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How do EU-15 Member States Benefit from the Cohesion Policy in the V4?

Prepared within the Ex post evaluation and forecast of benefits to EU-15 countries as a result of Cohesion Policy implementation in V4 countries, commissioned by Polish Ministry of Economic Development

country profile: Czech Republic

imapp

i b s

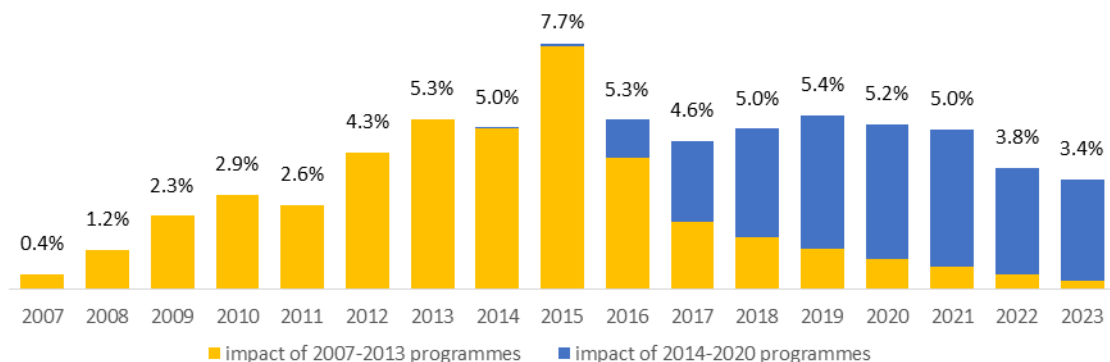
1 Introduction

Results presented in this material are based on the final report from *Ex post evaluation and forecast of benefits to EU-15 countries as a result of Cohesion Policy implementation in the V4*, a study conducted by imapp and the Institute for Structural Research between September 2015 and May 2016. The evaluation was commissioned by the Polish Ministry of Economic Development and completed in cooperation with the Czech Ministry of Regional Development, the Hungarian Prime Minister’s Office and Government Office of the Slovak Republic.

2 Impact of Cohesion Policy on the Czech economy

According to the macroeconomic simulation applied in this evaluation, by the end of effective spending under the 2007-2013 programming period (i.e. in 2015), the GDP of the Czech Republic was higher by ca. 6% than it would have been under the no-support from structural funds and the Cohesion Fund scenario. Two sets of mechanisms underpinned this scale of impact. Firstly, Czech business environment was invigorated by the growth in aggregate demand induced by the implementation of projects co-financed by EU funds, e.g. in demand for building services or machinery and equipment procurements. Secondly, higher GDP was also driven by supply-side mechanisms, i.e. gradual increase in production capacity of the economy thanks to the impact of implemented projects.

Figure 1. Impact of the Cohesion Policy on GDP in the Czech Republic (percentage deviation from the baseline [no-EU-funds] scenario)



Source: Own elaboration.

Numerous evaluations also confirm tangible impacts of the Cohesion Policy in areas such as improved innovation, positive labour market developments, higher transport accessibility, improved environmental protection and enhanced energy efficiency. Despite many challenges, taken on for a reason, it is clear that EU-funded programmes in V4 countries have achieved most of their objectives. Nevertheless, that the unprecedented scale of growth-related investments in V4 countries would not have been possible without the contribution from structural funds and the Cohesion Fund made up largely of payments by the EU-15 into the EU budget. However, the spending is offset by economic benefits and other positive externalities, which make the Cohesion Policy in its current form beneficial both to recipients of the support and to the member states which co-finance the interventions.

3 Benefits to the EU-15

3.1 Economic benefits

3.1.1 Indirect export benefits

The interventions co-financed by EU structural funds and the Cohesion Fund stimulate aggregate domestic demand, thus increase GDP in the Czech Republic. This, in turn, translates into additional external inflows of consumer products and services (i.e. those sold to final consumers) and investment goods and services (i.e. used as inputs in the production process) mainly from the EU-15. Hence, this type of benefits drawn by the EU-15, referred to as indirect export benefits, covers exports to the Czech Republic induced by the macroeconomic impact of Cohesion Policy interventions. Indirect export benefits are estimated at EUR 17.4 bn in 2007-2015, or 83% of total economic benefits.

The geographic mix of indirect export benefits is a consequence of the overall structure of international trade of the Czech Republic. More than 50% of additional imports originate from Germany, which indicates that the Czech economy has the strongest relations with this country in the entire V4. A significant fraction of indirect export benefits is also enjoyed by the Netherlands, Austria, France and Italy, all of whom exported goods and services worth above EUR 1 bn. As for the sectorial structure of additional exports to the Czech Republic, it is similar to the structure of other V4 countries, with a slightly higher share of services (except for construction services).

Figure 1. Indirect export benefits value (EUR bn¹)

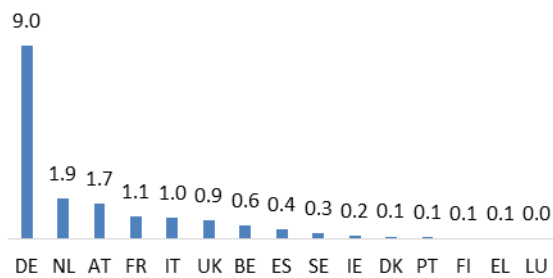


Figure 2. Export benefits sectorial structure (%²)

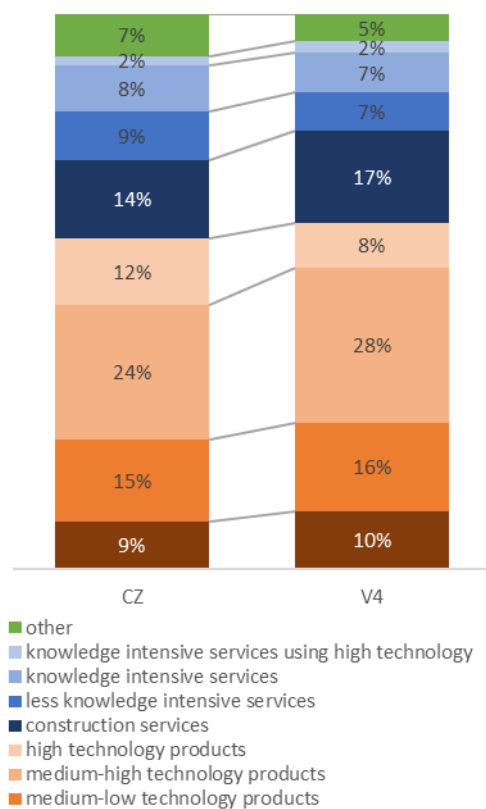
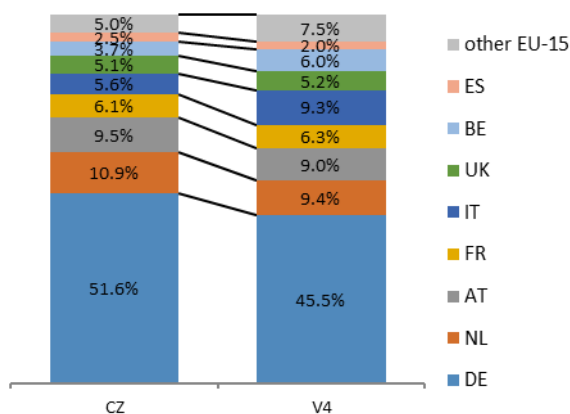


Figure 3. Indirect export benefits structure (%)



Source: Own elaboration.

¹ All numerical values are expressed in constant 2010 prices.

² Due to methodological reason this figure consists of both indirect and direct export benefits.

3.1.2 Direct export benefits and direct capital benefits

The second group of benefits is enjoyed by companies which are either based in the EU-15 or are owned by EU-15-based capital groups, and which are directly involved in implementing Cohesion Policy co-financed projects in the Czech Republic. Benefits of this type may be related e.g. to technical equipment or software supplies to beneficiaries of EU-funded grants or executing construction works in transport and environmental projects. The total value of tenders awarded to both types of companies was ca. EUR 10.5 bn in 2007-2015, but this also includes local employee and subcontractor remuneration. With this factored in, the actual benefits to EU-15 based companies from their direct involvement as contractors or suppliers stand at EUR 3.5 bn (13% of total economic benefits). These can be divided into two subcategories:

- direct export benefits (EUR 1.8 bn, 8.7% of total economic benefits), i.e. benefits resulting from contracts awarded to EU-15-based companies;
- direct capital benefits (EUR 1.7 bn, 8.3% of total economic benefits), i.e. those flowing from contracts awarded to local Czech companies held by EU-15-based capital groups.

Figure 4. Direct benefits structure (%)

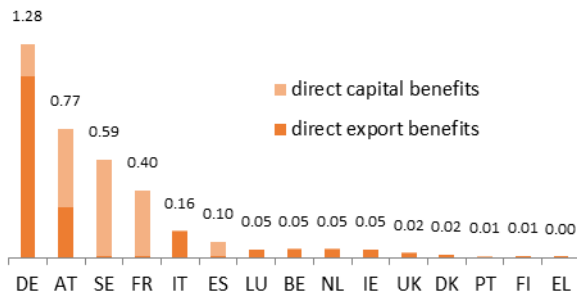


Figure 5. Direct benefits structure (%)

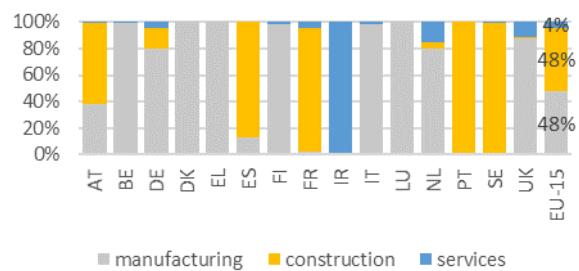
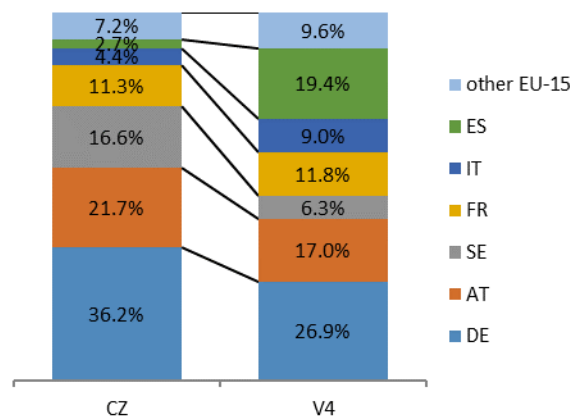


Figure 6. Direct benefits structure (%)



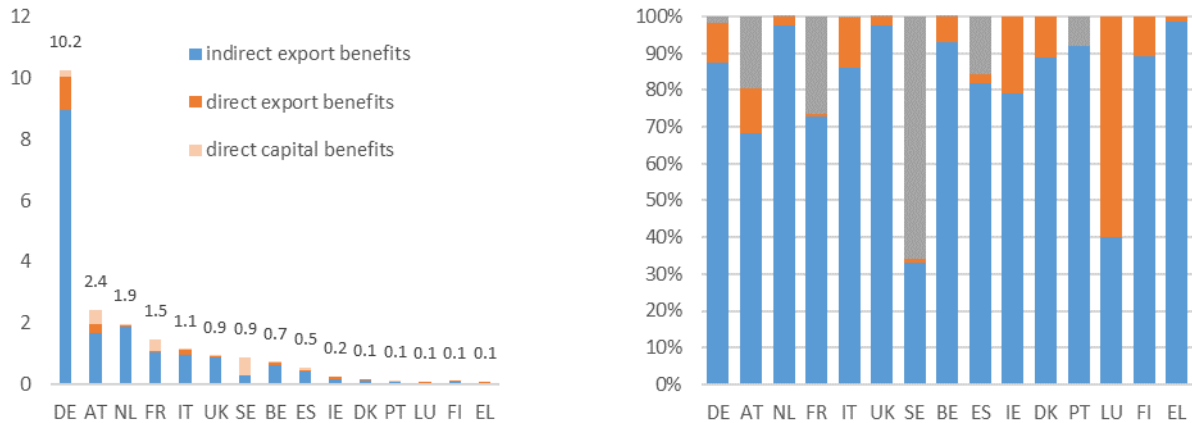
Source: Own elaboration

In general, direct benefits to the EU-15 in the case of the Czech Republic are evenly split between construction contracts and deliveries of manufactured good, while the share of services is negligible. Similarly to indirect export benefits the largest fraction of direct benefits goes to Germany, however a significant share is also enjoyed by Austria, Sweden, France and Italy.

3.1.3 Total economic benefits

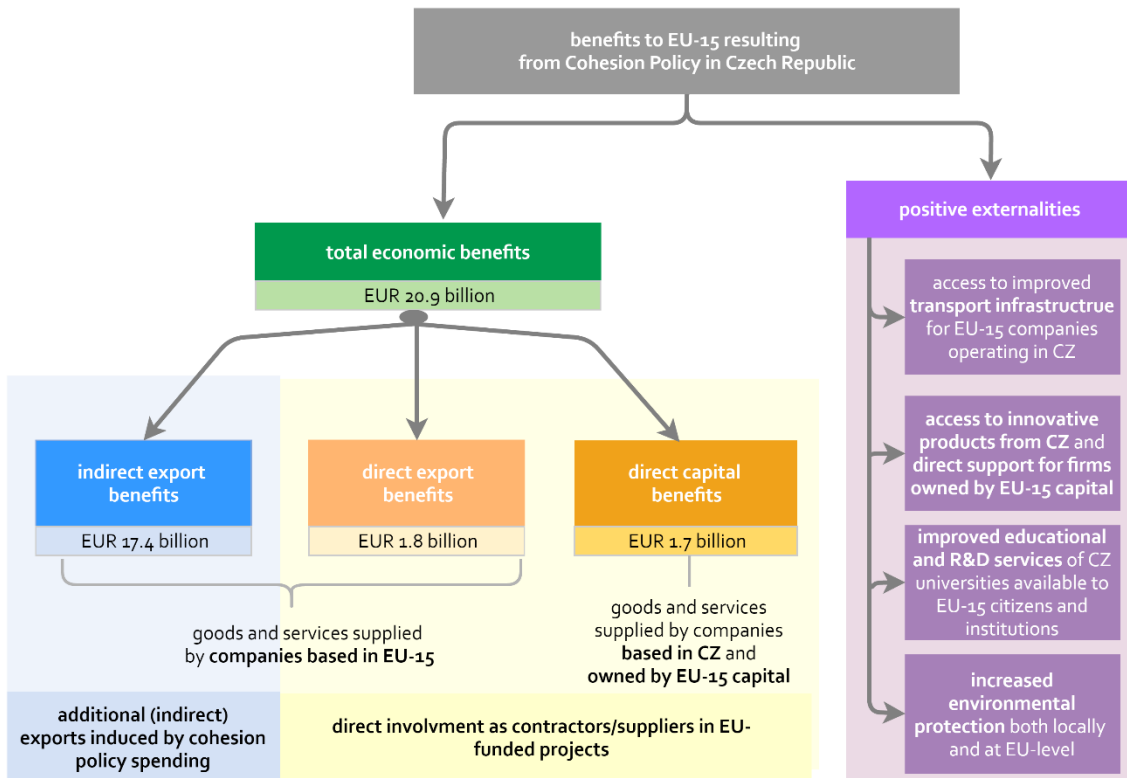
The overall economic benefits to the EU-15 resulting from the implementation of Cohesion Policy in the Czech Republic in 2007-2013 programming period can be estimated at ca. EUR 20.9 bn. Since indirect export benefits are the most significant category of benefits, the structure of total economic benefits is dominated by Germany. It is also worth emphasizing that in the case of Austria and France, a relatively large fraction of benefits is related to the direct channel (either capital or export).

Figure 7. Total economic benefits



Source: Own elaboration

Figure 2. Summary of benefits to the EU-15 (2007-2013 programming period)



Source: Own elaboration

Table 1. Summary of benefits to the EU-15 (2007-2013 programming period)

	Czech Republic	Hungary	Poland	Slovakia	V4
total benefits	20 906.27	16 170.14	51 088.55	8 406.79	96 571.75
indirect export benefits	17 356.97	13 420.73	38 622.85	7 478.01	76 878.57
direct export benefits	1 822.82	2 103.62	7 501.33	228.85	11 656.62
direct capital benefits	1 726.48	645.79	4 964.37	699.93	8 036.57
total benefits	100%	100%	100%	100%	100%
indirect export benefits	83%	83%	76%	89%	80%
direct export benefits	9%	13%	15%	3%	12%
direct capital benefits	8%	4%	10%	8%	8%
total benefits by EU-15 (EUR mn)					
AT	2 423.89	3 285.77	3 127.42	1 402.30	10 239.38
BE	696.76	1 015.88	2 457.68	568.70	4 739.03
DE	10 236.23	6 147.17	20 680.97	3 174.38	40 238.75
DK	147.30	308.50	1 331.46	73.72	1 860.98
EL	59.57	34.68	285.88	22.40	402.54
ES	527.91	326.39	4 176.19	316.08	5 346.58
FI	77.14	74.16	527.87	28.40	707.57
FR	1 463.04	1 219.28	3 651.82	811.60	7 145.75
IE	234.11	307.87	638.51	34.35	1 214.84
IT	1 119.77	1 622.14	5 201.24	956.63	8 899.78
LU	83.29	49.03	164.56	62.79	359.67
NL	1 947.03	838.04	4 423.91	590.08	7 799.06
PT	105.65	68.87	234.36	16.15	425.02
SE	879.15	210.96	1 864.31	82.34	3 036.77
UK	905.43	661.40	2 322.36	266.85	4 156.05
total benefits by EU-15 MS					
AT	11.6%	20.3%	6.1%	16.7%	10.6%
BE	3.3%	6.3%	4.8%	6.8%	4.9%
DE	49.0%	38.0%	40.5%	37.8%	41.7%
DK	0.7%	1.9%	2.6%	0.9%	1.9%
EL	0.3%	0.2%	0.6%	0.3%	0.4%
ES	2.5%	2.0%	8.2%	3.8%	5.5%
FI	0.4%	0.5%	1.0%	0.3%	0.7%
FR	7.0%	7.5%	7.1%	9.7%	7.4%
IE	1.1%	1.9%	1.2%	0.4%	1.3%
IT	5.4%	10.0%	10.2%	11.4%	9.2%
LU	0.4%	0.3%	0.3%	0.7%	0.4%
NL	9.3%	5.2%	8.7%	7.0%	8.1%
PT	0.5%	0.4%	0.5%	0.2%	0.4%
SE	4.2%	1.3%	3.6%	1.0%	3.1%
UK	4.3%	4.1%	4.5%	3.2%	4.3%

Source: Own elaboration

3.2 Positive externalities

Positive externalities are defined as benefits that an entity (i.e. EU-15 individuals or institutions) may draw from a public intervention co-financed within the Cohesion Policy in the V4 (notably the Czech Republic), even though the intervention was not initially addressed to the party in question. Examples of such projects have been analyzed in case studies in the following thematic areas:

- **innovation and entrepreneurship:** support to Czech companies in Cohesion Policy operational programmes is also beneficial to the EU-15, because some beneficiaries are owned by entities from these countries, contractors from EU-15 are able to sell technologies to beneficiaries and the entire EU market has access to innovative products and services developed thanks to Cohesion Policy grants,
- **transport infrastructure:** highways and railways and ports built and upgraded in the Czech Republic are accessible not only to local businesses, but can be used by companies from EU-15 as well;
- **R&D and higher education:** improved educational and R&D services of Czech universities available to EU-15 citizens and institutions;
- **environmental protection:** most projects in this area do not only have an impact locally, but are significant in a cross-border context or even at the EU-level.

Notable cases of such projects from the Czech Republic are presented in the table below.

type of intervention	project/group of projects	impact in V4	positive externalities (EU-15 perspective)
innovation and entrepreneurship	support for Continental Automotive Czech Republic s.r.o. (group of projects)	development of R&D infrastructure in the Czech Republic, including creation of new high quality jobs	increased capital stock of the Czech subsidiary of the German Continental corporation, access to relatively less expensive research and expert HR
universities and research institutes	support for research – Central Institute of Technology in Brno	setting up a R&D centre combining research in life sciences, advanced materials and technologies	co-operation with EU-15 companies and research institutions to develop new technologies, access to research infrastructure including biotechnology
transport infrastructure	intermodal terminal infrastructure of METRANS	improved competitiveness of the logistics sector and stronger market position of a leading Czech logistics enterprise	improved competitiveness of the subsidiary of the German Hamburger Hafen und Logistik AG group. Support for a project to implement HHLA's growth and expansion strategy.
environmental protection	development of waste water treatment infrastructure in the Czech Republic	reduced emissions to surface and groundwater, fulfilment of accession obligations, improved quality and standard of living	reduced emissions and improved water quality of the Elbe (in Germany) and its delta (North Sea)