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Czech problems with European funds

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On 15 March Petr Nečas acknowledged that the Czech Republic would until June refrain from requesting the European Commission to disburse funds allocated as part of the cohesion policy which are spent within the system of operational programmes. This situation is the result of the serious reservations which the EC and the European Court of Auditors have made with regard to the Czech system of auditing money spent in the Czech Republic from European funds. EU officials suggest moving the auditing from the ministerial and regional levels to the Ministry of Finance. Despite the fact that the flow of funding between Brussels and Prague stopped, the Czech Republic is financing the accepted projects from the state budget, assuming that they will obtain the funds they have spent when the transfers from Brussels are resumed in three months.

The Czech Republic, which has negotiated the largest EU funding *per capita* under the cohesion policy, within the current financial framework, is regularly criticised by the EU institutions for the non-transparent way of spending EU funds. The largest problems with the use of these funds are caused in the “Education for Competitiveness” and “Research, Development for Innovations” operational programmes. At the same time, in the government’s strategy Czech officials argue that cohesion policy within the Multiannual Financial Framework 2014-2020, should above all support the competitiveness of EU economies. According to the Ministry of Finance’s assessment, last year's problems with obtaining EU funds in the Czech Republic have increased the budget deficit by nearly 330 million euros.

Commentary

- Prague's decision not to apply for EU funding has pre-empted the probable freezing of funds for the Czech Republic by the EC. The necessity to immediately change the system of auditing the expenditure of EU funds will delay and hamper obtaining money within the excessively complex system of 24 operational programmes. These difficulties come on top of problems already existing: the shortage of experts, incoherent legal regulations and corruption scandals. There is a risk that the Czech Republic will not have enough time to deal with all reservations made by the EC and thus will not be able to spend the entire allocated EU funding by 2015.

- Persistent problems in recent years with using EU funding in the Czech Republic will reinforce the belief held by a section of decision-makers (e.g. Finance Minister Miroslav Kalousek) with regard to the risks involved in it. These politicians claim that part of EU funding is being spent in an irresponsible manner and is doing more harm than good to the Czech economy. Such opinions may have a negative impact on Prague's involvement in striving to obtain a large budget under the cohesion policy within the Multiannual Financial Framework 2014-2020.

- A decrease in the level of the EU funds obtained will hinder the implementation of the priority of the Petr Nečas government which is to decrease the public finance deficit to below 3% of GDP (from 3.7% in 2011). This situation may encourage the government to raise taxes again and to extend the already vast programme of budget cuts. The media are bringing problems with the use of EU money to the fore in the situation of a growing opposition to the anti-crisis measures undertaken by the government and this is likely to trigger a further decline in the support for the centre-right cabinet.