absorption capacity in the region, the smallest amount of money was spent here.

Following graphs show the numerical representation of the submitted/supported projects by the particular priority axes.

Figure 9: Number of applications submitted by priority axes in 2007-2013

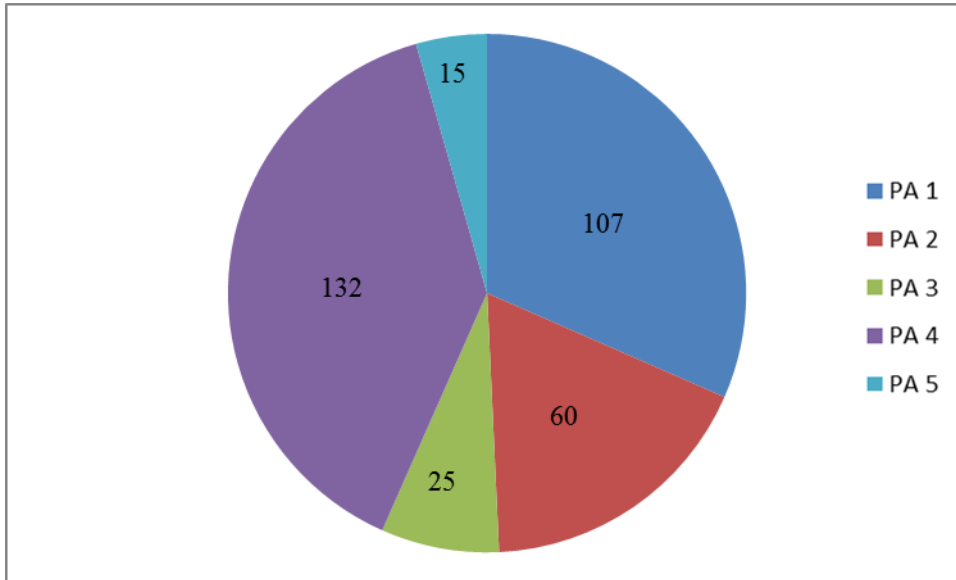


Source: Supported projects 2007-2013 [41], own processing

This graph shows the priority axis from a different point of view – number of applications by potential recipients of the subsidies.

Partially the trend in the case of allocation of financial means is followed, but the most common axis that was applied for was the No 4 Sustainable development of the travel industry. The number of presented applications is almost as twice high as in the case of axes No 1 and 2. Technical Assistance is the less frequent one; only 21 applications were submitted in the seven years period. It can be explained by the very specificity of this area of support, it is completely different than the other priority axes.

Figure 10: Number of projects with the contract about providing a grant



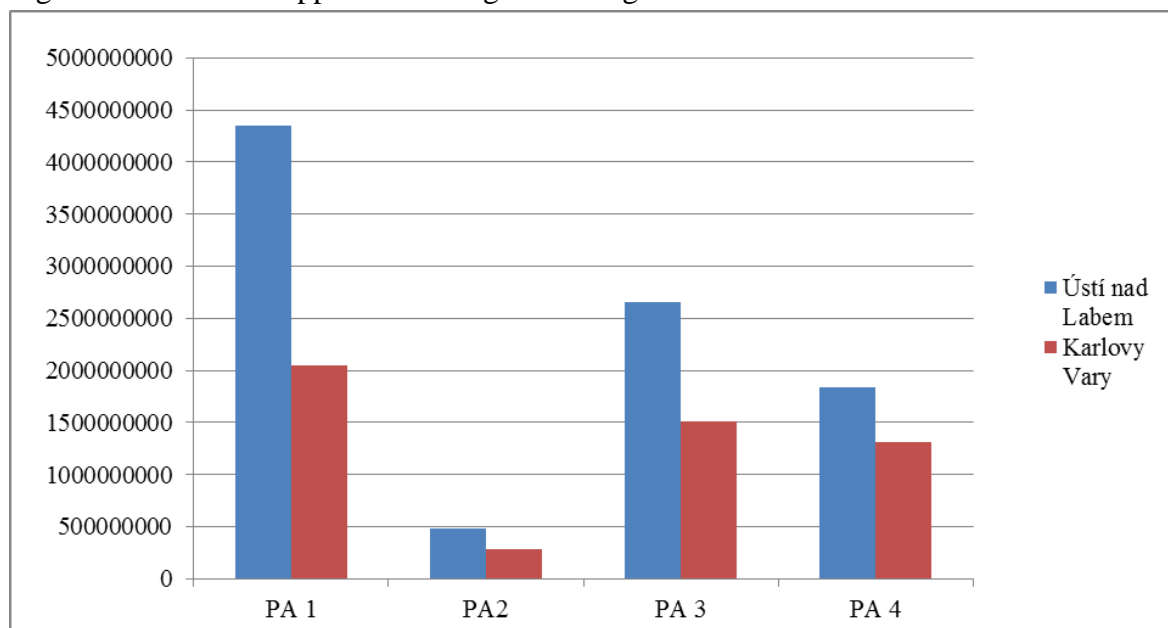
Source: Supported projects 2007-2013 [41], own processing

This graph includes the figures of really supported projects that gained the contract about providing a grant. Still, the most frequently applied priority axis is the sustainable tourism however there is not such a significant difference between the second place – Regional and urban development anymore.

4.5 Financial support in 2007-2013 according to the geographical distribution

This chapter analyses the financial support from the geographical point of view – this chapter is devoted to the statistics of the supported projects according to the priority axis in relation to the Region it was implemented in.

Figure 11: Financial support according to the Region



Source: R17, own processing

In this figure is not included the priority axis No 5 Technical Assistance for obvious reason that applicant and recipient is always the Regional Council of the ROP Northwest with the seat in Ústí nad Labem.

The graph shows the clear dominance of the Ústí nad Labem region. This is partly given by the fact that it is larger than the Karlovy Vary region. Although the number of inhabitants of the Ústí nad Labem region is three times as large as in the other one, the absolute numbers of the financial means in both regions are approximately in the ratio 2:1. It can be interpreted that per inhabitant¹⁵, the Karlovy Vary region is better off than the other one.

¹⁵ The number of inhabitants of both regions are stated in the chapter 6.1

According to the document R17¹⁶ that was described in the methodology chapter is the total amount of the really supported projects in the programming period 2007-2013 339 projects. This number represents really the projects that were approved and finished. The factual numbers are summarized in following table:

Table 6: Number of finished projects by regions in 2007-2013

	UNL	KV
PA 1	56	38
PA 2	30	26
PA 3	12	12
PA 4	58	45
TOTAL	156	121

Source: R17, own processing

The data from this table confirm the statement that the Karlovy Vary region, despite its smaller size is in the matter of realisation the projects supported from the EU regional policy comparatively successful. In the priority axis No 3 Availability and serviceability is the number of supported project is even equal. The above presented facts can be interpreted that the total number of the supported projects is very similar and the amount of financial means are distributed, in terms of proportionality, in favour of the Karlovy Vary region.

¹⁶ This thesis works with the version of the R17 from the 27th of November 2013.

4.6 Corruption in the ROP Northwest

This chapter describes, summarises and analyses the corruption case that significantly influenced the implementation of the EU regional policy and the working of the ROP Northwest.

The ROP Northwest was criticized for a longer period of time but the corruption scandal culminated in spring 2011. [35]

On the 22nd March 2011, the police unit Department for investigating organized crime intervened at the headquarters of the Regional Council of the Northwest in Ústí nad Labem which also sealed some offices, some copied documents and computer contents. Employees had to sign a confidentiality obligation. Two days later Petr Kusnierz and 4 other people were accused of bribery in the allocation of EU funds and the Regional Court in Ústí nad Labem took them into custody. Police investigated three projects - a family hotel under Třebouňský hill in the Karlovy Vary with a subsidy of about 12 million CZK, Chomutov Pension Villa Mannesman with unallocated funding of 15 million CZK and reconstruction of the football field in Jirkov-Ervěnice. The trial began in December 2011.

The Regional Court in Ústí nad Labem rendered the judgement 16 months after the raid in the seat of the ROP Northwest. It recognized the former Director of the Regional Office Northwest Petra Kusnierz guilty of accepting bribes and abuse of public office. Sent him to prison for 7.5 years and gave him a fine of 750 000 CZK, in the case of non-payment there is a punishment in form of one year in prison. Judgments of the other accused were as follows: [36]

Václav Poláček for taking bribe - 5 years in prison with security, 300 000 CZK (in the case of non-payment of eight months in prison); Roman Švec for taking bribe - 5 years in prison with security, 300 000 CZK (in the case of non-payment of eight months in prison); Vladislav Ivanovič Hleba for taking bribes and extortion - 5 years in prison with security, 300 thousand CZK (in the case of non-payment of eight months in prison).

Other accused, defendants who bribed, received suspended sentences: Martin Mikeš summary punishment for giving a bribe and obstructing justice 18 months, suspended for three years, driving ban; Milena Pucholtová for bribery – 2 years, suspended for four years,

150 000 CZK (in the case of non-payment of six months in prison); Lukáš Šístek for bribery - 1 year, suspended for two years 75 000 CZK (in case of non-payment of three months in prison).

The prosecutor Vladimír Jan explained that the winning projects, which received CZK 1.4 billion (EUR 51 million) combined in subsidies, were selected by biased outside evaluators. Some influential regional politicians and entrepreneurs benefited from these EU-funded projects, and at least one civil servant was coerced by threats to participate in this scheme. [37]

The Ministry of Finance ordered an audit by an external company Deloitte Advisory, there was found serious misconduct in the payment of subsidies. According to the report erred the Council in all 35 cases of European subsidies that were examined. The complaints are different, for example the fact that in some projects it was decided by the subjective view of the evaluator or that Kusnierz was part of the evaluation committee.

The Council objected to the results of the audit and considered it as misleading and confusing. [38]

This sentence wasn't the end of the whole case at all; the latest development of the case is as follows:

In March 2014 the detectives from the Department for investigating organized crime accused the former governor of the Ústí Region and the former deputy of the Civic Democratic Party Jiří Šulc and four other former and current employees of the Regional Office of the ROP Northwest. The case involves the establishment of non-competition clauses in the order of hundreds of thousands of crowns for the two former Director of the Office. [39]

According to the indictment, which informed the management of the grant office, jelly illegally concluded a non-competition clause to grant the former director of the Office Petr Kusnierz and Pavel Markvart. Both his departure from the post of directors should receive compensation equal number of salaries.

Šulc as a former chairman of the Steering Committee of the ROP Northwest office is accused of the breach of the management of another's property. Due to the same thing

police chases and former chairman Markvart, former director in charge Jiří Červinka, a former lawyer of the Office Jan Martinovský and current director Jana Havlicová.

She managed, after taking office managed, to reduce clauses, but according to the police she should cancel them completely. Havlicová's behaviour was based on the opinion of an external lawyer who declared the clauses couldn't have been cancelled. But since the grant management office was considered immoral, Havlicová have managed to reduce their volume. To Kusnierz and was paid 385 425 CZK and to Markvart 424 665 CZK. The competitive clauses were contrary to the Labour Code of the Czech Republic.¹⁷ According to that the competitive clause cannot be given to officials.

In the next subchapter, the issue of the suspension of payment of the subsidies is described.

In June 2012, the Ministry of Regional Development stopped paying subsidies to the Regional Operational Program of Northwest with the explanation that it may not be just a fault of individual officials, but the entire bad system.

The European Commission examined the working and payment of subsidies of the ROP Northwest as well with no propitious results. Against Northwest Regional Operational Program was from the European Commission applied surface and extrapolated financial corrections amounting to approximately 2 billion CZK, based on the audit of the European Commission that took place from November 2011 till April 2012 , and on the basis of the re-audit , which has been done by the European Commission in June 2012. The flat-rate of the financial correction on the selection process of the projects were awarded in the amount of 10 % of total expenses already paid by the Managing Authority of the ROP Northwest recipients and all future expenses related to projects that were already approved (till the September 1st 2012). There was also awarded a financial correction by extrapolation, which was due to the shortcomings revealed in the audit sample error rate estimated by the auditors of the European Commission set at 12.41 % for all expenses paid to the Managing Authority of the ROP Northwest recipients till the introduction of new management and control system (September 1st 2012) less the uniform correction that was mentioned above.

¹⁷ LABOUR CODE No. 262/2006 Coll., as amended

At the beginning of the year 2013 the European Commission has decided that to re-launch the ROP Northwest it is necessary to pay a correction of about 2.6 billion CZK. Correction was the Managing Authority of the ROP Northwest notified by a letter in April 2013.

As the most serious deficiencies were mentioned:

Deficiencies in compliance with the requirements in Article 60 a), b), g) of Regulation (of the European Community) No 1083/2006 and in Article 13.2 to 13.4 of Regulation (EC) No 1828 /2006 - the financial corrections proposed in the report submitted by the Czech authorities are not always fully consistent with the instructions of The Committee of the Coordination of Funds. These facts were verified by the auditors on a sample of 35 operations (projects). Another reprehension concern the shortcomings in the performance of Article 62.1 , 98.2 and 98.4 of Regulation (EC) No 1083/2006 and Article 16-17, 23 c) and Annex IV of Regulation (EC) No 1828/2006 concerning project audits by the audit authority. Another point refers to deficiencies in compliance with the requirements in Articles 58 and 62 of Regulation (EC) No 1083/2006 in the matter of lack of independence of Designated audit bodies and inadequate management and supervision of the Audit Authority during audits conducted by an Authorised Auditory organs. Finally, there were deficiencies in compliance with Articles 58 h), 70 (1) b) and 98 of Regulation (EC) No 1083/2006 regarding error handling.

Within the project "Provision of the Regional Council 2012" compensation of 98 950 CZK and 44 280 CZK were awarded, the project "Provision of the Regional Council 2013 awarded compensation in the amount of 101 035 CZK was, and as the project "Promotion and absorption capacity in 2013" compensation in the amount of 3 820 CZK was awarded.

The statement of the Regional Council of the ROP Northwest admits these errors: for misconduct in a public contract "Delivery of a company car 2012" applied correction of 10 % of the funding for this contract i.e.98 950 CZK, for misconduct in a public contract "Consulting and Analytical Support in negotiations with the European Commission " - applied corrections of 10% of subsidies to this contract i.e. 44 280 CZK and infringement procedures for tender for procurement of small scale II - "Providing advice and consultation" awarded compensation in the amount of 101 035 CZK.

The representatives of the state and regions weren't united about the decision who will pay the amount of money. On the 25th July 2013 an agreement on the method of payment of the compensation was authorized.

On the payment of the fine participated both Regions – Karlovy Vary and Ústí nad Labem. In the case of the Ústí nad Labem region it was 598 million CZK and Karlovy Vary Region promised to pay 308 million CZK. The regions used the help of the Ministry of Finance that provided them with the needed amount of money, the repayment schedule expect the repayment till the year 2020.

The rest to the total amount of the correction was paid from the account of the National Fund through the buffer, i.e. the difference in which national public expenditure incurred within the region beyond the framework of compulsory measures of national public co-financing.

This decision meant the restoration of ROP Northwest. It will be able to announce a call for proposals under the ROP Northwest, enter into contracts for the provision of grants to reimburse costs for the already implemented projects supported. The restoration means also the certification already paid subsidies.

The Regional Council did not take any steps regarding the responsibility of the employees of the Council, *“the nature of misconduct, on which the charged correction is based, is not a reason for the application of personnel actions. In one case (for misconduct in a public contract "Supply of personal Staff car 2012") was placed an incentive to investigate the case by the Police of the Czech Republic.”* [40]

4.7 Evaluation of the questionnaire

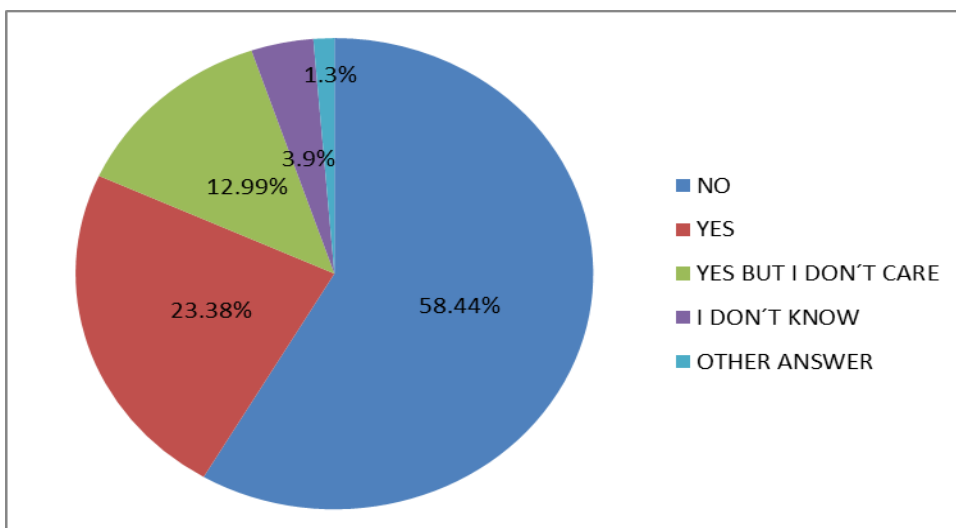
The questionnaire was chosen to investigate the attitude and the perception of the ROP NW by the citizens who are directly influenced by it.

The total number of respondents was 114, which is a representative number given the fact there are specific criteria for the respondents – to be a citizen of the Ústí nad Labem or Karlovy Vary region. The division by regions is even, 49.12% of respondents are from the Ústí nad Labem region, 50.88% are from Karlovy Vary region. 53.51% of the respondents are men; 46.49% women. [43]

The majority of the respondents knows the ROP Northwest, only 14 % of the respondents said they don't know it. The level of awareness of the corruption case in this region is high – 78.57% of respondents noticed that. It is a very high number which shows the fact it is an important topic in these regions.

Responses to the third question *Do you think that there is sufficient information on the conduct of the case?* weren't as unambiguous.

Figure 12: Responses to the question *Do you think that there is sufficient information on the conduct of the case?*

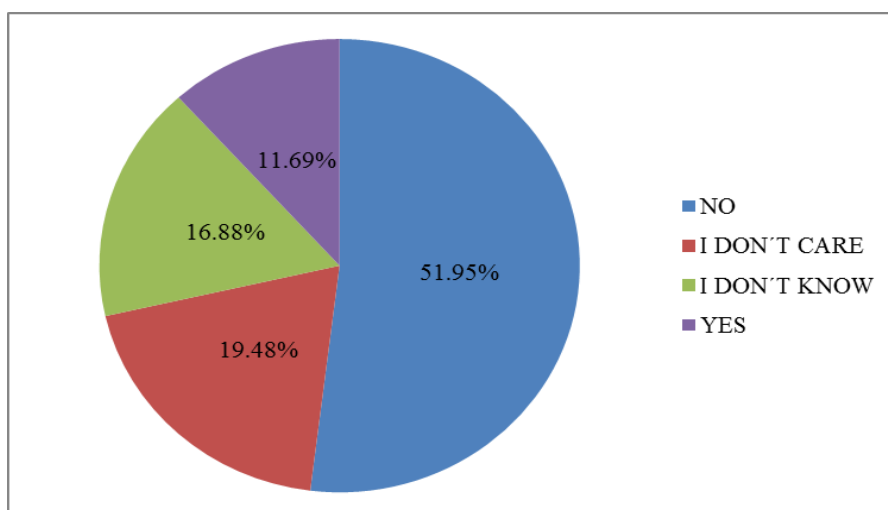


Source: Perception of the ROP NW by the citizens of the Ústí nad Labem and Karlovy Vary regions [43], own processing

More than half of the respondents is unsatisfied with the information that are available in the media or anywhere else. From these respondents, 37.78% of them have a college degree¹⁸ and 44.44% have the secondary education. A significant part of the respondents answered that there is probably enough information but they do not care. This is an interesting phenomenon which may illustrate the mood of the society - non-interest or some kind of resignation on the public affairs with new corruption scandals even in high level of Czech politics. The one respondent who used the opportunity to answer on her/his own wrote: maybe yes but there is no will to solve it, this one opinion supports the above mentioned statement.

The question No 4 *Do you think you understand the whole case?* provided many answers in the section own reactions. The majority, 61.04 % answered no and there are 8 answers in the sence “it is confusing, unclear, chaotic”. Whole 20.28 % respondents do not know, if they understand the whole case and only 9.09 % are convinced they do. In fact the respondents used the opportunity to express their opinion and the answers themselves really show the confusion of the information about the corruption case. The next part of the questionnaire examined the topic of the corrections the ROP Northwest is supposed to pay.

Figure 13: Responses to the question *Do you agree that the fine for the mistakes will be paid by Ústí nad Labem and Karlovy Vary region?*



Source: Perception of the ROP NW by the citizens of the Ústí nad Labem and Karlovy Vary regions [43], own processing

¹⁸ The questionnaire didn't distinguish the Bachelor and Master degree.

Most of the inhabitants of both regions disagree with the decision that the Regions will pay the fine. The second most common answer was “I don’t care”. From these 16.88 % of respondents are 53.33 % with the secondary education, 26.67% are absolvents of higher professional schools and only 13.33% have college degree. This shows that the respondents who do not care are rather of lower level of education.

The next question *Who do you think should pay the fine?* is closely related to the level of knowledge of the issue. There were 2 answers with the same amount of respondents 25.45% who answered – “I don’t know” and the “Ministry of Regional Development”. 18.1% wish that the Ministry of Finance pay the fine. Another significant group of respondents (10.91%) do not agree with the payment of the corrections at all. In this question the opportunity of own answer was used again and in all the cases it was in sense: who did it, who stole - should pay it. These 21% of respondents illustrate the will of the society the culprits pay for their crimes.

The high level of answers with the options the both Ministries show a relatively high level of awareness, these options are not chosen if the respondent is not familiar with the issue.

The question No 7 *Do you think the ROP NW is a contribution to your region?* shows that despite the fact the people know about the corruption¹⁹ and the problems that the case caused to both region, the inhabitants appreciate the importance of the ROP Northwest to their region. In total numbers, 66.23% of respondents are convinced it is a contribution to the region and on the other hand, only 22.8% think the ROP is not important to the region.

11.69% of respondents chose the answer I don’t know. Referring to the question No 4 *Do you think you understand the whole case?*, by the option YES answered 100% of the respondents that the ROP NW is a contribution to the region she/he lives in.

In case the respondent answered NO, they don’t understand the issue, the majority of 68.09% respondents is still convinced about the contribution to the region.

¹⁹ Respondents who answered they don’t know about the corruption case in the ROP Northwest did not answer to this question.

4.8 The current situation and future development

The reimbursement of grants from the ROP NW was restored as it was described in the chapter 4.6 about the corruption case. It can seem as a solution of the whole problem and a fresh start, but it is not that simple. The correction will be paid and the ROP can continue in its activities and functioning, but there are still many problems to be solved.

To date 15th of March there is only one call for presenting of the projects. In January 2014 the Regional Council of the ROP Northwest announced Call No. 41 for projects under the Regional Operational Program NUTS 2 Northwest for the period of 2007 - 2013. This call is intended for projects in the area of intervention 5.1 - Support for the implementation of ROP and SZ 5.2 - Support for the development of absorption capacity and publicity.

The future of the ROP NW is connected with the development of implementation of the EU regional policy in the Czech Republic – establishment of the Integrated Regional Operational Program.

It means that the structure of the seven Regional Operational Programs including the ROP NW and the additional Central IOP will cease to exist.

4.9 Evaluation and recommendations

The implementation of the European Regional policy in the ROP cannot be on no account described as no problematical and exemplary. There have been made many mistakes on the managing and evaluating level. One of the main issues is a strong influence of politicians on the management of the Regional Operation Programs and the non-efficiency of the auditing organs. The excessive administrative burden and the low level of efficiency are also one of the possible explanations of the partial failure of the system.

According to opinion of author of this work one of the most important lacks of the current system is the disunity of the responsible organs. There is no single authority that should interpret the correct procedures. The fragmentation of the competences among the Ministry of Finance, Ministry of Regional Development, European Court of Auditors and Office for the Protection of Competition is rather detrimental. The role of the Regions (the Regional Authority) is also not defined very well. The Ministry of Regional Development as the main responsible body should consider this case as its failure.

The recommendations for the improvement of the current situation are clear – to do maximum to prevent similar situations in the future. The possible ways how to do this is to simplify the process of procurement and to improve the information openness of the organs. One of the most important elements of the rectification is to unify and simplify the methodological part of this issue.

The simplification was partially already solved by establishment of the Integrated Regional Operational Program. It unifies the providing of the support to regional development under one authority - the Ministry of Regional Development. Program allows uniform guidance, management, control and monitoring access to support all regions and contribute to reducing regional disparities, which is one of the objectives of regional development in the country.

5 Conclusions

The history of the European regional policy is long and it has been an integral part of the policies, but with the EU enlargement in 2004 it has become more significant issue. Between the 28 member states are evident and deep regional, economic and social disparities. The establishment of the EU regional policy which was supposed to represent a strong unit was required. Nowadays the regional policy is considered as one of the most significant policies of the European Union. This is proved by the fact that more than one third of the total European Union's financial resources are spent on its implementation. The main tools of implementing these policies are mainly Cohesion Fund and two Structural Funds: the European Regional Development Fund and the European Social Fund. To enable a Member State to draw financial support from EU funds, it is necessary to create a set of strategically-oriented programming documents which are approved by the European Commission. The mechanism, principles and the way of the implementation in the Czech Republic, as a less developed member state has been described in the first section of this diploma thesis. The reform of the EU regional policy for the current period 2014-2020 has brought significant changes that should improve the efficiency of the whole system.

The practical part of the thesis aimed at answering four research questions. The first examines the implementation of the EU regional policy in the Regional Operational Program Northwest in the programming period 2007-2013. The management of the entrusted financial means was influenced by the corruption case in what the former director of the Regional Council and other co-workers are convicted of taking bribes. The audits have shown serious misconducts and resulted in the obligation of the Ústí nad Labem and Karlovy Vary region to pay 598 million, respectively 308 million of CZK.

The next research question's goal was to analyse the future development of the ROP Northwest. Given the fact that the regional Operational programs will be in the programming period 2014-2020 replaced by an integrated Operational program, the ROP NW as it is now ceases to exist.

To find out the attitude of the citizens of the Ústí nad Labem and Karlovy Vary regions and their perception of work of the ROP NW a research with the help of a questionnaire was conducted. The obtained data reveals that the awareness of the ROP NW is very high, as

well as the awareness of the corruption case connected with this program. The data have shown certain level of dissatisfaction with the level and quality of information with the case and the common will to punish those people who are guilty and who should assume responsibility for their failures.

The main finding from the empirical research is that despite the fact that the citizens know about the corruption and the fine their regions have to pay, they still consider the ROP NW as a contribution to their regions.

Based on the above mentioned findings, several recommendations and adjustments for future development have been derived. The main recommendation about simplification of the process of paying the subsidies and the responsible organs of the state administration came into force with the establishment of the Integrated regional Operational program. The control mechanism should be more effective to prevent such an extended corruption case in the future and might increase the efficiency of drawing the financial resources from the structural funds. How effective these measurements will be proves the upcoming period.

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9 Appendices

Appendix No 1: The questionnaire

My name is Zuzana Brablcová and I ask you for a help with my diploma thesis.

The topic of the questionnaire is the perception of the working of the Regional Operational Program Northwest by the citizens of the Ústí nad Labem and Karlovy Vary regions.

Thank you for your time,

Yours sincerely

Zuzana Brablcová

Perception of the working of the Regional Operational Program Northwest by the citizens of the Ústí nad Labem and Karlovy Vary region

1. Do you know the Regional Operational Program Northwest?
 - Yes
 - No
2. Did you notice the corruption case regarding the subsidies from the European Union in the Regional Operational Program Northwest?
 - Yes
 - No
 - I don't know
3. Do you think there is enough information regarding this topic?
 - Yes
 - No
 - Yes but I don't care
 - I don't know
 - Own answer.....
4. Do you think you understand the whole case?
 - Yes
 - No
 - I don't know
5. Do you agree the fine should be paid by the Ústí nad Labem and Karlovy Vary region?
 - Yes
 - No
 - I don't know

6. Who do you think it should pay
 - Ministry of Regional Development
 - Ministry of Finance
 - Nobody, I don't agree with paying
 - I don't know
 - Own answer.....

7. Is the ROP NW a contribution to your region?
 - Yes
 - No
 - I don't know
8. In which region do you live?
 - Ústí na Labem
 - Karlovy Vary
9. What is your sex?
 - Man
 - Woman
10. How old are you
 - 0-18
 - 19-29
 - 30-45
 - 46-59
 - 60 and more
11. What is your highest level of education?
 - Basic
 - Secondary
 - High specialist school
 - University education

Appendix No 2: The budgets of the ROP NW 2007-2013

Rozpočet na rok 2007	
PŘÍJMY	
<i>třída 4 - neinvestiční transfer</i>	34 362
z toho : Ústecký kraj	22 679
Karlovarský kraj	11 683
Celkem běžné příjmy	34 362
<i>třída 4 - investiční transfer</i>	5 644
z toho : Ústecký kraj	3 725
Karlovarský kraj	1 919
Celkem kapitálové příjmy	5 644
Nedaňové příjmy celkem	150
Celkový úhrn příjmů	40 156
VÝDAJE	
Celkem běžné výdaje	34 491
Celkem kapitálové výdaje	5 665
Celkový úhrn výdajů	40 156

POROVNÁNÍ BĚŽNÉHO A KAPITÁLOVÉHO ROZPOČTU			
	zdroje	výdaje	rozdíl
Běžný rozpočet	34 362	34 491	-129
Kapitálový rozpočet	5 644	5 665	-21
Příjmy z úroků	150	0	150
Celkem	40 156	40 156	0

Rekapitulace výdajů v rozpočtu Regionální rady na rok 2007	
	Rozpočet na rok
ODBORY	
Výdaje celkem	40 156
Běžné výdaje celkem	34 491
Oblast výboru Regionální rady	174
Oblast kanceláře ředitele úřadu	32 032
Oblast ekonomická	500
Oblast řízení Regionálního operačního programu	1 785
Kapitálové výdaje celkem	5 665
Oblast kanceláře ředitele úřadu	2 815
Oblast řízení Regionálního operačního programu	2 850

Rozpočet na rok 2008	
PŘÍJMY	
<i>třída 4 - neinvestiční transfer</i>	88 823
z toho : Ústecký kraj	8 059
Karlovarský kraj	4 029
neinvestiční přijaté transfery ze SR	76 735
Celkem běžné příjmy	88 823
<i>třída 4 - investiční transfer</i>	62 807
z toho : Ústecký kraj	11 841
Karlovarský kraj	5 921
investiční přijaté transfery ze SR	45 045
Celkem kapitálové příjmy	62 807
Nedaňové příjmy celkem	150
Celkový úhrn příjmů	151 780
VÝDAJE	
Celkem běžné výdaje	88 973
Celkem kapitálové výdaje	62 807
Celkový úhrn výdajů	151 780

v tis. Kč

POROVNÁNÍ BEŽNÉHO A KAPITÁLOVÉHO ROZPOČTU			
	zdroje	výdaje	rozdíl
Běžný rozpočet	88 823	88 973	-150
Kapitálový rozpočet	62 807	62 807	0
Příjmy z úroků	150	0	150
Celkem	151 780	151 780	0

Rekapitulace výdajů v rozpočtu Regionální rady na rok 2008	
	Rozpočet na rok
ODBORY	
Výdaje celkem	151 780
Běžné výdaje celkem	88 973
Odbor kanceláře ředitele	69 653
Ekonomický odbor	1 180
Územní odbor realizace programu	1 000
Odbor metodického řízení	250
Odbor monitoringu a analýz	440
Odbor technické asistence a publicity	13 820
Odbor auditu	130
Rezerva (URR a projekty ROP)	2 500
Kapitálové výdaje celkem	62 807
Odbor kanceláře ředitele	12 710
Odbor technické asistence a publicity	2 700
Odbor metodického řízení	650
Odbor monitoringu a analýz	9 900
Ekonomický odbor	22 500
Územní odbor realizace programu	1 800
Rezerva (URR a projekty ROP)	12 547

Rozpočet na rok 2009	
PŘÍJMY	
<i>třída 4 - neinvestiční transfer</i>	95 416
z toho : Ústecký kraj	9 024
Karlovarský kraj	4 512
MMR	81 880
Celkem běžné příjmy	95 416
<i>třída 4 - investiční transfer</i>	34 200
	15 554
Karlovarský kraj	7 777
MMR	10 869
Celkem kapitálové příjmy	34 200
Nedaňové příjmy celkem	150
Celkový úhrn příjmů	129 766
VÝDAJE	
Celkem běžné výdaje	95 566
Celkem kapitálové výdaje	34 200
Celkový úhrn výdajů	129 766

POROVNÁNÍ BĚŽNÉHO A KAPITÁLOVÉHO ROZPOČTU			
	zdroje	výdaje	rozdíl
Běžný rozpočet	95 416	95 566	-150
Kapitálový rozpočet	34 200	34 200	0
Příjmy z úroků	150	0	150
Celkem	129 766	129 766	0

Rekapitulace výdajů v rozpočtu Regionální rady na rok 2009	
	Rozpočet na rok
RRR SZ	
Výdaje celkem	129 766
Běžné výdaje celkem	95 566
Oblast kanceláře ředitele úřadu	93 066
Oblast řízení Regionálního operačního programu	2 500
Kapitálové výdaje celkem	34 200
Oblast kanceláře ředitele úřadu	11 750
Oblast řízení Regionálního operačního programu	22 450

Rozpočet na rok 2010	
PŘÍJMY	
<i>třída 4 - neinvestiční transfer</i>	93 127
z toho : Ústecký kraj	7 872
Karlovarský kraj	3 937
MMR	81 318
Celkem běžné příjmy	93 127
<i>třída 4 - investiční transfer</i>	34 600
z toho : Ústecký kraj	17 332
Karlovarský kraj	8 665
MMR	8 603
Celkem kapitálové příjmy	34 600
Nedaňové příjmy celkem	200
Celkový úhrn příjmů	127 927
VÝDAJE	
Celkem běžné výdaje	93 327
Celkem kapitálové výdaje	34 600
Celkový úhrn výdajů	127 927

POROVNÁNÍ BĚŽNÉHO A KAPITÁLOVÉHO ROZPOČTU			
	zdroje	výdaje	rozdíl
Běžný rozpočet	93 127	93 327	-200
Kapitálový rozpočet	34 600	34 600	0
Příjmy z úroků	200	0	200
Celkem	127 927	127 927	0

Rekapitulace výdajů v rozpočtu Regionální rady na rok 2010	
	Rozpočet na rok
RRR SZ	
Výdaje celkem	127 927
Běžné výdaje celkem	93 327
Oblast kanceláře ředitele úřadu	92 727
Oblast řízení Regionálního operačního programu	600
Kapitálové výdaje celkem	34 600
Oblast kanceláře ředitele úřadu	9 550
Oblast řízení Regionálního operačního programu	25 050

Rozpočet na rok 2011	
PŘÍJMY	
<i>třída 4 - neinvestiční transfer</i>	92 767
z toho : Ústecký kraj	8 028
Karlovarský kraj	4 015
neinvestiční přijaté transfery ze SR	80 724
Celkem běžné příjmy	92 767
<i>třída 4 - investiční transfer</i>	30 200
z toho : Ústecký kraj	16 156
Karlovarský kraj	8 078
investiční přijaté transfery ze SR	5 966
Celkem kapitálové příjmy	30 200
Nedaňové příjmy celkem	300
Celkový úhrn příjmů	123 267
VÝDAJE	
Celkem běžné výdaje	93 067
Celkem kapitálové výdaje	30 200
Celkový úhrn výdajů	123 267

POROVNANI BEŽNEHO A KAPITÁLOVEHO ROZPOČTU			
	zdroje	výdaje	rozdíl
Běžný rozpočet	92 767	93 067	-300
Kapitálový rozpočet	30 200	30 200	0
Příjmy z úroků	300	0	300
Celkem	123 267	123 267	0

Rekapitulace výdajů v rozpočtu Regionální rady na rok 2011	
	Rozpočet na rok
ODBORV	
Výdaje celkem	123 267
Běžné výdaje celkem	93 067
Oblast úřadu	92 467
Oblast řízení Regionálního operačního programu	600
Kapitálové výdaje celkem	30 200
Oblast úřadu	6 950
Oblast řízení Regionálního operačního programu	23 250

Rozpočet na rok	2012	2013
PŘÍJMY		
třída 4 - neinvestiční transfer	91 465	83 484
z toho: Ústecký kraj	11 929	11 056
Karlovarský kraj	5 965	5 528
MMR	73 571	66 900
Celkem běžné příjmy	91 465	83 484
třída 4 - investiční transfer	72 820	72 820
z toho: Ústecký kraj	44 654	86 456
Karlovarský kraj	22 327	43 228
MMR	5 839	3 306
Celkem kapitálové příjmy	72 820	132 990
Financování celkem	0	420
Celkový úhrn příjmů	164 285	216 474
VÝDAJE		
Celkem běžné výdaje	91 465	83 904
Celkem kapitálové výdaje	72 820	132 990
Celkový úhrn výdajů	164 285	216 894

POROVNÁNÍ BĚŽNÉHO A KAPITÁLOVÉHO ROZPOČTU 2013			
	Zdroje	Výdaje	Rozdíl
Běžný rozpočet	83 484	83 904	-420
Kapitálový rozpočet	132 990	132 990	0
Financování	420	0	420
Celkem	216 894	216 894	0

Rekapitulace výdajů v rozpočtu Regionální rady na rok 2012 a 2013		
	Rozpočet na rok	Rozpočet na rok
Výdaje celkem	164 285	216 894
Běžné výdaje celkem	91 465	83 904
Oblast úřadu	91 165	83 004
Oblast řízení Regionálního operačního programu	300	900
Kapitálové výdaje celkem	72 820	132 990
Oblast úřadu	7 120	3 990
Oblast řízení Regionálního operačního programu	65 700	129 000

