

# European Support for Private Profit-Oriented Entities in Slovak Regions

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## Abstract

This paper deals with the question of the European Union support given to the Slovak Republic within the programming period 2007 to 2013 in the framework of the policy of economic and social cohesion being distributed among the Slovak regions to the private profit oriented entities. The issue at stake is whether the monetary resources are channelled to the regions which suffer most disadvantaged circumstances measured by their gross domestic product per capita in purchasing power prior to the commencement of the programming period in question. The results are somewhat unconvincing in the sense that some regions one might consider worse due to lower gross domestic product per capita in purchasing power are subject to the relatively small amount of the support, while the most economically advanced region with the capital Bratislava enjoys a substantial amount of support being channelled.

*Keywords: European Union, policy of economic and social cohesion, private profit-oriented entities, Slovak Republic*

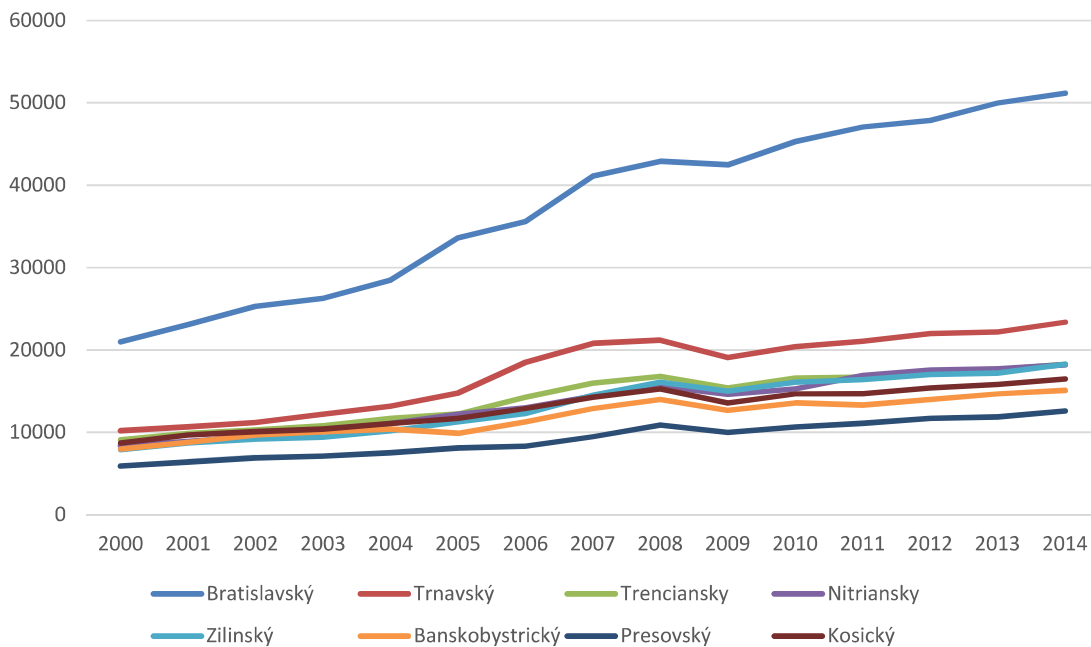
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## 1. Introduction

The Slovak Republic is a relatively new member state of the of the European Union (EU) who accessed the organization in 2004 together with 9 other Central and Eastern European countries. Since the accession and previously, too, the Slovak economy was being supported by various schemes from the budget of the EU. One of the policies, which gained extreme importance in time, is the policy of economic and social cohesion. Within its framework, the Slovak Republic has been entitled to outstanding support. In the programming period 2007 to 2013, which is of interest in this paper, the cohesion policy served to boost the economic, social and environmental circumstances of the entire Slovak Republic, with particular focus on the low performance regions, which were all apart from the region housing the capital city of Bratislava. Thus all Slovakian regions apart from this one were covered by the Convergence Objective of the policy, while Bratislava Region was being supported under the Regional Competitiveness and Employment Objective (European Communities 2007). This distinction between the two groups was based on their economic performance as measured by the gross domestic product per capita in purchasing power (Hájek & Novosák 2010).

The Slovak Region which are the territorial units used in this paper are 8 in total and were established in 2001 (Buček 2011) as units which in European classification correspond to NUTS 3 level. The role of EU in the reform of Slovak territorial government which gave the birth to these regions was considerable according to Brusis (2005) and Nižňanský (2005). The regions, while being a single type of administrative unit, are rather different amongst themselves. The differences among them run mostly of the axis of the northeast and southwest (Angelovič & Benč 2014; Baláž 2007; Bucher 2014). This polarization which emerged in the early 1990s and by the end of that decade was firmly established no to be overcome until these days is evident in the gross domestic product per capita (see figure 1) or regional level as well as in other economic characteristics (Baláž 2004; Smith 1996). The polarization among these units is further enhanced by the unique status of the capital, Bratislava, which enhances the performance, economic and other, of the entire region over which it presides (Korec 2009). On the other hand, there are the eastern-most regions such as Prešov Region, described as worst off by Poláčková and Potomová (2010), Matlovič and Matlovičová (2005) or Habanik, Hostak and Kutik (2013). The regions of Central and Eastern Slovakia are in general less well off in economic and social circumstances and the only exceptions of this are the largest cities, usually the capitals of the regions (Gajdoš 2005; Korec & Polonyová 2011).

**Figure 1: Gross Domestic Product per Capita in Purchasing Power in Slovak Regions**



Source: Eurostat (2016)

To combat these circumstances of internal differences as well as the overall negative position of the Slovak Republic within the EU economic-wise, the policy of economic and social cohesion assigned an amount exceeding 11 billion € to cover 11 national proposed operational programme agreed on by the Slovakia and the European Commission (Government Office of the Slovak Republic 2013) as illustrated in table 1. Some studies were even made of the Slovak Republic distribution of the resources within the policy of economic and social cohesion (Smékalová et al. 2015; Smékalová, Hrabínová & Habuda 2014)

**Table 1: Operational programmes of the Slovak Republic**

Operational programme	Allocation in €
Regional	1 554 503 927
Environment	1 820 000 000
Transport	3 160 154 595
Informatisation of Society	843 595 405
Research and Development	1 209 415 373
Competitiveness and Economic Growth	968 250 000
Health	250 000 000
Technical Assistance	97 601 421
Employment and Social Inclusion	941 301 578
Education	556 437 861
Bratislava Region	95 207 607

Source: Government Office of the Slovak Republic (2013)

The ability to obtain the support was limited in some aspects in the sense that some programmes were meant primarily for public corporation, some for private.

This paper deals with the question of EU support for profit oriented subject in the regions of Slovak Republic in the duration of the previous programming period of EU (2007 to 2013) from these operational programmes. This paper follows the logic, that greatest support should be given to the regions which were worst off. This would be measured by the EU preferred indication of gross domestic product per capita in purchasing power.

## 2. Methods and Results

### 2.1 Methods

The primary issues tackled in this paper is the channelling of the support of the European Union to the regions in the context of their economic performance. In keeping with the founding regulation and contracts binding the policy of economic cohesion one can infer that the support should generally be focused on the weakest regional structures, in this case these are the regions with the lowest gross domestic product per capita on average between 2004 and 2006 – the years preceding the programming period of interest which lasted from 2007 to 2013. The work, however, does not focus on the entire allocation of the policy of economic and social cohesion, but chooses a relatively narrow segment of support allocated to private profit oriented entities. This approach reflects the fact that private business entities access to this support was being restricted by the design of the operational programmes the entities petitioning for support had to reflect other issues such as project risks, possibilities of co-financing, administrative complexity of the application and reporting during the project and other issues that may be

directed to the implementation of development projects with their own resources. Finally, it is also a factor the fact that businesses, especially small and medium enterprises, are seen as an important source of regional competitiveness and a source of innovation more than any of the other sectors, governmental or non-profit.

Thus, the subjects of interest of this paper are the entrepreneurs, a private and profit oriented entities. The ownership of state or other public corporation is permitted as long as the share of ownership right does not exceed 49 %. Individual projects as registered by the Government Office of the Slovak Republic in the list of beneficiaries in the period 2007 to 2013 are the matter of research. Assignment of the projects to individual regions was carried out of the basis of the benefactor and their seats as entered into the national Register of Organizations.

## 2.2 Results

The projects in the Slovak regions were evaluated in terms of allocation that exceed 1.75 bil. €, which was divided among 833 mil. € of European support, 772 mil. € provided by the private profit oriented entities and 145 mil. € of support granted by internal public resources from the Slovak Republic. Thus 1 € of European support was further complemented by 93 cents from the private entities and 17 cents from the public Slovak budgets. The leading operational programmes were the Competitiveness and Economic Growth, Research and Development, Environment, Employment and Social Inclusion. Minor support was given by Health and Education, while Regional programme, as well as Transport and Informatisation of Society were off limits to the private profit sector (see table 2).

**Table 2: Funding for private entities' projects**

Operational programme	Funding in mil €		
	EU	Private profit oriented entities' resources	Slovak public budgets
Competitiveness and Economic Growth	426.7	584.1	75.3
Research and Development	139.4	42.2	22.7
Education	13.3	0.8	2.4
Employment and Social Inclusion	97.8	46.5	17.3
Health	33.3	2.1	5.9
Environment	124.1	96.3	21.9
Total	834.7	772.1	145.4

Source: Government Office of the Slovak Republic (2014)

The distribution of the absolute support provided by the EU may be traced to be different among the Slovak regions as the table 3 illustrates. The absolute amount of support was rather disproportional in the Bratislava Region. This region with the second largest absolute amount of support is by far the most economically advanced region as measured by the gross domestic product per capita. This is, however, due to its special position of capital and the centre of not

only population concentration but also of the concentration of any legal entities including the private profit oriented ones. Thus, it stands to reason that most of the beneficiaries may record the seat in the capital if only to appear more prestigious and having the actual business activities take place elsewhere. It must be noted at this point that the Bratislava Region was subject to restrictions and only the projects funded by its designated programme Bratislava Region could take place inside its borders. Other projects were most often limited to be realised in the other Convergence Objective covered regions.

When focused on these regions the outlook of Trnava region gives a more accurate representation of the policy of economic and social cohesion actions in Slovakia. Trnava region is the most successful one when considering the gross domestic product per capita. This marks the region and economically advanced within the Republic and as one which should have received limited support by the EU. This intention is adhered to in the sense that Trnava Region registered the smallest absolute amount of support and second smallest in per capita recalculations. This represents the idea of the policy as it was originally conceived. However, in other regions this idea was not adhered to as firmly. A relatively well-off region of Trenčín recorded a third largest per capita support. On the other hand, Nitra Region a medium performing region when considering the gross domestic product per capita, recorded smallest per capita allocation and second smallest absolute EU support.

The comparing of gross domestic products across Slovak regions has produced a list on which the last regions were Žilina, Banská Bystrica and Prešov. From the point of view of adhering to the idea of economic and social cohesion, the Žilina Region situation is not all right. The region recorded third smallest absolute support and the like situation repeated when recalculating the amount received per capita. Banská Bystrica Region, on the other hand, benefitted more from the policy in the intra-national comparison. The largest absolute support translated to the second largest per capita support in the relatively economically troubled area. The Prešov Region remained somewhat ambiguous. This most economically disadvantaged region recorded support comparable to Bratislava Region in terms of absolute amount received by its private profit oriented entities. This support, however, did not translate into more pressing per capita gains.

**Table 3: EU support for private profit oriented entities among the regions**

Region	Total EU support in mil. €	Per capita EU support in €	Gross domestic product per capita, 2004 – 2006 average in €
Banská Bystrica	134.1	204	5 467
Bratislava	124.9	205	16 967
Košice	104.2	134	6 200
Nitra	90.0	128	6 333
Prešov	120.2	149	4 167
Trenčín	97.9	164	6 633
Trnava	72.5	130	8 167
Žilina	91.0	131	5 900

Source: Government Office of the Slovak Republic (2014), Statistical Office of the SR (2015)

The territorial channelling of the EU support can be, in the view of these results, be described as selectively respecting the ideas of the policy of economic and social cohesion. This success is mainly represented by Banská Bystrica Region in Slovakia. The unsuccessful application of the policy principles is noted in Prešov Region.

### 3. Concluding remarks

The paper dealt with the question of channelling the EU support given in the programming period 2007 to 2013 to the private profit oriented entities in Slovak among the Slovak regions with the consideration of the intra-national status and comparison in gross domestic product in purchasing power per capita. The regulations and the idea of the policy of economic and social cohesion promoted by the EU suggests that the most disadvantaged and economically the lowest performing regions are the main target of the support provided within this policy. Research on the Slovakian regions shows ambivalent results as in some cases the idea of the policy was strictly adhered to and in some cases it was not. Given these results, one must consider, that the EU may still count its interventions in the Slovak Republic as successful. This is the results of the fact that the Union is rather more focused on the level of NUTS 2 which exceed the Slovakian regions. The results, however, indicated that for country of Slovakia size the NUTS 2 may just be a too rough optics to look at the regional issues through.

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