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AGRICULTURAL ECONOMICS AND MANAGEMENT

Bachelor Thesis

EUROPEAN FUNDS AND THEIR MANAGEMENT IN THE CZECH REPUBLIC

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Affirmation

I hereby declare that I have worked on my Bachelor Thesis titled **'European funds and their management in the Czech Republic'** solely and completely on my own and that I have marked all quotations in the text. The literature and other material I have used are mentioned in the References section of the Thesis.

Ruda, 30.4.2009

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Jana Civínová

Acknowledgement to the supervisor

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I also thank my family for providing me with time and space for writing this thesis.

EVROPSKÉ FONDY A JEJICH ŘÍZENÍ V ČESKÉ REPUBLICE

Souhrn

Tato bakalářská práce se zaměřuje na sledování vývoje a změn ve fondech Evropské Unie, zejména porovnává finanční rámce pro období 2000-2006 a 2007-2013. Práce nás seznamuje s nejdůležitějšími fondy EU sloužícími jako nástroje čerpání evropských finančních prostředků a blíže specifikuje Strukturální fondy a Kohezní fond. Bakalářská práce zároveň přibližuje řízení a čerpání evropských prostředků v ČR a zhodnocuje jednotlivá období a efektivitu čerpání těchto prostředků.

Klíčová slova: Evropská Unie, integrace, fond, finanční rámec, cíle EU, řízení fondů, pravomoc, čistý příjemce.

EUROPEAN FUNDS AND THEIR MANAGEMENT IN THE CZECH REPUBLIC

Summary

This Bachelor Thesis focuses on monitoring of development and changes in funds of the European Union, especially compares 2000-2006 and 2007-2013 financial frameworks. It introduces essential European funds as tools of drawing EU money and specifies the Structural funds and the Cohesion fund. In this thesis, there are not only theoretical descriptions of the funds, but there is also a practical illustration of the management of EU funds in the Czech Republic, financial allocations for the country and its drawing of that money within different periods.

Keywords: European Union, integration, fund, financial framework, EU objectives, fund management, authorities, net beneficiary.

CONTENTS

1 INTRODUCTION

The European Union acts as an organisation grouping many different European countries which joined it to share goals and priorities and to try for rebuilding Europe according to a common vision. The vision has been changing with time and, at this time, it has to be different from what it used to be 50 years ago. People's needs differ, nation's priorities differ, the Union's priorities and objectives differ. If we hungered for a higher agricultural production in the whole Community 50 years ago, it would be better technology or similar standard of living in all Member States of the Union what we try to achieve nowadays. The flow of time brings with it a lot of new objectives that occur and make the old objectives disappear.

The Czech Republic and its colourful history which had experienced many 'ups and downs' hesitated whether to enter the EU or not. It is a country that coped very well with the Communists' suppression which lasted for a long time. No matter how much influenced by their governance it had been, it got over it and in May 2004 it decided to follow the European Union which was a good decision. The CR underwent many changes to access the Union and to become a part of the developed Europe. Now, it is competitive and its position in the Union has been getting better and better. It defends opinions of small states of the EU and tries to do its best in terms of its membership in the European Union. This fact enables the Union to profit from the Czech membership in it and, on the other hand, it also enables the Czech people to profit from the EU membership. As every other Member State, we have a possibility to use the European money which is provided through European Funds. We take advantage of this properly and we are quite successful in it.

2 OBJECTIVES OF THESIS AND METHODOLOGY

Objectives of thesis

Bachelor Thesis titled *'European funds and their management in the Czech Republic'* is focused mainly on the European Union, its historical connections, and on the familiarisation with the European funds, their grouping, and their mission because each of them has its own mission and usage area. The management stages of EU money are outlined as well as detailed management system in the Czech Republic. Finally, the balance of the country's EU money drawing is examined in detail.

The objective of this Thesis is to introduce EU funds, outline their process of implementation and analyse the drawing of financial sources of these funds in the Czech Republic. The Czech position in EU funds management and EU financial sources drawing is summarised and evaluated for the period from 2004 till 2008.

Methodology

European Union has quite a long history which is summarized in the first major part of the Thesis. Then, based on these time series, Czech accession negotiations are introduced. This Thesis uses data collected mainly from the European Communities booklets and materials of the Ministry for regional development of the Czech Republic which serve for analysis of the Czech Republics' bargaining strategy it used in communication with the EU about the Czech accession to the Union. Firstly, there was a need to gather data concerning Czech relationship with the EU before its accession. Based on these data, Czech negotiating strategy prior to entry could have been assessed. A bit of Czech colourful history is mentioned as well because it is important for better understanding of connections and historical development of the Country and its successive priorities in bargaining strategy.

European Union budget is another important topic to be mentioned. The EU works very effectively and its positive balance at the end of each programming period only confirms that. European financial sources for a specific spending area and its expenditure ceilings for a certain period are decided after the EU budget is completed. Every Member State of the Community has an opportunity to use some part of the 'common' money and can do this through different projects which are financed from the EU funds. These funds are divided into several groups according to areas they are meant to be spent on and according to different objectives they have to meet. Structural funds and Cohesion fund belong to the most important funds.

European funds have to be managed somehow to get from the European Union up to a grant beneficiary. They are managed at European level; continue on national and regional levels (operational programmes) and then end up at a certain beneficiary. Many institutions take part in this process and secure the whole process.

There was a need for many different data collected for the periods 2000-2006 and 2007-2013 which represent so-called financial frameworks of the EU. The data were collected to assess the position of the Czech Republic in the EU and its negotiations with the EU for the Financial Framework 2007-2013. The Czech Republic drew a certain amount of EU financial sources between 2004 and 2008 and this rates the Country in the position of a net beneficiary – in terms of receiving more money from the EU than giving to it. Besides, the aim of every Member State is to be in this position.

Among many tables, figures or charts, this Thesis contains five annexes which clarify some issues that, for somebody, may not have been explained enough in the Thesis itself.

3 LITERATURE REVIEW

3.1 BASIC FACTS ABOUT THE EUROPEAN UNION

The European Union (EU) is a unique group of European countries that has no parallel all around the world. Currently, it is a family of 27 democratic European countries that got together to create and develop this organisation. The EU is not a unitary state. It is an association of 27 member states that have been trying to build a multi-level political system. But still, each of them does follow its own interests. Politicians who are part of legislative authority became European politicians.

The European Parliament often gathers politicians from political parties that differ from their mother parties in their home countries – this is another interesting curiosity connected with the Union. Nevertheless, the EU does work and the effort of Eastern European countries to join it increases its international position and its importance. The European Union as a whole is superpower which is considered to be a satisfactory trading partner of the United States of America and Japan.

The main parts of the convergence are economic reasons, of course. The international prestige of Union's Member States has become higher and higher and most of its inhabitants' standard of living has improved. Better quality of life should be caused by ingenious social policy, easier conditions for doing business, higher consumer protection, higher quality of goods and services offered, legal protection, safety, etc. that are the features of the Union.

On the other hand, the fact that the European Union does not mean united Europe has to be mentioned, as well. In fact, it would not be possible either. Some of the components that belong to the reasons for this are for example unique historical development of each country, its geographical location, development of its political system, national habits and traditions, predominant religion, and there are many others. By many people, the EU is considered to be a united Europe and that is a big mistake which causes a lot of negative opinions on the Community. It is not a state, nor is it just an organisation for international cooperation with a long history and with its historical roots that lie in the Second World War.

3.2 EUROPEAN INTEGRATION

Millions and millions of Europeans died when they had fought against each other during the 20th century, particularly in the First and Second World Wars. Integration is said to be a process connected with elimination of barriers that complicate trading contacts (e.g. duties, tariffs) among countries. Thus, it causes a merger of national markets which would stay separate otherwise and that means bigger and more extensive market profitable for all participating countries (M. Had, L. Urban: Evropská společenství – První pilíř Evropské Unie; p. 11). It also simplifies many other issues and, hence, is welcomed in such areas of humans' lives.

The idea of integration of Europe was born on the basis of one stimulus: world wars. Both the First and Second World Wars brought Europe into despair and there was a need for prevention of such crisis in the future. Europeans were determined to prevent such killing and destruction ever happening again and spread peace. In the early years, there were 6 countries, called 'founding members' of the EU, which came together in 1960's to integrate their economies and start cooperation in many fields. Belgium, France, (Western) Germany, Italy, Luxembourg, and the Netherlands are those founding EU members that gathered in 1951 and created the **European Coal and Steel Community** (ECSC). Two French names are connected with the origins of the

ECSC (and the EU, as it is called nowadays): Jean MONNET and Robert SCHUMAN. After the world wars, coal and steel were important materials for infrastructure to be rebuilt and both of these French believed there should be a supranational control of heavy industry which could prevent further world wars.

3.3 HISTORY OF THE EUROPEAN UNION

For several years, “unity in diversity” has been the motto of the EU, which groups together 27 different countries with 23 official languages and a very rich mixture of cultures. This group of European countries was created during last decades and the roots of this process of integration can be found right after the World War II. At this time, people were bored of fighting and decided to go for cooperation and share goals and objectives, rather than compete and fight – they decided to come together to prevent war and history repetition.

3.3.1 Process of integration – key dates

1946: Europe is destructed after the World War II and is emotionally exhausted; Cold War – the ideological, political, and diplomatic conflict between the US, the Soviet Union, and between Western and Eastern Europe – begins and it is to endure until 1991.

1947: the Marshall Plan (MP) – the offer by the US of economic aid which, because of the dawning Cold War, was effectively restricted to Western Europe – it is “the European Recovery Program”; the MP was an important antecedent of the European Coal and Steel Community (ECSC).

1949: formation of NATO (North Atlantic Treaty Organisation) – “marriage” between Western Europe, Canada, and the United States; NATO provides a military security.

1950: Schuman Declaration starts the cooperation between some European countries in the field of coal and steel which were regarded as the foundation of the economy and were crucial for the infrastructure to be rebuilt after the World Wars; the Declaration was created by French civil servant Jean Monet and French foreign minister Robert Schuman.

1951: the Treaty of Paris establishes the European Coal and Steel Community and groups 6 countries: *Belgium, West Germany, France, Italy, Luxemburg,* and *the Netherlands* ("the Six"). These 6 countries believe that the supranational control of heavy industry could prevent further world wars. *The free-trade area is created.*

Early 1950's: the ECSC is a big success but it is increasingly difficult to develop it to full potential.

1957: the Treaties of Rome establish the European Economic Community (EEC) and the European Atomic Energy Community (EURATOM) which are signed by "the Six".

The Treaties outline:

- the essential principles of the common market, i.e. the free movement of goods, persons, services, and capital
- a custom union and common external tariffs
- various Community policies, e.g. transport, agriculture...

The Treaties of Rome are a big success in that time. The ECSC, the EURATOM, and the EEC are simply called European Communities (EC). *The custom union is created as well as the base for the common market.*

1973: 1st enlargement – *the United Kingdom, Ireland,* and *Denmark* join the EC.

1981: 2nd enlargement – *Greece* joins the EC.

1986: 3rd enlargement – *Spain* and *Portugal* join the EC.

1986: the Single European Act – the Act is a major event in the development of the EU and in the direction of European integration; it is the first revision of the rules since 1957 and it is a massive legislative document which completes the single European market program by 31.12.1992.

1898 – 1991: End of suppression of Soviet Union in many countries, involving the Czechoslovakia, Fall of Berlin Wall and hence reunification of Germany and, therefore, Eastern Germany joins the EU. At this time, there is a period of thinking about how to integrate Europe politically and perhaps militarily. As the Eastern European countries get their independence, they very quickly ask for membership in the EC.

1992: the Maastricht Treaty creates the European Union and deals with the single currency which should came into force by 1999. It also declares that the EU is founded upon the European Communities supplemented by an intergovernmental Common Foreign and Security Policy (CFSP) and intergovernmental cooperation on Judicial and Home Affairs.

1992: Common Foreign and Security Policy – moves toward *political integration*, it is a key element of the new EU.

1995: 4th enlargement – *Austria, Finland*, and *Sweden* join the EU.

1995: the Schengen Agreement enters into force – it cancels passport controls between member states.

1997: the Treaty of Amsterdam is signed and it should reform the institutions of the EU.

1998: Opening of accession negotiations with the Czech Republic and other Eastern Europe candidate countries.

1999: Single currency initiated in 11 of total 15 member countries of the EU, basically used for non-monetary payments.

2000: the Nice Treaty is signed and this Treaty reforms the Treaty on the EU from 1992.

2002: *Single currency* (EURO) notes and coins are issued to replace the national currencies in 12 member states.

2003: Convention on future of Europe – engaging the public should start.

2004: 5th enlargement – *the Czech Republic, Cyprus, Estonia, Latvia, Lithuania, Hungary, Malta, Poland, Slovenia,* and *Slovakia* join the EU.

2007: 6th enlargement – *Bulgaria* and *Romania* join the EU.

3.4 THE CZECH ROAD TO THE EUROPEAN UNION

The Czech society has always shared the European civilisation and cultural values; Czechs have always been a crucial and inseparable part of the history of Europe. It is therefore no surprise that accession to the EC (later EU) has been perceived by a majority of Czechs as a historical consequence and necessity. Full integration into the EU was supported by most of our parliamentary parties.

The CR applied for becoming a member of the European Union in the half of January 1996. But there had already existed an important agreement between the Czech Republic and the EC and their Member States that is known as the Europe Agreement from 1995. This document is a legal basis for the creation of a free trade area in industrial products between these two subscribers, completed by the end of 2001. It forms also a legal basis for the participation of the CR in numerous Community framework programmes (e.g. those for research and technological development, environment, education, etc.). The Europe Agreement may seem to be something like an automatic right of the country for the EU membership but it was not like this. It was only a first significant step for the internal preparation that is essential for every country to consequently succeed in accession to the EU.

3.4.1 The EU accession process

From the start of the changeover process with the "velvet revolution" of 1989, the Czech Republic has been expected to be among the first countries in Central and Eastern Europe to join the European Union. The accession negotiations started in March 1998. In this month, the Czech Republic firstly introduced its National Programme for the Adoption of the Acquis communautaire. The fundamental negotiation on the Czech accession to the EU began on 31st March 1998 in Brussels at Intergovernmental Conference where the country presented the essential parts of its integration strategy. The Acquis observation itself began on 3rd April in the same year.

In addition to the fact that the Czech Republic had always been among the leading countries in the accession process, it had to fulfil three essential criteria for membership in the EU. The first set of criteria – *Political Criteria* – was evaluated in Progression Report of the EC in 1997 with the conclusion that the CR fulfils the Copenhagen Political Criteria, but there is a need for the reform of the judiciary and to fight corruption more effectively and to improve the situation of the Roma (European Commission: Regular Report from the Commission on the Czech Republic's Progress towards Accession; page 11; 1998). The *Economic Criteria* were stated to be fulfilled and the CR was said to be a functioning market economy and should be able to cope with competitive pressure and market forces within the Union. The CR was advised to reform the financial sector and complete the privatisation of the banking sector (European Commission: Regular Report from the Commission on the Czech Republic's Progress towards Accession; p. 19). The *Acquis Communautaire* – the third main criteria – was concluded in the same document from 1997: the CR was doing well in preparing to assume the obligations of membership. But especial effort should be made in agriculture, environment, and energy sectors. (European Commission: Regular Report from the Commission on the Czech Republic's Progress towards Accession; p. 35)

After 6 years, the CR was recognized as a country that is ready to join the EU. It was said to continue fulfilment of the Copenhagen political criteria, all "big" reforms had been done, economic criteria had been met and a high degree of alignment with the Acquis had been achieved. (European Commission: Comprehensive monitoring report on the Czech Republic's preparation for membership; p. 53, 54)

All these comments, advice, and requests were trying to be implemented during next few years till 16th April 2003 when the Accession Treaty was signed in Athens. The Copenhagen European Council which was held in December 2002 and where the CR was acknowledged that it is ready to join the Union preceded the Accession Treaty. *(For ratification procedures of the Czech Republic see Annexe no. 2)*

The referendum on the accession to the EU was held between 13th and 14th June 2003. A majority of Czech people expressed their support for membership in the Union. For the very first time, the Czech citizens had a chance to vote in referendum and it concerned accession to the EU. 77.3% of them expressed their support of the membership whilst 22.7% did not support our membership. Nevertheless, only 55% of all people with right to vote participated in referendum. (Portál Evropské komise: Česká republika v EU; http://ec.europa.eu/ceskarepublika/cr_eu/index_cs.htm; cit. 20.11.2008)

The date 1st May 2004 was a very important day for Czech history because, on that day, the Czech Republic officially joined the European Union. It took it long 8 years to accommodate all the Union's terms and requirements needed for joining.

3.5 INSTITUTIONS OF THE EU

In comparison to any other European country, the European Union employs quite a small number of people – only about 40,000. This number represents the total staff of the Union who works in all its institutions. Concerning the institutions, there are 3 most important institutions in the EU institutional framework and they are very much dependent on each other.

3.5.1 The European Commission

The *European Commission* is an institution with the main task of proposing of different policies for the interest of the entire Union. This institution works for the Europe as a whole. It is also independent on national governments. At his time, Jean Monet said: "The Commission is the lead body." Thus, it is a unique political body which is represented by 27 members (one from each of the Member State), moreover, it has one president (the current one is José Manuel Barroso), and they are assisted by about 25,000 civil servants. The Commission has four main roles:

- to propose policies and legislation to the Parliament and the Council
- to manage and implement EU policies and the budget
- to enforce European law (jointly with the Court of Justice)
- to represent the EU on the international stage (e.g. by negotiating agreements between the EU and other countries).

3.5.2 The Council of the EU

The *Council of the EU (the Council of Ministers)* is the forum for national representation. Therefore, its interests are single Member States of the Union. The Council has been the main decision maker and it shares this power with the Parliament. In the Council, the Member States are represented by one minister whose subjects are on the agenda. The presidency of the Council rotates every 6 months (2007 – Germany, Portugal; 2008 – Slovenia, France; 2009 – the Czech Republic, Sweden; 2010 – Spain, Belgium). This institution involves also the European Council which is made by the heads of governments of Member States (i.e. prime ministers, presidents…). They meet up to four times a year and deal with the most important decisions and set overall EU policy. The Council of the EU has 6 major functions:

- to pass EU laws (jointly with the Parliament)
- to coordinate the broad economic policies of the Member States

- to conclude international agreements between the EU and other countries
- to approve the budget (again, jointly with the Parliament)
- to develop the Common Foreign and Security Policy
- to coordinate the cooperation between the national courts and police forces in criminal matters.

3.5.3 The European Parliament and other institutions

The *European Parliament* is the forum for political and economic philosophies of EU citizens. Thus, the Parliament works for the interest of individuals – the people of Europe. This institution has 785 Members of the European Parliament (MEPs) who are elected every 5 years directly by EU citizens and who are organised in 7 political groups. The president of the European Parliament is Hans-Gert Pöttering. It has 3 main functions:

- to pass European laws (together with the Council on the basis of the Commission's proposals)
- to supervise the other EU institutions (approve and monitor their work)
- to adopt the budget ("the power of purse").

In addition to the above mentioned institutions, the EU is created by many other bodies with specialised roles, for example:

- the Court of Justice
- the Court of Auditors
- the European Economic and Social Committee
- the European Central Bank
- the European Investment Bank
- the Committee of the Regions.

3.5.4 Three pillars of the EU

Three pillars of the European Union were established by the Treaty of Maastricht in 1992 which created the EU itself and they illustrate the main activities of the Union.

The *first pillar* (called the Community Pillar) is composed of the European Communities (the EC, the ECSC, and the EURATOM). This pillar deals with the cooperation within the EC (single market and 4 freedoms - i.e. free movement of goods; services; persons; capital - e.g. economic, environmental, and social policies). The *second pillar* (Common Foreign and Security Policy) concerns foreign policy and military matters. The *last pillar* (Police and Judicial cooperation in criminal matters) concerns cooperation in the fight against crime. This pillar was originally named Justice and Home Affairs. *(For more information about the Three Pillars of the EU see Annexe no. 3)*

3.6 BUDGET OF THE EU

The word budget is derived from the medieval French word *bougette*, diminutive of *bouge*, which means a leather bag (Treger, A.: Inside the European Union, p. 83). The budget of the EU dates back not to medieval times, but to the 20th century, it was agreed in the earlier 1960's. At that time, Europe produced 85% of the food it needed, thus it had to import only 15% of food. Its farmers were encouraged to produce more by guarantees. During that time, over 70% of the EU budget went to Common Agricultural Policy (CAP) because farmers got subsidies when they had produced more food. As a consequence of this, in 1980's the European farmers produced even 127% of the needs of Europe inhabitants. Soon, the CAP became a problem. There was a visible need for reform in the field of CAP and so it came, firstly in 1990's. The trend in financing CAP has become reduction of the amount of money in agriculture.

The Budget is drafted in the financial perspective for a period of 7 years. This period of financial framework is a kind of limitation that sets the overall and annual upper limits for the EU budget's main spending categories (i.e. "headings"). The annual spending plan is negotiated democratically between the 3 main institutions of the Union. Firstly, the preliminary draft budget is designed by the European Commission. The Commission submits it to the Council of the Union. The Council of Ministers works on the budget (based on the Commission's draft budget) together with the Parliament. Then, the first and second readings follow – firstly in the Council, later on in the Parliament. Finally, the Parliament adopts the budget and the President of the Parliament signs the budget into law. (European Communities: The European Union budget at a glance; 2007; p. 8-10)

EU spending is limited by the Treaties. The Union budget is not allowed to be in deficit which means that revenues have to cover all costs of all the different activities. EU budgetary resources are spent mainly on these activities:

- Sustainable growth – growth and employment
- A global player – supporting the position of the EU
- Citizenship, freedom, security, and justice – improving the everyday life of its citizens
- Natural resources (including CAP)
- Other expenditures including administration.

3.6.1 Who pays what

The European Union has its own resources it uses for financing its expenditures. There are 3 types of own resources:

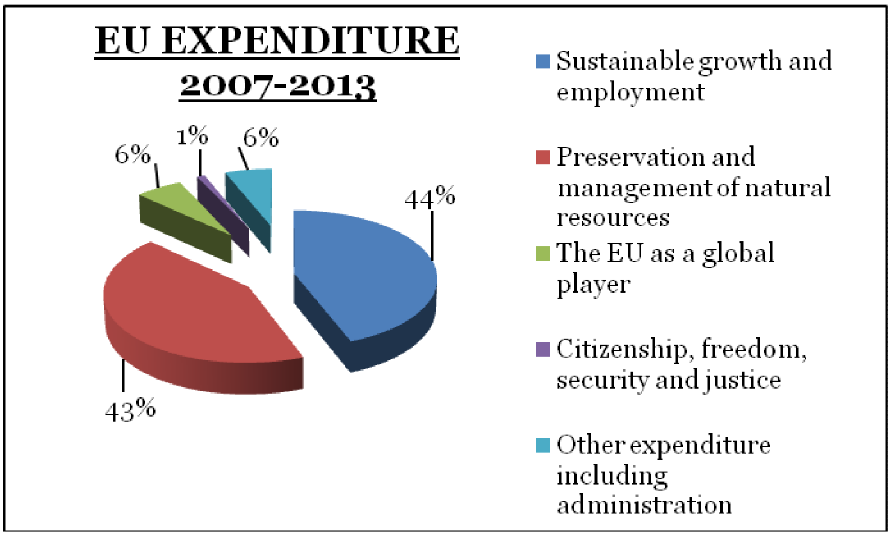
- **Traditional** own resources (duties; approx. 15% of the total revenue)
- **Value added tax**-based resource (approx. 15% of the total revenue)
- **Gross national income** (GNI)-based resource (0.73% of GNI of each Member State; approx. 70% of the total revenue)

European money is divided into Member States of the EU and the goal of each country is to receive more than give. The amount each country has to pay to the EU depends on its national prosperity. Hence, among the main contributors belong mainly Germany, France, United Kingdom, and Italy. On the other hand, the biggest receivers of the money are Ireland, Spain, Portugal, and Greece.

3.6.2 The financial framework 2007-2013

The graph of EU expenditures for the period from 2007 to 2013 is shown below:

Chart no. 1: EU Expenditure 2007-2013



Source: European Communities: Investing in our common future, The budget of the EU; http://ec.europa.eu/publications/booklets/move/62/en.pdf; cit. 20.12.2008; own contribution.

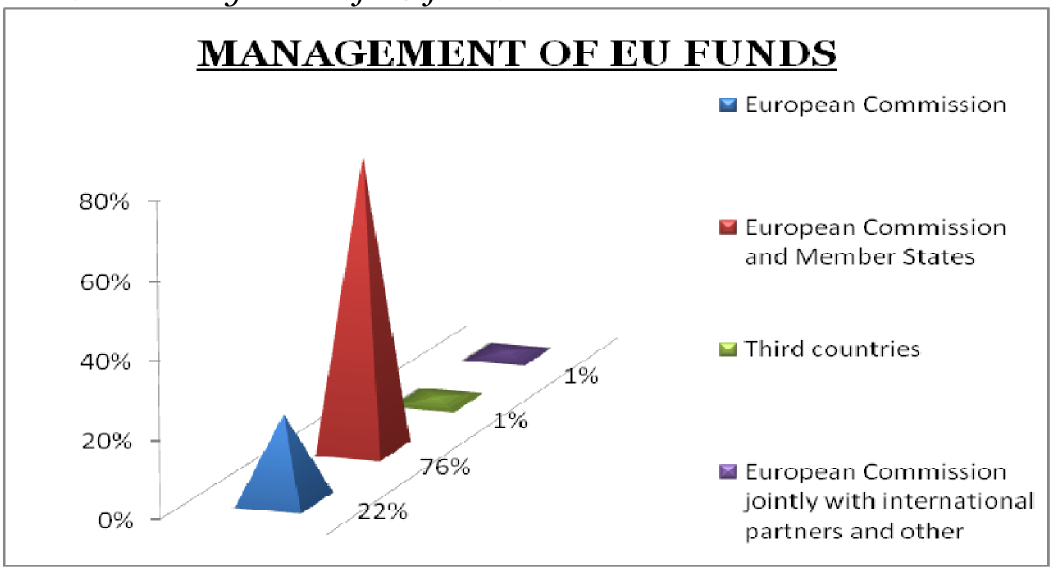
As can be seen from the graph, *Cohesion* and *competitiveness* as parts of 'sustainable growth and employment' group are cornerstones of the EU's spending plans. This is the reason why the amount spent in this area during the period 2007-2013 has been increased by 23% in comparison to the previous 7-year period (i.e. 2000-2006). It is also for the first time (since 1960's) when the spending on 'sustainable growth and employment' policies represents the highest share of the budget, ahead of 'agriculture and natural resources' (incl. CAP).

Financial sources for *cohesion* and *competitiveness* as parts of 'sustainable growth' include such European funds which belong to the most important issues in the satisfactory and efficient performance of the EU as a whole. *(For more info about the financial framework 2007-2013, see Annexe no. 4)*

3.7 EUROPEAN FUNDS

A fund is a tool of financial help. The European Union is very generous in terms of money support. With the European money, European financial funds – public money, its receivers are provided through so-called funds. These funds are spent mainly through EU programmes. There exist several programmes and each of them has its specific aims and duration as well as resources available from the EU budget and their upper limit which is set in the financial framework for a certain period.

Chart no. 2: Management of EU funds



Source: Europa Media Public Service Corporation: EU funds; http://www.2007-2013.eu/eu_funding_in_figures.php, cit. 6.12.2008; own translation; own contribution.

The *financial framework* is a base document for budgets' preparation for every single year (i.e. annual budgets). Financial resources are set in accordance with limits determined in the financial framework. Consequently, the annual budget has to be approved by both the Council and the European Parliament. Financial resources in every specific programme are available to citizens of the EU.

3.7.1 The meaning of EU funds

The funds of the EU include a wide range of tools of financial and technical help. They serve mainly as the supportive means of the economic growth of the Member States of the EU, of the support of education of their inhabitants, and also of decrease of social inequalities. Nevertheless, some tools are available for candidate countries and their preparation for the membership in the Union.

Table no. 1: EU Funds

EUROPEAN UNION FUNDS		
Funds Family		***Funds for 2007-2013 period***
Regional Assistance		Cohesion Fund (CF)
	Structural Funds:	European Regional Development Fund (ERDF)
		European Social Fund (ESF)
Natural Resources		European Agricultural Guarantee Fund (EAGF)
		European Agricultural Fund for Rural Development (EAFRD)
		European Fisheries Fund (EFF)
		LIFE+ (Financial Instrument for the Environment)
Pre-Accession Assistance		IPA (Instrument for Pre-Accession Assistance)
		TAIEX (Technical Assistance and Information Exchange Instrument)
Community Programmes		European Union Solidarity Fund (EUSF)
Financial tools of regional policy		JASPERS
		JEREMIE
		JESSICA

Source: Abeceda fondů Evropské unie 2007-2013; Praha; MMR ČR; 2007; p. 2; own translation; own contribution.

3.7.2 Community Programmes

These programmes include a wide range of fields such as competitiveness and innovation, research, youth, media, education, health, etc. (Europa Media Public Service Corporation: EU funds; http://www.2007-2013.eu/by_scope.php; cit. 18.12.2008)

European Union Solidarity Fund (EUSF): the EUSF was founded in 2002 after the big floods that had devastated the whole Central Europe. Hence, its help is directed towards Member States as well as candidate countries which experience any natural disaster. The goal of the EUSF is to provide a quick and flexible financial help (e.g. paying-off all cost connected with temporary accommodation, some provisional repairs of main traffic roads, etc.), but also preventive steps that would eliminate these natural catastrophes. (Abeceda fondů Evropské unie 2007-2013; 2007; p. 6; own translation)

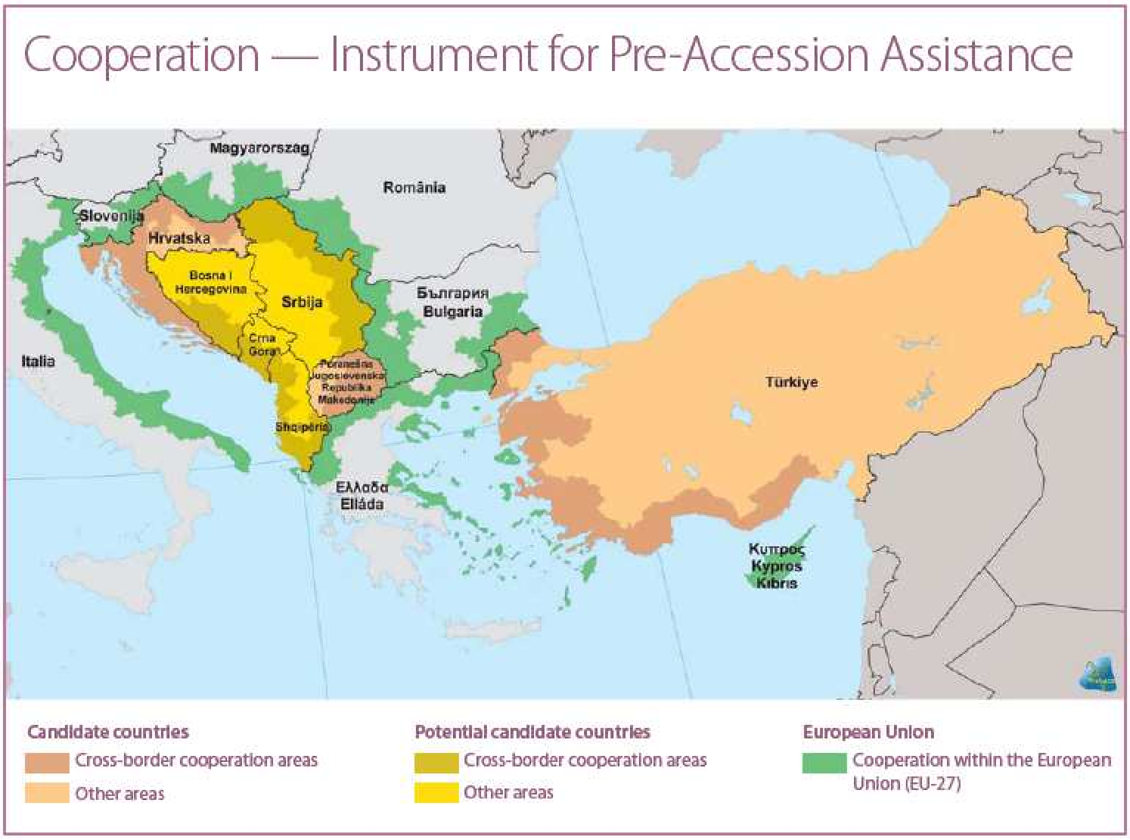
3.7.3 Pre-Accession Assistance

EU has a special bulk of money for candidate countries and potential candidate countries by which it helps them change their political, economic, and institutional situations in order to get along with EU requirements. This group of funding is aimed at a very broad range of projects (agriculture, transport, environment, IT, human rights, civil society, media, etc.).

Instrument for Pre-accession Assistance (IPA): the IPA replaces, from January 2007, the financial instruments previously applied to Turkey and the Balkans (PHARE, ISPA, Sapard, CARDS, and the pre-accession financial assistance for Turkey), in 2007-2013 period. This is the reason why it covers such a wide range of activities. The goal of this fund is help to countries in their preparation to membership in the EU and help in implementation of European norms and legislation. The beneficiary countries are divided into two groups:

- *candidate countries* – the former Yugoslav Republic of Macedonia, Croatia, and Turkey
- *potential candidate countries* - in the western Balkans (they are engaged in the path to accession – Albania, Bosnia and Herzegovina, Montenegro and Serbia, including Kosovo). (Abeceda fondů Evropské unie 2007-2013; 2007; p. 6; own translation)

Figure no. 1: Map of countries eligible for IPA fund



NB: The regional cutting within countries which are not European Union Members is purely indicative.

Source: Cohesion policy 2007-2013, Commentaries and official texts; 2007; p. 139.

3.7.4 <u>Financial Tools of Regional Policy - Initiatives</u>

The regional assistance is one of the biggest issues within the EU. Three new cohesion policy initiatives, described below, are tools which enable proper and effective direction of EU funds, mainly structural funds.

Joint Assistance to Support Projects in European Regions (JASPERS): JASPERS initiative tries to coordinate cooperation between the EU institutions in order to collect technical experiences and help Member States and regions in preparation of important projects. The assistance is provided from the early stages of project preparation.

Joint European Resources for Micro to Medium Enterprises (JEREMIE): JEREMIE was created in order to support improved access to finance for small to medium sized enterprises and development of micro-credit in regions supported by the European Regional Development Fund (ERDF). More efficient and more flexible use of their structural fund's allocation is the core of this initiative.

Joint European Support for Sustainable Investment in City Areas (JESSICA): JESSICA initiative was created to support investments with a long-term contribution to city areas. Its objective is to provide financing for urban renewal and development actions as well as for social housing. JESSICA aims to help the authorities in the Member States efficiently use public resources from national and Community sources. (Abeceda fondů Evropské unie 2007-2013; 2007; p. 6; own translation)

3.7.5 <u>Natural Resources</u>

Natural resources section is a newly created group of funds and includes such areas connected with the natural environment as agriculture, fisheries, and environment. Its goal is to support the attainment of the objectives of the Common Agricultural Policy, the Common Fisheries Policy, and the Community environmental policies. This family of EU funding represents quite a significant portion of the EU budget, as mentioned before.

European Agricultural Fund for Rural Development (EAFRD): EAFRD supports the development of rural areas in the Member States in line with rural development plans submitted by each country. It substitutes the European Agricultural Guidance and Guarantee Fund (EAGGF) which was active in the previous period 2000-2006 as a part of structural funds. EAFRD money serves as a booster for agricultural and forestry competitiveness. Another aim of this fund is improvement of the environment and countryside via better land management. The last important goal is improvement of quality of life in countryside and diversification of economic activities.

European Fisheries Fund (EFF): EFF substitutes the Financial Instrument for Fisheries Guidance (FIFG). Its support actions aim to strengthen the competitiveness and the protection and improvement of the environment and promotion of environmentally friendly fishing and production methods. The EFF funding is available to activities concerning marital as well as inland fisheries. The goal of this fund is promotion of sustainable fishery and aquaculture industry. (Abeceda fondů Evropské unie 2007-2013; 2007; p. 5; own translation)

3.7.6 Regional Assistance - Structural Funds, Cohesion Fund

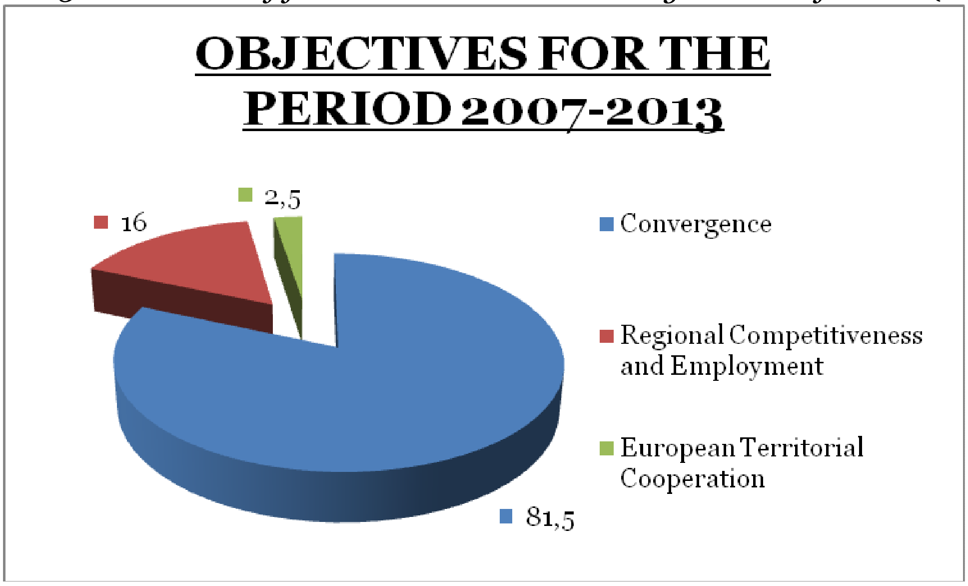
Money devoted to ‘regional assistance and economic and social cohesion’ represents the biggest share of the EU budget for a period of 2007-2013, more than a third of it. The core of the regional policy of the Union is created by structural funds which are aimed at solidarity promotion, at reducing gaps in development among the regions and among the citizens of the Member States in terms of well-being. Regional assistance aims to help lagging regions to catch up, restructure declining industrial regions, diversify the economies of rural areas with declining agriculture, and revitalise declining neighbourhoods in the cities. Among its primary concerns belong job creation and strengthening the economic, social, and territorial cohesion of the European Union.

Regional policy has undergone many changes since its creation which affected given goals and priorities. For the detailed description of changes in the structure of objectives and goals between the 2000-2006 period and 2007-2013 period, see Annexe 4. For the period 2007-2013, the main interest of this policy is a higher economic and social growth and jobs creation for all regions and cities of the EU. For the actual period (i.e. 2007-2013), regional development is based on three new Objectives:

- ***Convergence*** – the aim of this Objective is support of activities which will lead to convergence of the least developed Member States and EU regions, i.e. regions with the GDP lower than 75% of the average of the EU (the whole Czech Republic - except the capital Prague - comes under this Objective).
- ***Regional competitiveness and employment*** – persistence of competitiveness increase and attraction of regions through innovative projects, improvement of environment, and rise in employment belong to the main goals of this Objective. Within this group, there are involved regions with the GDP higher than 75% of the average of the EU (from the Czech Republic, only the capital Prague is involved).
- ***European territorial cooperation*** – the purpose is support of cross-border, inter-regional, and supranational cooperation through common local and regional initiatives, as well as support of research and exchange of experiences between the regions and individual Member States (the whole Czech Republic is involved in this Objective, including

Prague). (Abeceda fondů Evropské unie 2007-2013; 2007; p. 3; own translation)

Chart no. 3: Allocation of financial sources according to the Objectives (in %)



Source: Abeceda fondů Evropské unie 2007-2013; Praha; MMR ČR; 2007; p. 3; own translation; own contribution.

Each of the three Objectives mentioned above is realized though three main funds (namely the Structural Funds and the Cohesion Fund). **The Structural Funds** have been earmarked for poorer or otherwise disadvantaged regions. We distinguish between two Structural Funds, mentioned hereafter. **The Cohesion Fund** has been earmarked for support development of poorer countries, not regions, in contrast to the Structural Funds.

3.7.6.1. Structural funds

European Social Fund (ESF): the ESF is one of two Structural Funds for the period 2007-2013. It was created in 1958 to support activities in the area of employment and human resources development (e.g. retraining, education), and, thus, it involves support of **non-capital** (non-infrastructural) **projects**. It is the EU's financial instrument for investing in people. Its mission is to help prevent and fight unemployment, to make Europe's workforce and companies better equipped to face new challenges, and to prevent people losing touch with the labour market. Active support of employment, assistance for potentially danger group of inhabitants (young unemployed, disabled people), support of equal opportunities for men and women, of lifelong learning or better mobility of labour force within the EU are some of the areas which can be supported from this fund. The ESF has 3 main missions:

- Reinforce economic and social cohesion
- Contribute to the creation of better and sustainable jobs
- Support regions for a changing economic and social environment in an era of globalisation.

Being the one of the EU's two Structural Funds, the ESF is a financial instrument for reduction of differences in living standards between the people and the regions of the Union which is the goal of the following Objectives: the Convergence objective (the ESF will finance up to 75% of public spending in areas covered by this Objective) and the Regional Competitiveness and Employment objective (financing up to 50% of public spending in areas covered by this Objective). All 27 EU Member States are eligible for funding. (Europa Media Public Service Corporation: EU funds; http://www.2007-2013.eu/by_scope_esf.php; cit. 2.1.2009)

European Regional Development Fund (ERDF): the ERDF is the most important and also the biggest fund of the group of Structural Funds (the second and the last fund being the ESF) in terms of financial sources volume. This fund was created in 1975. It focuses on modernisation and support of economy, on support of **capital** (infrastructural) **projects**. Since its sources are devoted to all of the three already mentioned objectives (i.e. Convergence, Regional competitiveness and employment, and European territorial cooperation), its spending area is really wide. This fund helps reduce the regional disparities and support the structural development and adjustment of regional economies, including the conversion of declining industrial regions. The ERDF focuses on financing in the following areas:

- productive investment – direct aid to investments in enterprises (focus on SMEs) to create sustainable jobs
- infrastructures related to research and innovation, telecommunications, environment, energy, and transport
- technical assistance
- other development initiatives (including services to enterprises, creation and development of financing instruments such as venture capital, loan and guarantee funds and local development funds, neighbourhood services, interest subsidies, and exchange of experience between regions, towns, and relevant social, environmental, and economic actors). (Abeceda fondů Evropské unie 2007-2013; 2007; p. 4; own translation)

The ERDF detailed spending areas

Since the role of the ERDF is very broad, there exist many intervention priorities of it. Each priority is then assigned to the relevant objective. The ERDF finances all three objectives. As can be seen from the list of examples for each objective below, there are many areas assigned to the ERDF which are covered under each objective. Each action to be financed within each priority should reflect the different nature of the three main objectives.

Convergence objective

Under this objective, emphasis on support of sustainable integrated regional and local economic development should be put, mainly in these areas:

- Research and technological development
- Innovation, entrepreneurship
- Information technology
- Environment
- Risk prevention
- Tourism
- Culture

- Investment in transport
- Energy
- Education
- Health
- Direct assistance for investment in small business

Regional Competitiveness and Employment objective

Under this objective, the ERDF shall focus its assistance (in the context of regional sustainable development strategies) on the following priorities:

- Innovation and the knowledge economy, through support to the design and implementation of regional innovation strategies conductive to efficient regional innovation systems
- Environment and risk prevention through supporting infrastructure related to biodiversity, promoting energy-efficiency and renewable energy production, development of risk and prevention plans, and protection of natural and cultural heritage
- Access, outside major urban centres, to transport and telecommunication services of general economic interest through progressing networks and improving the uptake and efficient use of ICT.

European Territorial Cooperation Objective

There are three crucial areas covered by the ERDF under the 'European Territorial Cooperation' objective:

- Developing cross-border economic and social activities through joint strategies. This mainly involves encouraging entrepreneurship, collaboration in the field of environmental protection, and reducing isolation. The Fund can also help promote the integration of cross-border labour markets, local employment initiatives, equal opportunities, training and measures to combat social exclusion, as well as sharing of human resources and facilities for technology R&D.

- Establishing and developing transnational cooperation, including bilateral cooperation between maritime regions. Priorities will be managing water resources, improving accessibility, risk prevention, and creating science and technology networks.
- Making regional policy more effective, i.e. encouraging regional and local authorities to form networks and share know-how.

The eligible countries for funding under the ERDF are all EU Member States (EU-27). (Europa Media Public Service Corporation: EU funds; http://www.2007-2013.eu/by_scope_erdf.php; cit. 25.1.2009).

Cohesion Fund (CF):

The CF was created in 1993 in order to provide help to less developed European countries. It is a structural instrument for the least prosperous Member States of the EU to help catch-up with other Member States and to stabilize their economies while supporting sustainable development. Its help lies in direct financing of particular major projects in the fields of:

- *Environment*, energy efficiency, and renewable resources of energy - e.g. treatment of wastewater and disposal of solid waste, drinking water supply; reforestation, erosion control, and nature conservation measures.
- *Transport infrastructure* – e.g. motorways and 1st class roads, railways, water transportation, road, railway, river, naval, and air transportation control.

The CF is a structural instrument which aims to:

- Help economic progress
- Stabilise economies
- Develop transport infrastructure
- Contribute to a sustainable development.

Member States are allowed to draw money from the CF assuming that they are the least prosperous Member States of the Union since their: Gross National Product (GNP) per capita is below 90% of the EU-average and they have so-called "convergence programme" which leads to fulfilment of economic convergence conditions. This currently includes the 12 new Member States since 2004 as well as Portugal and Greece. Spain is eligible only on a transitional basis. Some 167.2 million Europeans (that is 34.4% of the EU-27 population) live in a region aided by the Cohesion Fund. (Abeceda fondů Evropské unie 2007-2013; 2007; p. 4; own translation)

The CF is implemented at a national level by a managing authority. The size of individual allocations for each country is determined on the basis of population, total area of the country, GDP per capita, and socio-economic factors related to the transport infrastructure system. If public deficit of a beneficiary Member State exceeds 3% of national GDP, no new project will be approved under the CF until the deficit has been regulated.

Table no. 2: Differences between the CF and Structural Funds

DIFFERENCES BETWEEN THE COHESION FUND AND STRUCTURAL FUNDS		
	COHESION FUND	**STRUCTURAL FUNDS**
GOAL OF A FUND	*balance economic differences between EU Member Countries*	*balance economic and social differences between EU regions*
MAIN PARTICIPANTS	*the European Commission and a Member State*	*responsibility is on a Member State; the main role is played by territorial autonomies*
PROJECTS AREAS	*transport infrastructure and environment*	*very wide range of activities*
WHAT IS FINANCED	*individual projects*	*whole programme, predominantly*

Source: Hudečková, T., Lošťák, M., Ševčíková, A.: Regionalistika, Regionální rozvoj a rozvoj venkova; Praha; 2005; p. 150; own translation; own contribution

4 THE ANALYSIS OF CZECH APPROACH TO THE EU FUNDS

4.1 NATIONAL DOCUMENTS

The European Union realizes the aims of its regional and structural policy in a seven-year time horizon for which all Member States prepare new programming documents. In these documents, budget is determined and new goals and priorities (which are to be reached and fulfilled in accordance with basic strategic documents of the Union) are defined. Programming Period is such seven-year period. The last period was from 2000 to 2006 and a subsequent period has been from 2007 to 2013.

4.1.1 National Strategic Reference Framework NSRF, National Development Plan

Every Member State of the Union evolves so-called National Strategic Reference Framework. It is the main programming and strategic document which contains priorities and arrangements on which the country would like to use the European financial instruments from the Structural Funds and the Cohesion Fund. In the NSRF, the whole mechanism and structure of drawing money from the EU funds as well as detailed description of the operational programmes is described. It is the strategy of the NSRF which is realised through operational programmes which contain specific headings of certain subsidies. The NSRF defines a system of operational programmes which are to be used by the Member State for obtaining money from EU funds. The legal basis for the creation of the NSRF is the National Development Plan 2007-2013 which evaluates state and development of the country in economic, social, and political areas and its ambitions and goals in the following years. (Abeceda fondů Evropské unie 2007-2013; 2007; p. 5; own translation)

4.1.2 Operational Programme

Operational Programme (OP) is a crucial strategic document of financial and technical support for a relevant area (e.g. employment, social affairs, etc.) or for a relevant region of cohesion (e.g. Central Bohemia). Every Member State of the Union has to create its own Operational Programmes. In the OP, there are described all goals and priorities which every country tries to reach in a given area during actual programming period, in detail. There can be found a description of type activities for which money can be drawn, in the OP. A list of those who can ask for the European money is a part of the OP, as well. (Abeceda fondů Evropské unie 2007-2013; 2007; p. 8; own translation)

For the period 2007-2013, there are 24 Operational Programmes given for exploitation of financial sources of EU funds. These OP can be subsequently divided into **Thematic** and **Regional** (Objective: Convergence), programmes for Prague – **OP Prague** (Objective: Regional Competitiveness and Employment), and programmes under the heading **European Territorial Cooperation** (Objective: European Territorial Cooperation), see table no. 3. OP are more strategic than in the past. The programme is less detailed and, therefore, the Member State has a higher level of autonomy to implement its programme.

4.1.2.1. Structure of the OP

- Introduction
- Justification of the problem necessity (analysis of current economic and social situation in a given area)
- Description of the strategy chosen to remove identified problems, definition of goal of the OP, its connection with other OP...
- Specification of the OP scope (axes of priority, supported areas, types of projects, selection of grant recipients, indicators of monitoring, etc.)

- Financial assurance of the programme, money allocation
- Description of OP control (institutions involved, way of monitoring...)
- Enclosures (MRD CR: Structural funds; http://www.strukturalni-fondy.cz/operacni-programy-2007-2013?lchan=1&lred=1; cit. 29.1.2009)

Table no. 3: Operational Programmes 2007-2013

OPERATIONAL PROGRAMMES FOR THE PERIOD 2007-2013		**TOTAL ALLOCATION**	**OBJECTIVE**
8 THEMATIC OP	OP Transport	€ 21,271.1 mil. (79.5%)	Convergence objective
	OP Environment		
	OP Enterprise and Innovation		
	OP Research and Development for Innovation		
	OP Human Resources and Employment		
	OP Education for Competitiveness		
	Integrated OP		
	OP Technical Assistance		
7 REGIONAL OP	ROP NUTS II Northwest	€ 4,659 mil. (17.6%)	Convergence objective
	ROP NUTS II Moravia-Silesia		
	ROP NUTS II Southeast		
	ROP NUTS II Northeast		
	ROP NUTS II Central Moravia		
	ROP NUTS II Southwest		
	ROP NUTS II Central Bohemia		
2 OP - PRAGUE	OP Prague Competitiveness	€ 372.4 mil. (1.4%)	Regional Competitiveness and Employment objective
	OP Prague Adaptability		
7 (9) OP - EUROPEAN TERRITORIAL COOPERATION	OP Cross-Border Cooperation CR - Bavaria	€ 389 mil. (1.5%)	European Territorial Cooperation Objective
	OP Cross-Border Cooperation CR - Poland		
	OP Cross-Border Cooperation CR - Austria		
	OP Cross-Border Cooperation CR - Saxony		
	OP Cross-Border Cooperation CR - Slovakia		
	OP Interregional Cooperation		
	OP Transnational Cooperation		
	Network OP ESPON 2013		
	Network OP INTERACT II		

Source: MRD CR: Structural funds; cit. 29.1.2009; Available from http://www.strukturalni-fondy.cz/operacni-programy-2007-2013?lchan=1&lred=1; Abeceda fondů Evropské unie 2007-2013; 2007; p. 9;own translation; own contribution.

4.2 EUROPEAN FUNDS MANAGEMENT

To the majority of the EU countries, the Community offers a decisive bundle of financial sources to them and, therefore, there has to be quite a lot of subjects and bodies involved in connection to EU funds management. It is preparation, implementation, and evaluation of money obtained from the EU funds on which supervision is essential from European, through national, and finally to regional levels. This activity is done with help of EU institutions, national Ministries, regional municipalities, appointed agencies and offices, and others. Needles to say, it is the Member State of the EU which has total responsibility for the implementation of economic and social cohesion. The management of EU funds is shared between the Union, the Member States, and the regions. (MRD CR: Strukturální fondy; http://www.strukturalni-fondy.cz/implementace-rizeni; cit. 6.12.2008)

4.2.1 The role of the EU in European funds management

In the very beginning of EU funds negotiations, top representatives from the Member States meet in the European Council in the occasion of the EU budget creation in order to make decisions on the allocation of money to different Community's policies, including the policy of Economic and Social Cohesion (ESC). The European Commission is the next legal body which intervenes. It has to prepare a draft of European legislation that acts as instructions containing rules for exploitation of money (from the utilisation of the EU budget) allocated through certain funds. The Community Strategic Guidelines are defined by the EU Council and contain the preferences of EU development – thus, such an orientation frame for Member States and their preparation of National Strategic Reference Frameworks and operational programmes.

By this time, the Member Countries should participate and should get their National Development Plan and NSRF ready. Both of these documents should be submitted to the European Commission which has a responsibility for realisation of ESC policy at European level to be endorsed. After the approval of both documents by the European Commission, the whole process of money drawing from the EU funds is to begin. From this time on, the Member States assume full responsibility for the whole process. The only task of the Commission is monitoring and evaluation of its running, and it also sends money from the EU funds to a special account of a certain Member State. In case of some problems' occurrence, the Commission may ask the Member Countries for their justification and correction. In the ultimate cases, the European Commission may stop the flow of money or may demand the return of unjustified receipt of money to the EU budget.

There exist five essential principles of ESC policy in OP control and project implementation which all Member Countries have to follow:

- Principle of programming
- Principle of partnership
- Principle of concentration
- Principle of supplementation
- Principle of monitoring and evaluation.

There are also two horizontal priorities which all project executors and OP administrators have to respect:

- Equal opportunities
- Sustainable development. (MRD CR: Strukturální fondy; http://www.strukturalni-fondy.cz/implementace-rizeni; cit. 30.1.2009)

4.2.2 <u>The role of the Member State</u>

The EU money can be drawn by each Member State only on the basis of properly developed and approved operational programmes. When deriving financial sources from EU funds, the responsibility for administration and regular exploitation of this money is delegated to the Member States. It is the Member State which institutes further authorities needed for assurance of secure passing of money from the EU through the national level to individuals or groups of people, known as fund beneficiaries (thus, those who realize the project). During the period 2007-2013, the Member States have more room for manoeuvre in implementing OP. (Abeceda fondů Evropské unie 2007-2013; 2007; p. 8; own translation)

There are four basic authorities in the Czech Republic established for NSRF control and coordination:

4.2.2.1. National Co-ordination Authority

It is up to the Member State to find a subject to be negotiated with the EC as a part of the NDP and the NSRF. The National Co-ordination Authority was established within the Ministry for Regional Development (thus, this Ministry is responsible for the drawing up of the NDP and NSRF). This Ministry is responsible to the Czech government for implementation and the NSRF itself. It is also an official partner for the Commission in the implementation of the economic and social cohesion policy. Furthermore, it ensures a nationwide information campaign on EU Structural funds and the Cohesion fund within the Czech Republic.

4.2.2.2. Monitoring Committee NSRF – Management and Co-ordinating Committee

This Committee guarantees the largest coordination of institutions, economic, and social partners. OP financial and material changes as well as proposals and changes in procedures are negotiated and recommended here. There exist four co-ordinating committees which have been created for coordination enhancement connected with four strategic objectives NSRF:

- Co-ordinating committee Competitive Czech Economy
- Co-ordinating committee Open, Flexible, and Cohesive Society
- Co-ordinating committee Attractive Environment
- Co-ordinating committee Balanced Territorial Development

4.2.2.3. Paying and Certifying Authority – National Fund

National fund was created to ensure all cash flows from the EU funds into the Czech Republic and its account.

4.2.2.4. Audit Authority – Central Harmonisation Unit for Financial Control

The Ministry of Finance and its Central Harmonisation Unit for Financial Control is to deal with audit execution. It checks efficient operation of an inspection. It examines whether the system connected with the implementation of support from EU funds works correctly. (MRD CR: Strukturální fondy; http://www.strukturalni-fondy.cz/implementace-rizeni; cit. 30.1.2009)

4.2.3 <u>Operational programmes management in the Czech Republic</u>

Each of the 24 Operational Programmes has its own system of institutions which are responsible for a proper implementation of it:

4.2.3.1. Managing Authority

This institution assumes the highest responsibility for a realisation of the OP. For each OP, there exists one authority which monitors fulfilment of the OP principles and whether the money from the funds is provided correctly and effectively. In the Czech Republic, these Authorities are represented by responsible Ministries or regional councils (of cohesion regions). The main coordinator for EU funds utilisation is Ministry for Regional Development.

Table no. 4: Managing Authorities of OP

OPERATIONAL PROGRAMMES FOR THE PERIOD 2007-2013		MANAGING AUTHORITY
CONVERGENCE OBJECTIVE	OP Transport	Ministry of Transport
	OP Environment	Ministry of the Environment
	OP Enterprise and Innovation	Ministry of Industry and Trade
	OP Research and Development for Innovation	Ministry of Education, Youth and Sports
	OP Human Resources and Employment	Ministry of Labour and Social Affairs
	OP Education for Competitiveness	Ministry of Education, Youth and Sports
	Integrated OP	Ministry for Regional Development
	OP Technical Assistance	Ministry for Regional Development
EUROPEAN TERRITORIAL COOPERATION OBJECTIVE	OP Cross-Border Cooperation CR - Poland	Ministry for Regional Development

Source: Ministry of Finance of the Czech Republic: Metodika finančních toků a kontroly programů spolufinancovaných ze SF, CF a EFF na programové období 2007-2013; p. 10; cit. 21.1.2009; Available from http://www.mfcr.cz/cps/rde/xchg/mfcr/xsl/eu_fondy.html; own translation; own contribution.

4.2.3.2. Intermediary Body

The Co-ordination Authority delegates to this body some of its activities for the priorities of the OP to be fulfilled correctly. This body is responsible for the choice of projects which are, during the process or realisation, subsequently controlled and evaluated by it, it also informs project executors about the possibility of financing, and it consults with the applicants on the intentions of their projects. An example of this Intermediary Body may be CzechInvest or CzechTrade Agencies which deal with OP Enterprise and

Innovation. Common Technical Secretariats, Regional Subjects, or even Authorities execute activities of regional OP, programmes for Prague, and programme objective European Territorial Cooperation.

4.2.3.3. Monitoring Committee

The Committee is responsible for monitoring of implementation of OP and it negotiates proposals on change of the Operational Programmes. It approves all criterions set for choice of projects to be realised. In general, each OP has its own Monitoring Committee and members of it are representatives of relevant Managing Authorities (e.g. departments of ministries, partner ministries, regions, municipalities, non-profit non-governmental organisations, etc.).

4.2.3.4. Paying and Certifying Authority

This authority is responsible for getting EU money into the Czech Republic and their subsequent transferring to fund beneficiaries. In the CR, the Ministry of Finance of the Czech Republic as the only payment and certification body for all OPs is accountable for this. It created its National Fund Department to deal with EU money.

4.2.3.5. Audit Authority

Audit Authority has a role of an autonomous "watchdog" which is independent on the activities of the Co-ordination Authority and on Paying and Certifying Authority. The reason is that the Audit Authority controls both of previously mentioned institutions. It is responsible for their correct and accurate performance. In the Czech Republic, the institution authorised for these activities is the Ministry of Finance of the Czech Republic. (Abeceda fondů Evropské unie 2007-2013; 2007; p. 8; own translation; own contribution; MRD CR: Strukturální fondy; http://www.strukturalni-fondy.cz/implementace-rizeni; cit. 30.1.2009)

4.2.4 Grant Beneficiaries

Beneficiaries (e.g. entrepreneurs, universities, regions, non-profit organisations, etc.) are responsible for realisation of the projects, presentation of projects proposals to Co-ordination Authorities of Intermediary Body and contract with them to get the financial help. Grant beneficiaries have to ensure that the financial sources were distributed in accordance with rules. A project which is to be realised has to be in the service of them or of others (so-called destination groups) on which outputs of the project are pointed. The destination group can be the public, for instance. (Abeceda fondů Evropské unie 2007-2013; 2007; p. 8; own translation; own contribution)

4.2.5 Strategic documents summary

There is a scheme below which summarises a hierarchy and division of individual strategic documents which determine and specify the implementation of the structural funds:

OBJECTIVES OF THE EU (+ National Development Plan)
➘
National Strategic Reference Framework
➘
Operational Programmes ➥ Priorities Axes ➥ Supported Areas (supported activities and grant receivers description)
➘
Document of Implementation ➥ Supported Areas (detailed description)

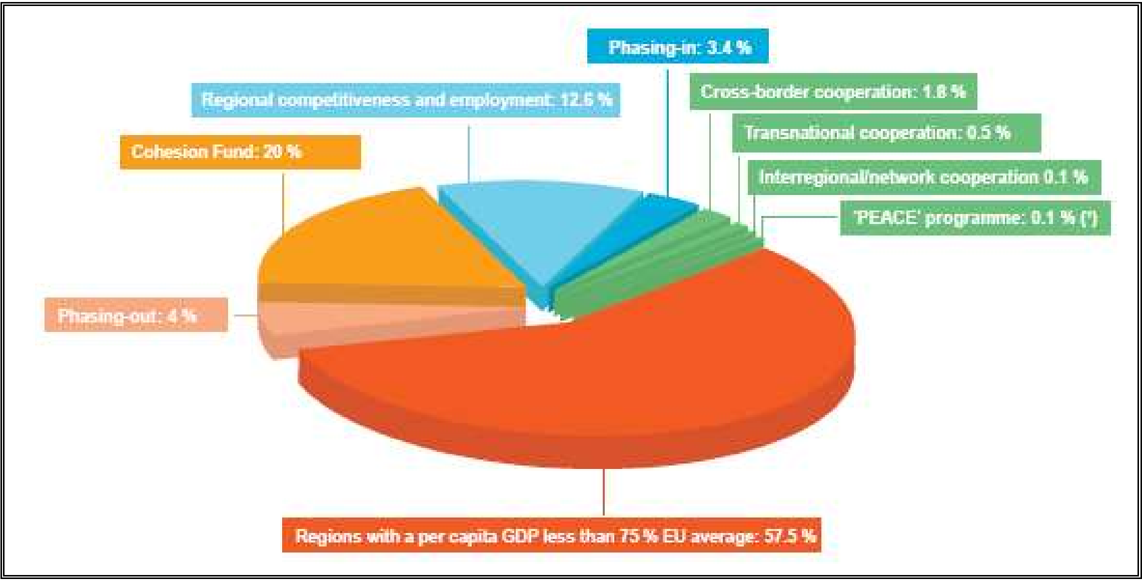
4.3 THE CZECH REPUBLIC AND EU FINANCIAL SOURCES

For the current period, 2007-2013, the **Cohesion/Regional Policy** (as a part of expenditure on '*Sustainable growth and employment*' group) has been allocated a budget of € 347 billion which is more than a third of the whole of the EU budget. The main goal of this policy is to improve competitiveness and the potential for growth at local, regional, and national level and simply to strengthen economic and social cohesion.

The financial sources were divided among the 3 Objectives as follows:

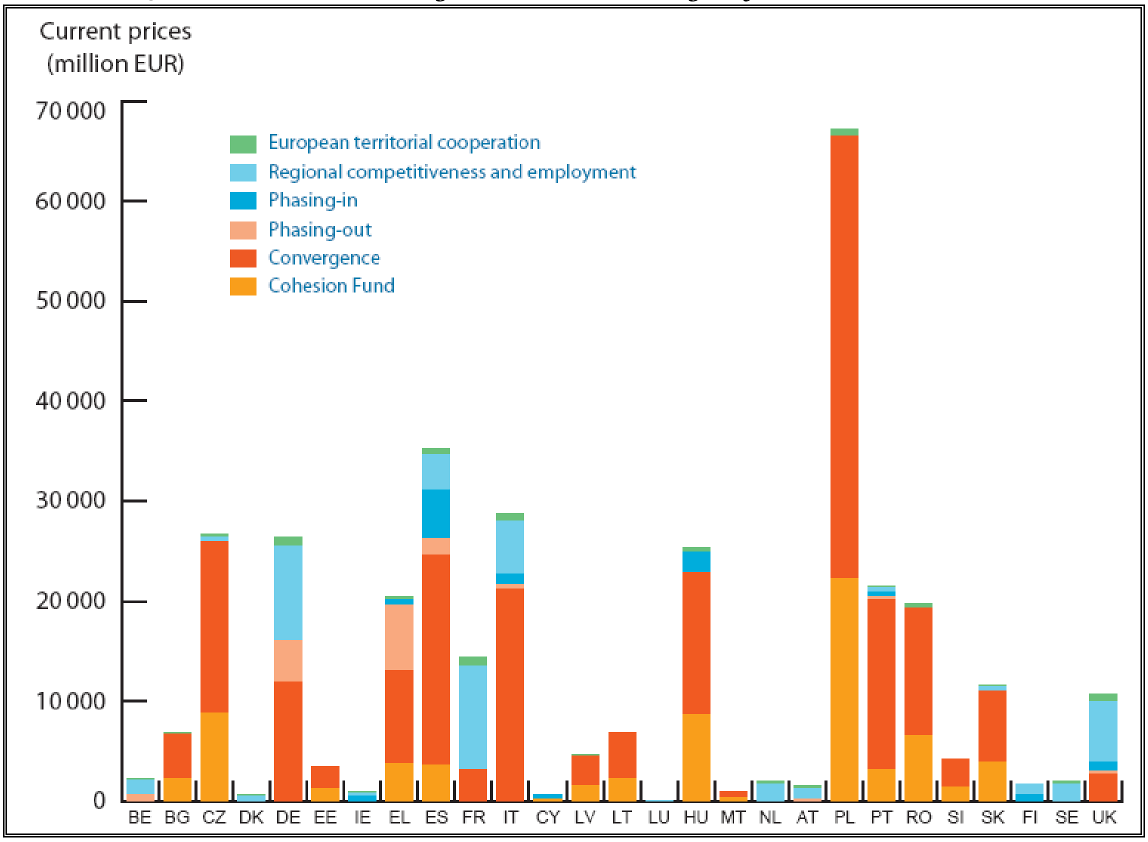
- Convergence objective (orange+pink+red colour): 81.5 %
- Regional Competitiveness and Employment objective (blue colour): 16%
- European Territorial Cooperation objective (green colour): 2.5%

Chart no. 4: Allocation by objectives for the period 2007-2013



Source: Cohesion policy 2007-2013, Commentaries and official texts; 2007; p. 24.

Chart no. 5: Allocation to every Member State by objective



Source: Cohesion policy 2007-2013, Commentaries and official texts; 2007; p. 24.

4.3.1 <u>The share of the Czech Republic</u>

For the financial period 2007-2013, the Czech Republic is offered a financial help from the EU of total € 26.692 billion (approximately CZK 752.7 billion), see table no. 5. For comparison, during the previous period 2004-2006, the country received 'only' CZK 80 billion. The Community finances a maximum 85% of the expenses on the projects and, therefore, the Czech Republic has to contribute approximately CZK 132.83 billion from national sources to co-finance the projects. The allocated amount represents 74% of the Czech national budget in 2007. (Eurocentrum Praha: The Czech Republic in the European Union in 2008; 2008; p. 5)

Table no. 5: Allocation of financial sources for 2007-2013 – regional policy

Indicative allocation by Member State, 2007–13 (current prices, in million EUR)

	Convergence			Regional competitiveness and employment		European territorial cooperation	Total
	Cohesion Fund	Convergence	Phasing-out	Phasing-in	Regional competitiveness and employment		
Belgium			638		1 425	194	**2 258**
Bulgaria	2 283	4 391				179	**6 853**
Czech Republic	8 819	17 064			419	389	**26 692**
Denmark					510	103	**613**
Germany		11 864	4 215		9 409	851	**26 340**
Estonia	1 152	2 252				52	**3 456**
Éire-Ireland				458	293	151	**901**
Greece	3 697	9 420	6 458	635		210	**20 420**
Spain	3 543	21 054	1 583	4 955	3 522	559	**35 217**
France		3 191			10 257	872	**14 319**
Italy		21 211	430	972	5 353	846	**28 812**
Cyprus	213			399		28	**640**
Latvia	1 540	2 991				90	**4 620**
Lithuania	2 305	4 470				109	**6 885**
Luxembourg					50	15	**65**
Hungary	8 642	14 248		2 031		386	**25 307**
Malta	284	556				15	**855**
Netherlands					1 660	247	**1 907**
Austria			177		1 027	257	**1 461**
Poland	22 176	44 377				731	**67 284**
Portugal	3 060	17 133	280	448	490	99	**21 511**
Romania	6 552	12 661				455	**19 668**
Slovenia	1 412	2 689				104	**4 205**
Slovakia	3 899	7 013			449	227	**11 588**
Finland				545	1 051	120	**1 716**
Sweden					1 626	265	**1 891**
United Kingdom		2 738	174	965	6 014	722	**10 613**
Interregional/ Network cooperation						445	**445**
Technical Assistance							**868**
Total	69 578	199 322	13 955	11 409	43 556	8 723	347 410

Source: Cohesion policy 2007-2013, Commentaries and official texts; 2007; p. 25.

In the Czech Republic, the biggest proportion of the allocated amount is dedicated to the Convergence objective (€ 17.064 billion) which is implemented through the Structural Funds and the Cohesion Fund. Nevertheless, in the table no. 5, the Cohesion fund creates separate group which has been allocated total € 8.819 billion. **Convergence** as the only objective has been allocated a big majority of the total allocated amount which clearly signs that the EU regards convergence as a serious issue. When we compare a share of Convergence objective in total allocated amounts in other 'new' Member States from either 2004 or 2007, we clearly notice that great emphasis is placed on this objective in each of these countries.

4.3.2 Evaluation of Czech position during 2004 and 2008

In the period from May 2004 (when the country joined the EU) till the end of the year 2008, the Czech Republic contributed total € 5.8 billion to the EU budget and received € 8 billion from the EU. It means that the Country was in a position of a **net beneficiary** with the final balance of € 2.2 billion. The increasing trend in 'receiving more than giving' is believed to last, at least, for several future years.

Table no. 6: Development of Czech position to the EU budget (2004-2008)

POSITION OF THE CZECH REPUBLIC						
YEAR	TOTAL € RECEIVED	TOTAL CZK RECEIVED	TOTAL € PAID	TOTAL CZK PAID	BALANCE €	BALANCE CZK
2004	0.800 billion	25.291 mld.	0.554 billion	17.063 mld.	**0.246 billion**	**7.328 mld.**
2005	1.042 billion	32.681 mld.	0.959 billion	30.704 mld.	**0.082 billion**	**1.956 mld.**
2006	1.316 billion	37.310 mld.	1.071 billion	30.402 mld.	**0.246 billion**	**6.908 mld.**
2007	1.770 billion	49.140 mld.	1.157 billion	32.122 mld.	**0.613 billion**	**17.02 mld.**
2008	2.336 billion	58.27 mld.	1.421 billion	35.449 mld.	**0.915 billion**	**22.821 mld.**
TOTAL	***8 billion***	***200.6 mld.***	***5.8 billion***	***146.6 mld.***	***2.2 billion***	***54 mld.***

Source: Archives of Ministry of Finance of the Czech Republic; own contribution.

Drawing money from the Structural funds is based on the rule *'n+2'* which tells us that we could continue drawing money till the end of the second year after the year when the country had been allocated these financial sources. This rule is widely practised in the Czech Republic. If we look at the table no. 6, we can see that, for example, in 2007 the country was allocated much more than it paid to the EU. This is because of the rule n+2 and the fact that the country had to draw all money it had been allocated in 2004 and 2005 in order not to forfeit this money. In such case, this money would be lost. As the figure from 2007 tells us, the money allocated in 2004 and 2005 were drawn successfully.

In 2008, the crucial role in a positive balance of the CR in relation to the EU money was played by revenues from Structural funds and the Cohesion funds, again. They created almost three-thirds of the total income from the EU budget. Another important, but appreciably smaller than the SF and CF, part of the income was dedicated to the Common Agricultural Policy. Year 2008 was originally the last year for drawing money allocated in the previous programming period 2004-2006. But because of the global economic crisis, the EU decided to extend the possibility of drawing money allocated during 2004 and 2006 till the end of July 2009 to mitigate possible negative impacts of the crisis.

Finally, it has to be mentioned that the mere enumeration of the financial position of the CR in relation to the EU budget constitutes only an accountant balance of revenues and expenses of the Czech Republic. It reflects neither financial flows to the state budget nor amount of money received by final grant beneficiaries. But primarily, it is not able to reflect and express all the real contributions which the membership in the European Union gives to each of us.

5 CONCLUSION

The European Union has always been a very open association of European countries which places emphasis on many areas of human lives. The range differs from regional issues, through employment and social issues, to crucial environmental issues. The EU funds exist to help eliminate potential problems these issues may have in terms of better quality, higher level of development, modernisation or higher level of competitiveness, for example. The main parts of the convergence are primarily economic reasons. The Union is not a state, nor is it just an organisation for international cooperation with a long history and with its historical roots that lie in the Second World War. The Czech Republic joined the EU in 2004 after 8 years of accession negotiations.

The European Union's management of money proposal is drafted in the budget for a 7-year period, so-called programming period. In the budget, main spending areas ('headings') and their annual upper financial limits are set there. The budget is negotiated within the 3 most important EU institutions and the thing that is interesting in connection with the EU budget is that the budget is not allowed to be in deficit and it fulfils this criterion every year, successfully. For every period, the EU money is decided to be primarily spent on different activities. For the current period, i.e. 2007-2013, the essential area is *'sustainable growth and employment'* funded through cohesion and competitiveness followed by *'natural resources preservation'*. The Union collects its money from the Member States through duties, VAT, and mainly a certain percentage of gross national income which represents the biggest resource of money.

The EU distributes its money through so-called funds. A fund is a tool of financial help. The financial sources of EU funds are spent through different

EU programmes with different objectives and priorities and different volume of financial sources available. Each EU Member State is given such amount of money which complies with its prosperity and economic maturity. According to this criterion, a certain amount of money is paid to the EU by the States, as well.

When we compare the period 2007-2013 with the previous one, 2000-2006, we find out that some differences, regarding EU funds structure and EU priorities, emerge. From the previous period, 'regional assistance' group's 9 objectives and initiatives and 6 funds were overhauled for the current period into 3 objectives and only 3 essential funds, and made the system of accessing EU money much easier and more transparent. For the programming period 2007-2013, the main interest of the 'regional assistance' policy has been a higher economic and social growth and jobs creation for all regions and cities of the Union. Among the three Objectives, ***Convergence, Regional competitiveness and employment*****, and *****European territorial cooperation*** belong there (with Convergence being the crucial objective with the biggest amount of money allocated) and their main concerns are job creation, strengthening the economic, social, and territorial cohesion of the EU.

The Community realizes the aims of its regional and structural policy in a 7-year programming period for which all Member States prepare new programming documents which define goals and priorities on which the country would like to use the EU financial instruments. National Strategic Reference Framework is one of the documents with the other one being National Development Plan. There documents also describe the mechanism and structure of drawing money from the EU funds as well as single operational programmes (OP). OP is a strategic document of financial and technical support for a relevant area or region of cohesion. For the period 2007-2013, there are 24 OP given for exploitation of financial sources of EU funds, in the Czech Republic.

For the majority of the EU countries, the Community offers a decisive bundle of financial sources to them and, therefore, there has to be quite a lot of subjects and bodies involved in connection to EU funds. It is preparation, implementation, and evaluation of money obtained from the EU funds on which supervision is essential from European, through national, and finally to regional levels. This activity is done with help of EU institutions, national Ministries, regional municipalities, appointed agencies and offices, and others. Needles to say, it is the Member State of the EU which has total responsibility for the implementation of economic and social cohesion. The management of EU funds is shared between the Union, the Member States, and the regions.

In the Czech Republic, the biggest proportion of the allocated amount is dedicated to the Convergence objective which is implemented through the Structural Funds and the Cohesion Fund. **Convergence** as the only objective has been allocated a big majority of the total allocated amount which clearly signs that the EU regards convergence as a serious issue. When we compare a share of Convergence objective in total allocated amounts in other 'new' Member States from either 2004 or 2007, we clearly notice that great emphasis is placed on this objective in each of these countries.

Every European Union Member State is allowed to draw a certain amount of money from the EU budget through EU funds and it is up to each country whether it is able to manage it effectively or not. Based on my readings and research, I believe that the Czech Republic can be included into such group of countries which can manage EU money effectively and draw them up to their upper limit. The Czech Republic has set up on a trip of a **net beneficiary** in terms of drawing financial sources of EU funds and it concentrates on keeping this pace and this positive trend. What is more, the country targets on becoming an economically performing member of the Community with parameters coming close to the average of the Union in all basic criteria (i.e. GDP per capita, social security, employment, etc.). Sustainable development of the country, based on competitiveness, is another goal of the Czech Republic. Moreover, it focuses on a strong position of the CR in Europe in a pre-war period and tries to get to the level it used to be, including the way and quality of life. These goals may seem difficult but, certainly, they are achievable, especially after Czech accession to the EU in 2004 and with the availability of European financial sources.

One of the most important priorities of the EU for the period 2007-2013 is convergence. This objective arose from the accession of ‘poorer’ countries which started already in 1981 by accession of Greece, but the main difference between economies and simply quality of life emerged in 2004. In 2004, mainly former communist countries, including the CR, joined the Union. Their common feature has been ‘underdevelopment’ when being compared to e.g. Western European countries. After the end of Communist Era, the goal of all these countries has been to get to the level of Western European countries. Thanks to the Union and its effort to balance the main economic criteria as well as the way and quality of life within its Member Countries, the Czech Republic is able to approach its long-term objectives and starts becoming unmistakeable part of this successful union. The enumeration of the financial position of the CR in relation to the EU budget constitutes only an accountant balance of revenues and expenses of the Czech Republic. It reflects neither financial flows to the state budget, nor amount of money received by final grant beneficiaries. But primarily, it is not able to reflect and express all the real contributions which the membership in the European Union gives to each of us.

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7 SUPPLEMENTS

Annexe no. 1: EU Member States

Source: Portál Evropské komise: Členské země EU;
http://europa.eu/abc/european_countries/eu_members/index_cs.htm; cit. 2.2.2009.

Annexe no. 2: Chronology of the Czech Republic's accession to the EU

CHRONOLOGY OF THE CZECH REPUBLIC'S ACCESSION TO THE EU	
19 December 1988	The European Community and the Czechoslovak Socialist Republic begin to strengthen their links and establish diplomatic relations; Trade and Co-operation Agreement is signed.
1 April 1989	The four-year Trade Agreement on Industrial Products enters into force.
7 May 1990	Agreement on Trade and Commercial and Economic Co-operation is signed.
16 December 1991	The Association Agreement ("Europe Agreement") between the European Communities and the Czech and Slovak Federal Republic is signed.
1 March 1992	The trade provisions of the Europe Agreement enter into force by means of an Interim Agreement.
21-23 June 1992	The Lisbon European Council summit issues the first express statement of support for the effort of Central and East European (CEE) countries to prepare for accession.
4 October 1993	A separate Europe Agreement between the EC and the Czech Republic is signed after the split-up of Czechoslovakia.
21-22 June 1993	The Copenhagen European Council summit endorses eventual membership of CEE states as a goal; membership criteria are established, PHARE assistance reoriented and accelerated market access to the EU provided.
9-10 December 1994	The Essen European Council defines a pre-accession strategy to prepare candidate countries for EU membership.
1 February 1995	Czech Republic's Europe Agreement enters into force.
23 January 1996	The Czech Republic officially applies for membership in the EU.
16 July 1997	Agenda 2000 is adopted.
16 July 1997	The European Commission issues its (positive) opinion on the Czech Republic's application for membership.
12-13 December 1997	The Luxembourg European Council decides on an enhanced pre-accession strategy for all ten candidate countries but endorses the Commission's recommendation for early accession negotiations with the Czech Republic, Estonia, Hungary, Poland, Slovenia, and Cyprus (the "Luxembourg Six").
31 March 1998	Negotiations between the Czech Republic and the EU are opened.
4 November 1998	First Regular Report on the Czech Republic's Progress towards Accession (created by the European Commission for the Council).
13 October 1999	Second Regular Report on the Czech Republic's Progress towards Accession.
31 May 2000	Updated National Programme for the Preparation on the Czech Republic for membership in the EU is approved.
8 November 2000	Third Regular Report on the Czech Republic's Progress towards Accession.
13 November 2001	Fourth Regular Report on the Czech Republic's Progress towards Accession is accompanied by the Commission's "Strategic Document" confirming the enlargement "roadmap".

14-15 December 2001	The Laeken summit names the Czech Rep. as one of the candidate countries that are to join in the 2004 European Parliament elections provided they finalise negotiation by December 2002.
28 February 2002	Czech delegates take part in the opening of the Convention on the Future of Europe in Brussels and in the ensuing discussions on the institutional reform.
1 July 2002	25 out of 30 chapters of the EC acquis are provisionally closed.
12-13 December 2002	The accession negotiations successfully accomplished at the Copenhagen Summit.
16 April 2003	The Accession Treaty signed by the European Parliament.
June 2003	A referendum on the CR accession is held. The treaty is approved with 77.33% of the vote.
1 May 2004	The Czech Republic joins the European Union because the Accession Treaty comes into force.
January - June 2009	The Czech Republic is scheduled to hold the rotating position of the European Presidency of the European Council in the first term of 2009.

Source: Rupnik, J.; Zielonka, J.: The road to the European Union; Manchester University Press; 2003; p. 272-273.

Annexe no. 3: Timeline of treaties

TIMELINE OF TREATIES (Structure and History of the EU)

1951	**1957**	**1965**	**1992**	**1997**	**2001**	**2009 - ?**
European Coal and Steel Community (ECSC)						
	Euratom (European Atomic Energy Community)					
	European Economic Community (EEC)		**European Community** (EC)			
		...European Communities: ECSC, EEC (EC, 1993), Euratom	Justice & Home Affairs	Police & Judicial Co-operation in Criminal matters (PJCC)		
			Common Foreign and Security Policy (CFSP)			
			EUROPEAN UNION (EU)			
Treaty of Paris	***Treaties of Rome***	***Merger Treaty***	***Treaty of Maastricht***	***Treaty of Amsterdam***	***Treaty of Nice***	***Reform Treaty***
			"THREE PILLARS" - ECs (ECSC, EEC/EC, Euratom), CFSP, PJCC			

Source; NationMaster: Three pillars of the EU;

http://www.nationmaster.com/encyclopedia/Three-pillars-of-the-European-Union; cit. 26.11.2008; own contribution.

Annexe no. 4: Financial framework 2007-2013: Expenditure ceilings

FINANCIAL FRAMEWORK 2007-2013: Expenditure ceilings per heading (EUR million)								
COMMITMENT APPROPRIATIONS	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**TOTAL**
1. Sustainable growth	54.405	57.275	59.700	61.782	63.614	66.604	69.621	**433.001**
1a. Competitiveness for growth and employment	*8.918*	*10.386*	*11.272*	*12.388*	*12.987*	*14.203*	*15.433*	***85.587***
1b. Cohesion for growth and employment	*45.487*	*46.889*	*48.428*	*49.394*	*50.627*	*52.401*	*54.188*	***374.414***
2. Preservation and management of nat. resources	58.351	58.800	59.252	59.726	60.191	60.663	61.142	**418.125**
3. Citizenship, freedom, security and justice	1.273	1.362	1.523	1.693	1.889	2.105	2.376	**12.221**
3a. Freedom, security and justice	*637*	*747*	*872*	*1.025*	*1.206*	*1.406*	*1.661*	***7.554***
3b. Citizenship	*636*	*615*	*651*	*668*	*683*	*699*	*715*	***4.667***
4. The EU as a global player	6.578	7.002	7.440	7.893	8.430	8.997	9.595	**55.935**
5. Administration	7.039	7.380	7.699	8.008	8.334	8.670	9.095	**56.225**
6. Compensations for Bulgaria and Romania	445	207	210	-	-	-	-	**862**
TOTAL	**128.091**	**131.487**	**135.321**	**138.464**	**142.445**	**147.075**	**151.886**	**974.769**

Source: European Communities: Investing in our future - The EU's financial framework 2007-2013; p. 8; 2008; own contribution.

Annexe no. 5: Changes in the structure of objectives and financial tools

CHANGES IN THE STRUCTURE OF OBJECTIVES AND FINANCIAL TOOLS			
2000-2006		**2007-2013**	
Objectives	**Financial Tool**	**Objectives**	**Financial Tool**
Cohesion	Cohesion Fund	Convergence	Cohesion Fund ESF ERDF
Objective 1: Regions lagging behind in development terms	ERDF ESF FIFG EAGGF		
Objective 2: Economic and social conversion zones	ERDF ESF	Regional Competitiveness and Employment	ERDF ESF
Objective 3: Training system and employment policies	ESF		
INTERREG	ERDF	European Territorial Cooperation	ERDF
URBAN	ERDF		
EQUAL	ESF		
LEADER+	EAGGF		
Rural development and restructuralisation of fisheries (above Objective 1)	EAGGF FIFG	Problems of rural development and fisheries are included in Common Agricultural Policy	
4 Objectives; 4 Community initiatives; Cohesion Fund	***6 Instruments***	***3 Objectives***	***3 Instruments***

Source: Abeceda fondů Evropské unie 2007-2013; 2007; p. 4; own translation; own contribution.