

The CR's Priorities for EU Cohesion Policy after 2013

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Analytical Perspective

The Position of the Czech Republic within an International Context

In the most recent comparison of international competitiveness, the Czech Republic was placed thirty-sixth. The country has recorded a perceptible decrease in competitive strength both at the European as well as at the global level, particularly over the past five years, and this trend must be stopped. A reasonably defined development strategy and policies, together with the resulting specific interventions and measures funded from public resources will make it easier to use the country's economic potential to the maximum level possible, to concentrate on removing (or at least minimising) the identified deficiencies and to respond flexibly and appropriately to the current development trends in Europe and around the world.

The Weaknesses in Czech Economic Strength

The greatest long-term obstacles that have been identified with regard to the development of the Czech economy, which is characterised by a narrow domestic market and a high level of openness (i.e. focus on exports), are considered to include poorly functioning institutions, and an insufficiently developed infrastructure that does not meet current economic and social needs. Significant shortcomings were also identified in the education of the populace at all levels. In addition to the actual status as described, it is also important to monitor the development trends in the specified areas. Unfortunately, it must be noted that the situation is gradually getting worse. In particular, there has been an obvious drop in education and it has gone down to a level that does not correspond to the Czech Republic's level of development or to its needs and does not fulfil the existing and future requirements that the public and private sectors must meet in order to ensure the competitive strength of the labour market.

Certain macroeconomic indicators also reflect the insufficient competitive strength of the Czech Republic, such as market size and the growth of financial markets. In the case of these parameters however, it is problematic, up to the point of being impossible, to influence them through cohesion policy instruments.

Support for Competitiveness Founded on Innovation and Knowledge Potential

In order to ensure the competitive strength of companies, it is necessary to not only significantly improve the functionality of public institutions and the entrepreneurial environment overall, but a specific focus must be aimed at strengthening the role that innovation plays in the strategic decision making of companies with regard to their economic life. Long gone are the times when it was possible to attract a large number of foreign companies to the Czech Republic, who, when making key decisions with regard to expanding their capacity, regrettably responded to various investment incentives and subsequently relocated to locations that offered better conditions.

As far as the Czech Republic is concerned, the competitive advantage of a cheap labour force is still heavily relied on, however, with the passage of time, it is fighting a losing battle as a result of competitive pressure from other countries. One solution would be to improve the competitive strength of companies, increase the added value of their production and promote innovative manufacturing processes and products. Strengthening innovative ability requires taking several consecutive and mutually conditional steps. It is not enough to only redirect the flow of resources to the benefit of innovative companies and to replace the traditional subsidy and grant distribution channels with contemporary credit instruments and other financial engineering mechanisms.

The process must be a gradual one, established on developing already existing instruments and targeting them better, from both the material as well as the regional perspectives. Innovation must be unambiguously driven by the needs of the manufacturing sector and science and research entities must be able to react to these requirements flexible and effectively and possibly even to help identify and apply new trends. An important stimulus for promoting innovation lies in providing support to the entire chain, starting with a high-quality scientific environment. It is also necessary to establish a long-term rational support system for applied research, which is clearly and practically linked with the trends and needs in the entrepreneurial sphere.

It will be possible to justify further increases in interventions from public resources for research and development only if all of these conditions are met, with the main condition consisting of the introduction of the proper management and transparency of financial flows, including the independent retrospective evaluation of the impact that the interventions have in the relevant areas. As far as this aspect is concerned, the Czech Republic's relatively strong starting position, based on an international comparison of the technological and innovation factors of the country's economy, is a good foundation, although a lag behind the world's leading economies is visible even in this particular area.

Education, Human Resources and Integration

The development and management of human resources is also of the utmost importance with regard to the Czech Republic's competitive strength. In addition to the aforementioned drop in the level of the knowledge and skills of students at all levels, there are a number of other factors that will have a significant impact on the structure and functionality of the labour market in coming years.

One of these is the unfavourable demographic development, which has been slightly brought into balance by the increased birth rate in certain stronger years and increasing international migration. For this reason, emphasis should be placed on increasing the quality of education and the creation of appropriate conditions and motivation for the broader application of lifelong learning, which will be of key importance for maintaining the overall competitive strength of the Czech Republic,

Efforts to integrate certain groups that are either excluded or face the threat of exclusion into society are inseparably linked with the improvement of the quality of education at all levels and the development of the labour market. The goal is to create conditions for these excluded groups that will allow them to become actively involved or to return to the labour market and to social life.

Improved Infrastructure

The completion of backbone infrastructures (transport, energy and products, information and communication) and their connection to the main European networks has long been requested not only by our country's companies and inhabitants, but also by their foreign partners and European institutions. Greater involvement in the international division of labour is a necessity for our enterprises and the existence of quality infrastructures can significantly contribute towards attaining this goal. The quality of infrastructures is however also lacking at the national level. There are significant differences between regions and even within individual regions. In the case of developing and improving information and telecommunication infrastructures, it is necessary to provide significant motivation to implement new commercial and public services which will use these infrastructures and to define the appropriate standards for the services that are provided.

Use of Development Potential and Specific Territorial Characteristics

Directly associated with the steps to improve the functionality of the Czech economy is the need to take into account the better use of the spatial interactions that exist in the Czech Republic. It is necessary to provide support for the maximum use of the potential offered by the country's territories with special emphasis on the effective use of vicinity, agglomeration savings, savings resulting from specialisation and the benefits of scope.

These parameters are important and often decisive when it comes to the competitiveness of an enterprise or even an entire sector at the national, European and global levels (in particular, the effectiveness of where private investments are placed is a key parameter). The end result of different conditions and various levels of success is the current situation, when there are objective differences between regions and individual types of areas, which consequently affect their further development potential.

The primary focus of the economy is aimed at agglomerations. Agglomerations with a high concentration of inhabitants and economic activities are defined as national and regional development and growth poles. They are also natural centres for education, research and development.

In spite of the diversity of the territories and certain long-term negative tendencies, it is possible to see and monitor certain positive trends from the macroeconomic perspective, as regional disparity is decreasing and the desirable convergence process is underway (in particular, at the NUTS II level). Territorial diversity is a natural phenomenon. The development of specific potential brings with it a favourable synergetic effect and leads towards strengthening the competitive strength of the Czech economy.

Main Strategic Documents for Defining National Development Priorities for Post-2013 period

The proposed national development priorities are based on the key strategic documents of the EU and the CR and strive to insure the maximum level of interconnectedness.

Europe 2020 Strategy

At the EU level, the key strategic document for establishing the development priorities for post-2013 cohesion policy is the Europe 2020 Strategy document, which was approved by the European Council in 2010 and presents the EU's growth strategy for the coming decade. It focuses on the future direction the EU will take with regard to economic policy, increasing competitiveness, attaining social stability, and respecting the environment.

In addition to defining three growth priorities for all of Europe (intelligent growth, sustainable growth and inclusive growth), the EU has specified five European-wide quantifiable goals that should be attained by 2020, specifically increased employment, a higher level of investment in science and research, a decreased economic dependency on energy, an increase in the number of people with tertiary education, and decreased poverty. This set of priorities, goals and associated instruments defined at the EU level is transferred to the level of the individual EU member states through their National Reform Programmes.

In order to assist with the definition of national objectives, specific recommendations are presented in the form of "Integrated Guidelines", of which there are six for economic policy and four for employment policy. In the case of the former, they address the quality and sustainability of public financing; finding a solution to macroeconomic imbalances; decreasing the disproportions that exist in the eurozone; optimising support for research, development and innovation, strengthening the knowledge triangle and releasing the existing potential of a digital economy; promoting the more effective use of resources and decreasing greenhouse gas emissions; and improving the business and consumer environment and modernising the industry base.

The guidelines for employment policy consist of increasing participation in the labour market and decreasing structural unemployment; developing the use of a qualified workforce on the labour market, promoting the quality of employment and support for lifelong education; improving the results from the educational system and professional training, including an increase in the number of participants in tertiary education; and supporting social integration and the battle against poverty.

EC's Fifth Report on Economic, Social and Territorial Cohesion

Another important document is the European Commission's Fifth Report on Economic, Social and Territorial Cohesion, which was published on 10 November 2010. This report emphasises the fact that future investments in cohesion must be closely linked to attaining the goals defined in the Europe 2020 Strategy and proposes the implementation of stricter conditions (i.e. conditionality) in combination with greater incentives in order to ensure the effective use of the financial resources aimed at cohesion policy and a greater focus on results.

According to this report, it is necessary to ensure that the member states and the regions successfully concentrate both Union as well as national resources on a low number of priorities that correspond to the specific problems encountered by the individual states. The process used to prepare the development priorities for post-2013 cohesion policy is in line with this recommendation, as the anticipated priorities refer back to the Integrated Guidelines as well as to the key initiatives set forth in the Europe 2020 Strategy.

Strategic Programming for the European Regional Development Fund, the European Social Fund and the Cohesion Fund

At its sessions held in December 2010 and April 2011, the European Commission Working Group on Future Cohesion Policy addressed the issues associated with the strategic programming for the aforementioned funds. In relation to the

Europe 2020 Strategy, the Integrated Guidelines and the mainstay initiatives, it is considering a total of fifteen thematic priorities for cohesion policy.

National Reform Programme

The principal supporting source document, created at the national level, is the National Reform Programme (NRP), which represents the Czech Republic's contribution towards realising the goals of the Europe 2020 Strategy. It is based on the government's reform priorities and takes into account the recommendations presented in the Integrated Guidelines for the Europe 2020 Strategy.

It defines the reform measures planned by the Czech Republic with regard to the consolidation of public financing, a functional labour market and social system, education, support for the business sector, the development of digitalisation, support for growth that is based on research and innovation, environment-friendly support for competitiveness, and an improved transport infrastructure. As far as the emphasis placed on the reform objectives for the Czech Republic's economic and social policy is concerned, the NRP is one of the key documents that were used for preparing the proposed national development priorities for the post-2013 period.

Strategic Framework for the Czech Republic's Sustainable Development

The umbrella document at the national level is the Czech Republic's Strategic Framework for Sustainable Development (SFSD). This document plays a key role in the preparation of the proposal for national post-2013 development activities primarily because it is prepared at the multi-ministerial level and thus is of a more long-term and general nature (it contains the Czech Republic's strategic vision up to 2030). The SFSD presents the key economic, social and environmental priorities and objectives focused on the following priority axes: Society, People and Health; Economy and Innovation; Spatial Development; Landscape, Ecosystems and Biodiversity; and A Stable and Secure Society.

Competitiveness Strategy Framework and the International Competitiveness Strategy

One of the key conceptual documents prepared at the national level in the Czech Republic is the Competitiveness Strategy Framework published by the government's National Economic Council (NERV) in April 2011. This document introduces a number of incentives and proposals for specific measures, which should help improve the individual areas of competitive strength (institutions, education, effectiveness of the labour and goods markets, financial markets, technological preparedness, improved entrepreneurial characteristics and innovation).

The Competitiveness Strategy Framework, and, in particular, the binding International Competitiveness Strategy prepared by the Ministry of Industry and Trade, are, and will continue to be, used for justifying the focus of the cohesion policy development priorities after 2013. The competitiveness strategy is perceived as a broader document and it will be appropriate to use European resources to realise a significant number of its goals during the 2014-2020 programming period.

These areas include enterprise, instruments for increasing the effectiveness of the labour market, investments in education, and support for technology and innovations. The finding that the institutional environment in the Czech Republic is of insufficient quality, especially with regard to public administration, is of key importance.

Regional Development Strategy of the Czech Republic for 2014+

The Regional Development Strategy (RDS) of the Czech Republic valid for the period of 2007-2013 established the main starting points for formulating the approaches taken by the regions with regard to sectoral and branch policies and for the programmes that strive to strengthen competitiveness through the maximum use of a region's production potential.

Likewise, for the 2014+ programming period, it will be necessary to respect the specifics of regional development in the Czech Republic when defining the national priorities, such as in relation to the changing internal and external conditions (the globalisation of markets, demographic changes, climate change, and energy self-sufficiency to name but a few). The

aforementioned regional specifics will be elaborated on in the Regional Development Strategy that is currently being prepared and is expected to be completed in October 2012.

Conclusion

On the basis of all of the strategic documents mentioned above, it is obvious that there exists the necessity to strengthen the **competitiveness of the national economy** during the upcoming period. The core of the economy can be found in the competitive strength of companies, which must be built on the support provided to enterprise through the corresponding development of skills and training; research, development and innovation; a functional labour market; and education. A broader scope of conditions for strengthening competitiveness can be found in the functionality of institutions and a well-developed infrastructure – both in the broadest sense as well as at the regional level. At the same time, it is necessary to take social aspects into consideration and integrate the most threatened groups within society.

All of the requirements specified above form the basis for proposing the post-2013 development priorities.

Current Progress with Preparing the National Post-2013 Cohesion Policy Development Priorities

First Preparation Stage

As the first stage of the Czech Republic's preparations to use funds during the 2014+ period consists primarily of determining the strategic approaches that should be applied, the most appropriate platform for formulating the proposed priorities proved to be the Coordination Committees for the National Strategic Reference Framework (NSRF CCs). The individual committees were established as working bodies of the Management and Coordination Committee, which is responsible for, amongst other things, coordinating the preparation of the programme documents and the system measures that are necessary for implementing the economic, social and territorial cohesion policies as well as for other related activities that fall within their competence. The Coordination Committees are comprised of representatives from the central administrative offices, the Association of Regions of the Czech Republic, the Union of Towns and Municipalities of the Czech Republic, various universities, non-profit organisations, and various economic and social partners.

The first joint session of the NSRF CCs took place in March 2010. The agenda included defining the basic links between the strategic documents. The individual NSRF CCs subsequently met over the course of May 2010 to start the process of creating the roadmaps for the strategic documents for the individual subjects, their links with regard to cohesion policy and the general definition of sectoral priorities for the 2014+ period.

Second Preparation Stage

The second round of meetings convened by the individual NSRF CCs took place in October 2010. The main topic concerned the proposals for sectoral priorities for the EU 2010+ planning period, which were submitted by the individual ministries and other partners (over 100 were proposed). Other discussions centred on the strategic documents of the different ministries and their time validity. As a result of these meetings, it was determined that the submitted priorities and strategic documents used different structures, there is a wide range of perceptions as to what the term "priority" means, there is a significant difference in the number of priorities submitted by the individual ministries, there are no sectoral strategic documents covering the 2014-2020 period, and other similar issues.

A recommendation was accepted to narrow the number of priorities to between five and seven per sector according to the size of the role played by a sector in relation to cohesion policy, to assign the sectoral priorities to the applicable individual Integrated Guidelines of the Europe 2020 Strategy, to define the strategic documents upon which the priorities for the 2014+ period will be defined, and to evaluate the territorial dimension of the priorities contained in the sectoral strategic documents. By January 2011, at which time a second joint session of the NSRF CCs was held, the conclusions from the preceding meetings had been confirmed and intense communications between the ministries and the Ministry for Regional Development took place. More detailed specifications were defined for the sectoral priorities and further reductions were made (in January there were approximately 80, not taking into account any hierarchical levels). On the basis of these outputs, an agreement was reached to identify three levels of priorities, specifically national development priorities, sectoral and regional priorities and potential areas of intervention.

Third Preparation Stage

In January 2010, the EU Committee adopted a resolution that assigned the Minister for Regional Development the task of working in cooperation with the applicable government members and preparing and submitting to the government by no later than 31 July 2011 a cumulative proposal for the direction that future EU cohesion policy should take after 2013 within the conditions specific to the Czech Republic and also including a proposal for the development priorities that should be applied to the use of EU funds after 2013.

Work started on preparing a summary of the macroeconomic relationships that exist with regard to the Czech Republic's economic and social development and a SWOT analysis. Both of these documents provide information that is of importance for the further preparations for the 2014-2020 timeframe.

During the next preparation steps for the national development priorities, the number of priorities was gradually narrowed down and they were defined in more detail. The proposed national development priorities and the sectoral priorities, including key areas for receiving support, were assessed from the perspective of their compliance and their closeness to the development goals and priorities contained in the key documents published by the EU and the Czech Republic.

The steps described above were performed during March and April 2011 by the representatives of the individual ministries working in close cooperation with the representatives from the Ministry for Regional Development, both at the level of the deputy ministers as well as at the working level. At the same time, all of the regional governors, the Mayor of Prague and the President of the Union of Towns and Municipalities of the Czech Republic were invited to submit their materials for defining the national cohesion policy development priorities for the next programming period.

This approach resulted in the initial identification of thirteen proposed national development priorities and forty-two sectoral priorities in April 2011. These were narrowed down even further and in May 2011, a total of five national development priorities were formulated with thirteen thematic areas, along with a definition of their contents and further specifications.

The discussions concerning the proposed process for preparing the national development priorities took place within the framework of a wide range of special working groups, such as the Management and Coordination Committee Working Group for Future Cohesion Policy, the Ministry of Regional Development's Interregional Advisory Group for Future Cohesion Policy, and the Council for Economic and Social Development Work Team for Regional Development. The members of all of the above-specified platforms are primarily representatives from the individual ministries, the regions, towns, municipalities and other economic and social partners. In addition, the preparation of the priorities was discussed by the Ministry for Regional Development's Expert Advisory Group on Future Cohesion Policy (EPOS).

Conclusion

The approach taken by the Ministry for Regional Development with regard to the preparations for the future post-2013 programming period and for processing the national development priorities is presented using **various platforms**, which include the ministries, regional and municipal representatives and the representatives of various social and economic partners.

The Ministry for Regional Development's conceptual approach for creating the Ministry's development priorities is based on the needs of the Czech Republic and the existing EU documents. Taking into account the fact that the priorities of the EU 2020 Strategy and other relevant EU documents are thematically based and structured using a "top-down" approach, at the national level, the Ministry for Regional Development approaches its focus on future cohesion policy as a response to a wider range of needs at the level of the sectors, regions, towns and municipalities, which are based on their analytical and strategic documents (a "bottom-up" approach).

Currently, the most essential documents used at the national level as the starting point for defining the development priorities include the Competitiveness Strategy Framework (NERV), the Strategic Framework for the Czech Republic's Sustainable Development, the National Reform Programme, and various strategic and analytical documents prepared at the level of the sectors, regions, towns, and municipalities. Whilst the proposals are being processed, the regular outputs and materials from the Midterm Evaluation of the NSRF Material and Financial implementation will also be taken into consideration as well as the Regional Development Strategies for 2014+ that are being prepared.

The preparation of future cohesion policy is also based on the new aspects defined at the EU level, with regard to territorial development, conditionality, the measurability of the effects of assistance, concentration on a smaller number of objectives, etc., which are used as the main starting points for defining the focus of national development priorities.

Focus and Links Between National Post-2013 Cohesion Policy Development Priorities

Increased Economic Competitiveness (within the Competitiveness chapter)

The growth of the Czech Republic's competitive strength at both the EU as well as the global level must be founded on the long-term sustainable strengthening of the business sector. The competitiveness of companies will be built on four basic pillars:

- support for business endeavours;
- support for promoting research, development and innovation;
- a functional labour market; and
- the development of education.

The instruments used thus far to provide support for business must be optimised, in order to ensure that they are defined to fit the needs of the entities that receive the support and assist them with using available resources effectively. Emphasis will also be placed on creating a quality business environment, including improvements to the infrastructures that are directly linked to enterprise. Support instruments will be modernised, by such means as the greater use of financial engineering instruments. A sufficiently qualified and flexible high-quality workforce is a requirement that goes hand in hand with the new concept of support for business.

This will be provided by a modern functional and flexible labour market, based on the demands in the business sector but also on the basis of the specific requirements of the public sector. Individuals who, for a variety of reasons, have been outside of the labour market will have access to it and the ability to return to it. More than ever in the past, the key element for competitive strength will consist of an educated population, which is motivated and willing to expand their knowledge and skills through the lifelong learning process.

Education should reflect the regionally different requirements for the labour market in line with the applicable regional educational strategies. This applies, in particular, to primary and secondary education, which is fully within the competence of the regional players, but also to lifelong learning. Over the long-term, the competitiveness of companies must be driven by an increase in the use of research and development results and innovation in production and services.

Only the practical application of innovations resulting from basic research provides justification for the increasing costs for support research and development from public sources. In the case of research and development, the supply must be brought into balance with demand, to a point where the demand for innovations will be decisive and will lead to the truly effective use of the invested resources. A marked improvement must also be made with regard to the way the entire support system providing public funding for research and development is managed, in particular if the trend of increasing public expenditure in this area is maintained.

Competitiveness must be built on a quality infrastructure – and not only for business. The regional dimension cannot be overlooked and a well-functioning public administration system must be supported, i.e. the institutions at national, regional and local levels. The social dimension of business also cannot be left out of the scope of interest. On the one hand, this dimension creates sources that support integration; on the other, both the business as well as the public sectors should be capable of offering a corresponding level of opportunity to disadvantaged individuals through the labour market.

Development of Basic/Backbone Infrastructure (within the Infrastructure chapter)

The completion and modernisation of high-quality backbone infrastructures is a necessary prerequisite for strengthening the competitiveness not only of the Czech Republic as a whole but also that of the individual regions, towns and municipalities. Well-designed and developed infrastructures in the transport, energy, IT and communications sectors will make it possible to increase the standard of the services that are provided using these infrastructures and to make them

more accessible to the general population and the entrepreneurial sphere. Infrastructure also plays a key role in providing a corresponding level of education.

At the local level, it is a necessary prerequisite for the desirable integration of disadvantaged population groups. Institutions at all levels should ensure that the resources invested for developing infrastructure are used as effectively as possible and that they limit the operating costs associated with infrastructure, which should not turn into a burden for its owner.

Increased Quality and Effectiveness of Public Administration (within the Institutions chapter)

Several international comparisons have identified a significant decline in the quality of the way institutions function as a major obstacle to strengthening the economic strength of the Czech Republic and its regions. An evaluation of the use of European subsidies before and after accession to the EU reached similar findings. At the national, regional and local levels, it is necessary to promote the effectively and transparently functioning institutions of a legal state, to implement contemporary management and decision making methods, and to support an increase in effectiveness (both internally as well as in relation to the citizenry), e.g. through the targeted and effective implementation of information and communication technologies.

In particular, when it comes to support received from European funds, it is critical to simplify, clarify and improve the effectiveness overall of the methods used to provide aid. Only then will there be a solid institutional base for the Czech economy's competitiveness. Quality institutions will have a positive impact on the individual elements of the competitiveness of the business sector and, at the same time, will facilitate a smoother process for developing the required infrastructure and the easier integration of disadvantaged groups. In addition, the improved functionality of institutions at all levels will contribute to the more balanced development of regions founded on the appropriate use of growth potential.

Support for social integration, for the battle against poverty and for the public healthcare system (within the Integration chapter)

The issues associated with the integration of disadvantaged groups and decreasing and eliminating poverty are inseparable components of the implementation of cohesion policy and are based on the essence of the policy's objective. This might appear to be contrary to the support provided for the competitiveness of companies, but this is not the case. Through providing support for the integration of disadvantaged groups and facilitating their entry or return to the labour market, an unutilised resource is activated for the business and public sectors. By being able to participate in the labour market, marginalised groups can find their own way out of the trap of poverty, which, in the majority of cases, would not otherwise be possible without any external (and financial) activation.

Quality education, in this case reflecting not only the requirements of the market, but also the causes of the disadvantages, must be considered as the primary means that will enable a return to the labour market and, in the more general sense, to society as a whole. The use of innovations and research and development results for the benefit of disadvantaged groups of citizens will lead to the much more frequent integration (as opposed to only a few exceptional cases) of these groups in research and development and their involvement in innovation. The development and modernisation of an infrastructure that will support the integration of excluded and disadvantaged groups, specifically in those areas where the integration process is limited specifically due to the lack of the appropriate infrastructure, will contribute to the meaningful inclusion of these groups in the economic and social structures.

Those institutions responsible for working with disadvantaged groups should also increase their functionality. In addition, all institutions should be adapted for providing services to disadvantaged and vulnerable groups, with regard both to material equipment as well as to the approach they take to specific disadvantaged individuals. The conditions for integration and the long-term meaningful inclusion in social life must be established in specific locations with the assistance of regional and municipal institutions and, of course, take into consideration local specifics, needs and possibilities.

Integrated Territorial Development

The regional dimension for supporting the Czech Republic's competitive strengths is significant in many respects. Through appropriately defining the contents and forms of intervention for the benefit of companies and the business environment, it will be possible to make use of the different competitive advantages that exist within the individual regions of the Czech Republic, whereby the positive effects, attained at different levels and through various means, will become apparent in all of the country's regions. In order to optimise support and to define the best parameters according to the needs of individual regions and specific locations, the cooperation of state, regional and local institutions is critical. In addition to the support they provide to regional companies, the role of the regional players will also be significant in other areas falling within the competence of the regional authorities.

The regional institutions should also create the conditions required for developing a qualified workforce, in particular through ensuring the appropriate conditions for education, which reflect the needs of regional companies and the public sector. They should communicate with economic and social partners when defining the visions for their region's development. For this specific reason, it is of the utmost importance that the institutional capacity be increased at the level of the regions, towns and municipalities, just as is the case at the national level.

Conclusion

The proposed priorities and strategic themes presented above represent the main starting point for identifying the future development priorities for cohesion policy and emphasise the links that exist between them. This is the result of applying a strategic programming perspective and, for this reason, the structure does not in any way anticipate the future structure of the implementation instruments – the operational programmes. It also applies that the successful fulfilment of a specific priority must be ensured through one or more operational programmes, however, this does not exclude the possibility that one operational programme might be used to realise the objectives of more than one priority. Not even the existence of a specific priority depends anticipates the creation of a corresponding operational programme.

The Czech Republic's Development Priorities for EU Cohesion Policy after 2013

The progress of the Czech Republic and of its individual regions should be based primarily on the existence of programmes, which are justified by rational analytically supported procedures. The performance of the supporting analyses should be measurable and it should be possible to quantifiably prove the necessity of public financial intervention (and to work within the framework of the possible options as much as possible). The focus of the support provided within the framework of EU Cohesion Policy after 2013 should be aimed solely at interventions that do not cause private capital to be pushed out of the picture. It should be aimed at providing solutions to the consequences of the market failure in those situations where there is an ineffective and insufficient private guarantee for securing public assets and which are definitely in the public interest – in situations where the support decreases poverty and contributes to removing social exclusion, including from the perspective of prevention.

The core of the support should be targeted at activities that are decisive for the sustainable growth of the applicable region or specific locality. This should limit, and possibly even eliminate, any one-time activities, which cease to continue or significantly decelerate once the support is no longer provided, as well as activities that are only of a maintenance nature, which serve only to extend the life of existing activities without any comprehensively defined accelerative development potential at either the regional or the local level.

All of the areas of intervention must go through a thorough ex-ante analysis of their impact from the perspective of state aid as well as through an analytical assessment of the intended results and impact.

It is desirable to formulate all of these priorities and needs and to ensure they go through the approval procedure in a manner that guarantees that the shortcomings that occurred in the Czech Republic in the case of both programming periods in which it has participated is not repeated, i.e. to avoid a repeated delay in the country's implementation of the programming period and to ensure that it will be truly possible to realistically and practically launch the entire process in January 2014.

How can the future cohesion policy be of benefit to the CR?

As its economy continues to be underdeveloped, the Czech Republic should support the position of a traditional strong cohesion policy, the purpose of which is to provide assistance to the less developed regions and localities in order to increase their development and to allow them to realistically join in and enjoy the benefits of the EU's Single Internal Market and other forms of shared interest and cooperation within the EU.

The Czech Republic should not consider cohesion policy to be "solely" an instrument for supplemental fiscal redistribution (in addition to national and regional resources). It should be founded on the concept of an integrated approach to the development of regions and localities (a concept which is currently applied in an entirely negligible manner during the redistribution of national and regional resources and has resulted in obvious gaps during the ongoing EU Cohesion Policy period).

The most important foundation stone for developing an integrated approach is to offer synergetic interventions, which are targeted at a specific place or territory (refer to Fabrizio Barca's report), which can be an entire region, a sub-region or a locality, and which allow the existing development potential to be used through the effective use of public financial sources (as compared to the mutually isolated and fragmented support offered to specific sectors, not taking into consideration how they are linked with other sectors).

The fragmentation of cohesion policy is therefore not a desirable approach and should definitely be avoided. On the other hand, the close coordination of the post-2013 EU Cohesion Policy is desirable, with specific sectoral policy instruments defined not only at the EU level, but also at the level of the individual member states with the goal of achieving effective complementarity.

As far as the level of the Czech Republic's economic development is concerned and from the perspective of obtaining the maximum possible allocation, it is not desirable to implement radical changes in the rules for post-2013 EU Cohesion Policy. In particular there should not be a reduction in the efforts of the EU Cohesion Policy to support the more backward regions and the less developed member states, which have only limited options for financing their development.

If this type of strategy were to be followed, it might also be to the detriment of the Czech Republic, as it is still one of the more relatively developed countries amongst the underdeveloped member states, following behind Greece, Cyprus and Slovenia, and therefore with a total of eleven countries that are less developed – some even to a drastic degree. The same applies to the position of the individual regions within the Czech Republic, as none of them are amongst the poorest, i.e. below 50% of the Union average, a level at which more than one-sixth of the EU cohesion regions are placed.

Although the Czech Republic's key ambition for the next programming period for cohesion policy should be to take advantage of its position as a country that is not yet fully developed (as compared to the EU average), it is currently apparent that the real convergence process will continue, whereby the Czech Republic's ambition should be not only to come significantly closer or to possibly reach the Union average, but, at the same time and in addition to the convergence (catching up) priorities, be sufficiently prepared to find solutions to qualitatively more demanding areas with primary focus aimed at supporting competitiveness (which should be the strategic objective for the time horizon after the next programming period).

The embodiment of the competitiveness priorities is the previously mentioned Europe 2020 Strategy. There will surely be quite significant advances between this strategic document and the cohesion policy of the future and the Czech Republic should also be prepared for them.

Apparently, the Europe 2020 Strategy should be perceived as follows: the EU's long-term strategic concept up to 2020 is attainable through several instruments – one of these being the cohesion policy (it needs to be said that primarily in its classical form as opposed to a minority instrument). Nevertheless, the Europe 2020 Strategy presents an important contextual inspiration for the specific form that the EU's Cohesion Policy will take on after 2013. Even taking into account a parallel timeframe, the successful handling of the challenges present in the future cohesion policy will be of great importance and critical in order to realise the objectives defined in the Europe 2020 Strategy.

However, in relation to the Europe 2020 Strategy, the EU's post-2013 Cohesion Policy must retain its primary objective and purpose: to be an instrument that reduces disparity (differences) in the level of development attained by the individual regions and the member states of the EU. This is apparently the crux of the basic strategic dilemma that exists with regard to defining the EU post-2013 Cohesion Policy: to what degree should the policy ensure specifically the convergence functions of the EU's less-developed regions and member states and to what degree should it share in solving qualitatively better and more demanding projects, such as those embodied in the Europe 2020 Strategy.

The common denominator between the EU's post-2013 Cohesion Policy and the Europe 2020 Strategy will thus lie in focusing on a limited number of distinct clearly-defined priorities, the contents of which will comply with the objectives defined in the Europe 2020 Strategy but, at the same time – specifically in the case of the convergence needs of the underdeveloped regions – will be adapted to continuing the real convergence process.

Taking into account the fact that the convergence needs in a number of the EU's regions are fundamentally different together with the fact that, within the set of qualitatively more demanding priorities based on the Europe 2020 Strategy, a specific selection of priorities are more appropriate for the purposes of a specific region and they might significantly differ from the conditions in other regions, it is necessary to ensure a sufficient level of flexibility for the benefit of the member states and their regions that will allow them to make a specific selection of the mix of properly justified priorities that best meet the conditions of each specific member state and its regions.

A useful breakthrough between the convergence topics and those that are more qualitatively demanding for the conditions in each of the member states and its regions will be visible in the final version of the programming documents for the EU's post-2013 Cohesion Policy. This will be a result of the real absorption capacity of each of the countries and regions as well as based on the amount and level of the demands placed by the other member states and regions during the final negotiation process, which should be strategically directed through the actions of the European Commission.

Another key parameter that will play a critical role in defining the contents and focus of the EU's post-2013 Cohesion Policy will be the new EU budget framework and the role played by the cohesion policy within this framework. Taking into consideration the stability of the environment for solving and implementing medium-term strategies and programmes, it is desirable to continue with the practice of seven-year budget framework and consequently seven-year programming periods within them. In addition, for the future cohesion policy, it would also be desirable for this policy to continue in its position – or better yet, to strengthen its position – as one of the key expenditure priorities and items in the EU budget.

In order to adequately meet the expectations and objectives of the EU's Cohesion Policy after 2013, it is of critical importance to define the basic building blocks upon which it is to be built at the time its basic principles are defined. In

addition to ensuring a corresponding position within the EU budget framework and defining the links that exist with regard to the Europe 2020 Strategy, these include:

- Defining the decisive criteria for releasing the resources that the cohesion policy has available: In spite of a number of reservations associated with the per capita GDP and per capita GNP indicators, it can be said that all efforts to find an indicator that is as comprehensive and appropriate and that has the same reporting value for this purpose have come to naught. It is therefore possible to become convinced that per capita GDP is the most comprehensive statistical indicator with the best reporting value, which can objectively identify over time the level of socioeconomic development (or stated in a different manner, the backwardness or level of the underdevelopment of the system that is being monitored – in our case, a specific region). Taking into account the status and the short-term perspective of the regions that are the most relevant from the perspective of convergence, it seems that even for the period of 2014 to 2020 a threshold value of 75% of the EU average might be the most appropriate for this particular indicator.
- Even when the above is taken into consideration, the most important purpose behind the existence of cohesion policy, even in the future, should be continued emphasis on supporting the convergence process, focused primarily on the more backward and underdeveloped regions and member states, whose financial sources for ensuring development remain strictly limited and are insufficient for completing the necessary development projects. The convergence objective, which is by far the greatest of all of the cohesion policy objectives for the current period from the perspective of financial allocations (it receives more than 80% of all of the EU's Cohesion Policy resources), already represents a very strong instrument for supporting development, particularly in the new member states that joined the Union between 2004 and 2007. (Almost three-fifths of the EU's Cohesion Policy resources are currently allocated in countries that have a cumulative share that is less than 10% of the overall Union GDP, which demonstrates the level of solidarity that the richer and more developed countries have with regard to the development of these countries.) Nevertheless, it would be beneficial and advantageous for these countries to maintain the status quo even in the next period (although the strong position of the net payers will continue to increase and the need to define some sort of exit strategy from the position of the convergence states and regions will most likely become a necessity and even a required demand during the upcoming programming period); and
- In addition to the definition of clear criteria, the priorities and the focus of future cohesion policy, another aspect of key significance is the fluidity and transparency of all of the procedures and mechanisms that accompany the specific use of cohesion policy resources. This particular point will however not be elaborated upon within this text.

Formulation of priorities with regard to the perspective of discussions in the EU

At the most general level, within the debate that has been launched at the EU level, it is possible to categorise the possible priorities for the EU's future Cohesion Policy into two basic groups:

- **Convergence**, i.e. catching up (which tends to correspond with our still underdeveloped level of socioeconomic development)
- **Developmental** (based on more qualitative demands and depending on the more intensive use of innovation and the use of research and development results for economic development). We can define a third group of priorities that is complementary to the other two groups and which monitors the social aspect to a greater degree.

If we work on the assumption that the main purpose behind cohesion policy is to balance out the differences in the level of the socioeconomic development between the European regions, it is apparent that the main accent with regard to this logic must be placed on convergence priorities, i.e. on catching up.

However, in order to ensure that, in addition to the differences between the regions being eliminated, the average level of the EU's development increases as a whole (thus guaranteeing that the EU does not start to lag behind other key global players), it is appropriate to sensibly enrich the elements of cohesion policy in a consistently more intensive manner to include growth (development) priorities, which are based primarily on qualitatively more demanding growth resources.

The conformity of convergence and development priorities and the ratio between them are based on specific and often unrepeatable characteristics that are valid for the socioeconomic indicators for the region in question.

One typical example of convergence priorities, which continue to be valid for the Czech economy and society, ensues from the ongoing development deficit (as compared to developed countries) that is an inheritance dating back to the time of the country's centrally planned and managed economy and development.

Specifically this is the great potential that can be found for developing the transport infrastructure, including the construction of new high-speed motorways (an activity that was performed in the countries of Western Europe during the period of their extensive development between the 1960s and 1980s), the reconstruction of other types of transport channels (both rail and ground transport) and ensuring that their condition matches the qualitative needs in existence at the start of the twenty-first century. The revitalisation of the options offered by maritime transport and the expansion of the potential of personal and cargo air transport can also be included in this area, albeit at a minor level.

Another important type of infrastructure project that falls within the convergence category consists of the implementation of solutions for public and civic amenities as well as the development of industrial and business premises. The past two decades have seen a significant change in urban and public centres, but, in spite of the period having been prosperous for the most part, it was still not possible to ensure adequate comprehensive facilities in towns and municipalities that are at a level of development and comfort corresponding to the needs of the twenty-first century.

This applies to basic public and civic amenities and their subsequent maintenance (i.e. pavements, lighting, cycling paths, landscaped parks and public areas). It however also applies to entrepreneurial infrastructure (in particular, the issues associated with brownfield sites and unused industrial premises), resulting primarily from the important structural changes that have taken place in relation to the Czech economy. Specifically, the over-industrialisation that took place during the time of the planned economy had to be logically and necessarily reduced at the time there was a switch to a market economy; the end result is the need to find a purposeful and sustainable alternative for the capacity that remains unused – in particular, the buildings and premises of former significant industrial corporations, which are so numerous and concentrated in certain regions therefore leading to critical socioeconomic problems and limiting regional development.

Certain priorities with a social aspect are also of a convergence nature, as it is obvious that the nature of the majority of social problems that exist today is rooted in the development phenomena we have seen over the past twenty years.

The common denominator linking all of the convergence priorities is the fact that they are limited by the time factor. It is to be expected that, if sufficient effort is exerted for the purpose of realising the convergence priorities, the quality of the transport infrastructure as well as the level of the public, civic and entrepreneurial infrastructures will one day be comparable to those that exist in developed countries.

Most probably this will occur when the Czech Republic's per capita GDP reaches, or exceeds, the average value of this indicator as reported for the entire EU (provided that the scenario of real convergence continues successfully, this could occur at some point between 2017 and 2022; at the time this happens, from the purely economic perspective, it will be possible to state that the economic transformation of the Czech Republic is complete; in the case of other factors, particularly those of a social nature, this culmination will take additional time).

As compared to convergence priorities, development priorities are never-ending, as their specific nature and form change over time. The successful realisation of these priorities is a prerequisite for ensuring that the economy does not revert to a below-average level of development in the future.

Additionally, in order for it to be at all possible and effective for a number of underdeveloped economies to address development priorities, at least a basic level of saturation has to be attained for their convergence priorities. (Under the conditions of a non-existent information infrastructure, the unreliable supply of energy, water and heat, and the lack of highly-skilled employees with a university education, it is difficult to imagine the creation and development of research and innovation centres in the applicable area.)

On the other hand however, it is not possible to postpone development priorities until the successful culmination of convergence priorities, as during this waiting period and as a result of focusing exclusively on convergence priorities, the country or region in question would start to lag behind even further (in relation to countries and regions that are concentrating on development priorities).

It is therefore of the utmost necessity to find the optimal balance between convergence priorities accompanied by development priorities. In addition, the maximum possible timeframe should be set for the realisation of convergence priorities (the sooner, the better). Just to note, the financial injection provided by the German federal government to its new states from the former East Germany is nothing more than public support for finding solutions to convergence priorities.

Typical development priorities, or, we can call them qualitatively more demanding priorities, include the set of priorities specifically covered in the Europe 2020 Strategy. The contents of this document do not in principle differentiate amongst the EU member states with regard to how developed or underdeveloped they are. It does however rely on the principle that "economic, social and territorial cohesion forms a core element of the Europe 2020 Strategy", but the objectives of the Strategy are open to all of the EU's member states and regions on the basis of the integrated development model.

The conformity between the Europe 2020 Strategy and the future direction taken by the EU's Cohesion Policy should also be found within this integrated development model, which combines and coordinates individual investment and non-investment activities in certain selected areas (i.e. infrastructure, human resources, the entrepreneurial environment, and innovation) within the national, regional and local contexts. Specifically on this basis, there exists a common area for bringing the priorities of the Europe 2020 Strategy in line with the priorities for the EU's future Cohesion Policy. Our aim in this discussion is to identify this common area in more detail, to reveal the nature of these priorities and to add a certain primary level of quantification, which, at this stage, is more of a detailed estimate of the possibilities that we can call absorption capacity potential.

Taking into consideration the fact that the adoption of a final solution at the level of the Council of the EU is still in the future and that the individual positions preferred by the member states will be directed towards reaching a consensus only in approximately two years, it makes sense to seek inspiration for our perception of the future cohesion policy in some of the recent statements issued from the European Commission:

- The EU's Cohesion Policy for the post-2013 period should apply to the entire territory of the EU;
- A stronger accent should be placed on the urban dimension and the EU's urban development policy should be defined according to the principle of subsidiarity;
- It is apparent that there must be conformity (not sameness) between the EU's future Cohesion Policy and the EU's strategic priorities, in particular those defined in the Europe 2020 Strategy;
- A stable framework should be developed for territorial cohesion as a part of the upcoming programming period;
- The Cohesion Policy is not solely a system for the redistribution of resources, but rather a strong growth policy for the economic development of all of Europe's regions, with special emphasis on the more backwards (underdeveloped) areas and built on the criteria of sustainability, effectiveness and returnability;

The fulfilment of the important social functions of cohesion policy (through the European Social Fund) should continue to be adequately stressed.

How can the parameters for applying cohesion policy in the CR influence the EU budget?

From the perspective of the Czech Republic's interests, the European Commission's proposal for the future form of the multi-year framework for the EU Budget can be viewed as useful and beneficial. However, at the same time, it requires greater emphasis to be placed on the quality, measurability and sustainability of the effects in order to ensure that these interests are truly met.

On the one hand, the EU Budget is based on a similar principle as the budgets of the individual states. On the other, its actual content differs from the national budgets in the following aspects:

- As relatively expressed in relation to GDP, the EU Budget is significantly lower than the composite tax quota in the national budgets (1% of the EU's GDP as compared to an average of 42% of the GDP of the EU member states). If we add to this the average deficit of approximately 8% of GDP, the national expenditure of the EU member states is, on average, approximately 50% of GDP whereas the EU Budget is balanced;
- The EU Budget expenditure is designated for entirely different purposes (regional development through the structural funds, key European-wide projects to support competitiveness, agriculture, and rural development) than are the key chapters of the national budgets (pension and social security systems, healthcare, education, the environment, public infrastructure, etc.); and
- The EU Budget does not have any dominant source of own income (three-quarters of its income is from the contributions made by the member states in amounts that correspond to their size and economic development – as a result, Germany logically contributes significantly more) and, as compared to the national budgets, is balanced, thereby, on the basis of its weight, contributes to fiscal discipline in the Union.

Even the development of the EU Budget over time provides evidence of its transformation, which reflects the changes that have taken place in the EU's economic and social structure and in its competencies. It was not that long ago that the expenditure for the Common Agricultural Policy made up even more than 60% of the total European Budget (in the mid-1980s). Support for projects directly contributing to the Union's competitive strength were significantly lower and the same applies to the financial allocations aimed at strengthening the Union's position at the global level.

The proposal put forth by the European Commission strives to ensure that the structure of the EU Budget better corresponds to the changing economic and social parameters in Europe and to ensure that the EU Budget does not in any way preserve the status of sectors that have difficulties with competitiveness but rather that it plays the role of accelerator in order to meet some of the main global challenges (such as energy, information technology, the environment, and research and development).

It is therefore possible to believe that the European Commission's position might, for the most part, suit the Czech Republic's interests, but it is not possible to assume that these interests will be met from out of the clear blue sky automatically and without any effort being undertaken.

Let us try to look at the main contextual points of the proposal from the perspective of the Czech Republic's interests, in particular those points that strive to change and innovate the existing principles of the EU Budget's functionality:

- **A relative reduction of the volume of EU Budget resources:** Until now, the EU Budget resources were, to a high degree, aimed at the EU's less-developed member states, including the Czech Republic (the position of a net beneficiary vs. a net payer). Any reduction in the total volume of the EU Budget will lead to a decreased position on the part of the net beneficiaries. The European Commission's proposal does specify a nominal increase, however it includes a relative decrease from the current level of 1.06% of the Union's GDP to a level of 1.0%. This reduction, which at first glance appears to be cosmetic in nature, represents a real reduction in value of more than EUR 50 billion for the entire seven-year framework. This particular step might appear to be surprising on the basis of its forceful nature and in and of itself is not to the Czech Republic's advantage. Even in this very early stage of the discussion, the step has been criticised by a number of member states for a variety of reasons (for example, in the case of the UK, Denmark and Sweden, this reduction does not result in sufficient savings; Poland on the other hand considers it to be excessive).
- **The volume of resources allocated to the Cohesion Policy (the EU Funds) should remain approximately the same:** Starting in 2008, the volume of resources designated for cohesion policy became the largest item in the EU Budget. The proposal intends to retain this volume and even to increase it. This particular point of the proposal in.

unambiguously beneficial for countries like the Czech Republic. A country which contributes not even 2% to the Union's GDP receives almost 8% of the total volume of resources. The proposal would make it possible to retain this position for another budget period.

- **The use of resources for cohesion policy should be subject to significantly stricter rules from the perspective of effectiveness and sustainability:** It is obvious that generosity with regard to the volume of resources provided for cohesion policy will be accompanied by a strong emphasis on effectiveness and sustainability. The space available for using these resources will be made conditional on qualitative limitations (i.e. the fulfilment of a number of additional conditions, or "conditionalities", such as decreasing the number of themes that will be supported, the greater use of returnable financial engineering instruments and, above all, precise quantification of the impact reported by a supported project. If there is no obvious economic return and specific focus on the prosperity of a certain locality or region, or if there is a deformation of the market environment in the given locality, the project will not receive support from the Union). These steps will definitely place more demands both on project management as well as on project beneficiaries. The most advantageous result of this perspective however is that more stress is placed on the quality of the areas that receive support.
- **A proposal to create new Union funds for infrastructure, energy and the environment:** This part of the proposal is, on the other hand, very disadvantageous for the country like the Czech Republic, as it will limit the possibilities and make it more difficult for our country to receive these financial resources. From our perspective, it would lead to many more positive results if we could use these financial resources according to current European cohesion policy model. If these specific funds come into existence, there will be a very real threat that the generous amount of aid targeted at these areas during the current period will be significantly shortened in real terms.
- **A significant reduction in the expenditure for agriculture and increased fairness with regard to its distribution:** It is obvious that this measure in the form of an absolute decrease in the volume of expenditure for agriculture will be greatly unwelcome on the part of every agriculturist within the European union. The addendum in the form of increased fairness should lead to significant cuts primarily in the case of farmers in large member states that are very agriculturally oriented (especially France from the old member states or Poland from the new member states). Even in comparison with them, this position is relatively advantageous even for Czech agriculturists. It is decisively advantageous for the overall position of the Czech Republic.
- **A visible increase in the expenditure for foreign policy:** The advantages of this measure can be noted in the case of countries that have primarily a strong trade and economic diplomacy and interests in third countries. The Czech Republic is not one of them. In addition, the CR does not have a convincing strategy of this type. This measure can therefore be designated as not being very beneficial for us. It is however inspirational and worth following up in the sense of ensuring that, in the future there might be an opportunity to take advantage of it for Czech entities and their interests.
- **A reduction in administrative expenditure:** Any decrease in administrative costs and the reallocation of the financial resources to more productive areas can be considered as positive by any of the member states.
- **Innovation on the income side: tax on financial transactions, special turnover tax and environmental taxes:** Taking into account that the real reasons for imposing these taxes (in particular in the case of the tax on financial transactions) either do not exist in the Czech Republic at all or are inconsequential, increasing the tax burden in this direction would be totally unacceptable from our perspective.

Shortly after it was first made public, the proposed EU Budget for the period 2014– 2020 triggered passionate emotional discussions and reactions in all member states. The final form that it takes on, which we will see in a little over two years from now, will reflect the interests presented not only in the positions of the individual member states, but also those of corporations and other social sectors. This article was primarily motivated with the objective of clearly identifying how the main points of the proposal fit in with the interests of the Czech Republic. Hopefully it has indicated that we can identify with the majority of the measures