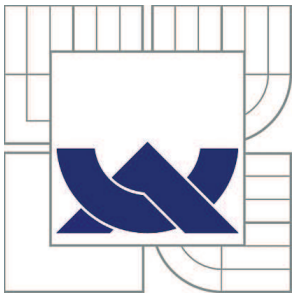

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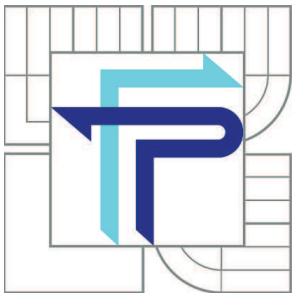

FAKULTA PODNIKATELSKÁ
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FACULTY OF BUSINESS AND MANAGEMENT
INSTITUTE OF ECONOMICS

THE IMPACT OF THE EUROPEAN STRUCTURAL FUNDS AND EUROPEAN POLICIES ON THE SMALL AND MEDIUM ENTERPRISES

DOPAD EVROPSKÝCH STRUKTURÁLNÍCH FONDŮ A EVROPSKÉ POLITIKY NA MALÉ A STŘEDNÍ PODNIKY

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MASTER'S THESIS

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Introduction
Aim of the Thesis
Theoretical Background
Problem Analysis and Current Situation
Proposals and Contribution of Suggested Solutions
Conclusions
Literature

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Brno, 18.08.2013

Abstrakt

Diplomová práca popisuje malé a stredné podniky, ich rozvoj a podporu poskytovanú európskou politikou a štrukturálnymi fondami. Použitie relevantnej literatúry a prípradových štúdií umožnuje poskytnúť kritický pohľad na danú problematiku. Na konci práce sú navhrnuté odporúčania na zlepšenie a záver.

Abstract

This master's thesis describes small and medium enterprises, development factors and the support provided to them by EU policies and structural funds. By the support of relevant literature and case studies, critical view is given on this issue. At the end of the paper the conclusions and further recommendations are proposed.

Klíčová slova

štrukturálne fondy, európska politika, stredné a malé podniky, Európska únia, Európska komisia.

Key words

structural funds, European policy, SMEs, European union, European Commission.

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Statutory declaration

I declare that submitted master's thesis is authentic and worked up independently. I also declare that citations are complete and copyrights are not violated (pursuant to Act. No. 121/2000 Coll., on copyright and on laws related to copyright Act.).

Brno, 29th August 2013

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Michal Kašpar

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INTRODUCTION

My dissertation places its focus on the field of the use of structural funds by small and medium enterprises in the Czech Republic. The objective of this paper is to critically analyse the impact of the European policy and structural funds on the Czech SMEs. The issue of structural funds is currently very popular as the programming period 2007-2013 is coming to the end and the preparation of the next programming period 2014-2020 has already started. Current programming period as well as the future one offers various opportunities not only to small and medium enterprises but also other subject such as large companies, non-governmental organisations, municipalities, regions, non-profit organisations etc. Moreover, lot of enterprises possess valuable experience from the current and previous programming period such as approved funding and successfully implemented project. Since the small and medium enterprises are defined as an engine of the European economy (see chapter 2.5), a significant part of the funds is targeting this particular area.

The first part of the thesis introduces the theoretical base of the European policy, structural funds, its brief history, definition of the small and medium enterprises and their position at the European economy as well as the global objectives of the up-coming programming period known under the name Europe 2020.

The analytical part of the paper focuses closer on the issue of the EU structural funds in the Czech Republic. After the brief description of the funds used and the operational programmes implemented by the Czech Republic at the current programming period the thesis puts the emphasis on the operational programme with the most significant impact on the Czech SMEs, OP Enterprise and Innovation. The heart of the analysis is the SWOT analysis of the Czech economy, results of the indicators for each priority axis implemented within this operational programme and overall statistical results evaluating the impact of this operational programme on the Czech small and medium enterprises.

The third part of the work provides readers with the proposals based on the previous analysis that could be used during the next programming period. Since I had the

opportunity to spend five months at the European Commission as a trainee, I had a close insight into the European policy and the issue of structural funds. My valuable experience influenced the choice of this topic and could contribute to the quality of my dissertation.

1 AIM OF THE THESIS AND USED METHODOLOGY

The aim of the thesis is to perform an analysis of the impact of structural funds on the Czech small and medium enterprises and provide the readers with the proposals for the next programming period which could strengthen the positive impact of the funds and the position of the Czech SMEs at the both domestic and foreign markets.

The particular objectives should provide answers to following questions:

- How to improve the support of the Czech start-ups?
- How to enhance the competitiveness of the existing SMEs?
- How to increase the use of funds among the Czech SMEs?

This paper uses different methodologies in order to fulfil its objectives. Marketing SWOT analysis was used in order to determine strengths, weaknesses, opportunities and threats of the Czech business sector. In order to quantify the particular impact of the structural funds the basic economic indicators were used.

2 THEORETICAL BACKGROUND

2.1 History of the structural funds

„Since 1985 the structural funds have been justified in terms if “economic and social cohesion”, by which was meant the removal of various disparities within the Union. The major focus has always been “territorial”, in an attempt to rectify regional and, after 1992, national disparities in per capita income” (Wallace, 2005, p.214).

The structural funds originally consisted of the European Regional Development Fund (ERDF), the European Social Fund (ESF), and the Guidance Section of the European Agricultural Guidance and Guarantee Fund (EAGGF). The Cohesion Fund, the Financial Instrument for Fisheries Guidance (FIFG), and the Solidarity Fund (EUSF) were added in 1992, 1993, and 2002 respectively. Under the Commission’s proposals of February 2004 for 2006-2013 the EAGGF and the FIFG would be separated from the other structural funds in the cohesion section of the EU budget and included in the “agricultural” section. It remains to be seen how far the Barroso Commission, which took office in November 2004, will modify these proposals.

Since 1988 the structural funds have grown to become a significant part of the EU budget (see Appendix 2). These funds represent only around 2,69 per cent of the EU’s GDP which is not enough to have a serious macro-economic effect on EU disparities (regional or national), let alone seriously to affect EU competitiveness, growth, employment, or to achieve sustainable development.

The arrangements for structural intervention have always privileged a philosophy of regionalism as the means of achieving cohesion, which in turn is rationalised as a means to achieve other EU goals such as growth, competitiveness, sustainable development, and employment. Territorial cohesion is specifically mentioned for the first time only in the Constitutional Treaty (CT) and its protocol on cohesion. Article 1-3(3) of the CT refers to “the promotion of economic, social and territorial cohesion and solidarity among member states”, whilst all previous treaty references only mention “economic and social cohesion”. No mention is ever made in Commission literature about the compensation role that cohesion policy plays, although there are occasional references

to the positive effect in terms of integration that might be gained from the visibility of structural intervention in the poorer regions of the Union. Cohesion policy is also a policy area characterised as one of “mixed competence”, with the member states supporting EU policies, while at the same time continuing to develop their own national regional policies (Wallace, 2005).

The biggest challenge to the structural funds and cohesion policy comes, however, from the 2004 enlargement of the Union. In the past, the structural funds were used to facilitate enlargement, and the developments leading up to May 2004 and beyond are no exception to this rule. During the 1999-2006 programming period structural funds on significant scale have been made available as pre-accession and post-accession aid to the countries which joined the EU in 2004. The 2004 enlargement was certainly partially facilitated by the use of EU funding, based on the model of structural funds, to provide pre-accession and post-accession aid. The new member states clearly expect to be significant beneficiaries of structural funding under the 2007-2013 financial perspective. Enlargement has increased the problem of achieving the goal of cohesion, because of the widened range of diversity within the EU25. Opinions are heavily divided about the effectiveness of the structural funds as an instrument for reducing divergence, with some commentators preferring to rely on the workings of the market, supported by a competition policy, while others are convinced that diversity within and between regions is best rectified by national rather than EU measures (Wallace, 2005).

2.2 Definition of the structural funds and cohesion fund

The Structural Funds and the Cohesion Fund are the financial instruments of European Union regional policy, whose aim is to reduce the development disparities among regions within Member States and Member States themselves. These regional disparities consists of the disparities at level of income, output, employment, and econonomic inequality (Hitiris, 2003). The funds are pursuing the goal of economic, social and territorial cohesion.

For the current programming period 2007-2013, the budget allocated to regional policy is around € 348 billion, consisting of € 278 billion for the Structural Funds and € 70

billion for the Cohesion Fund. This represents 35% of the Community budget and is the second largest budget item.

2.2.1 Structural funds

There are two Structural Funds:

- the European Regional Development Fund (ERDF) which is currently the largest fund and since 1975 has provided support for the creation of infrastructure and productive job-creating investment (Europa, 2012).

  Even though the Treaty of Rome established that the member states intended to reduce regional disparities, there was no specific provision for a regional policy or fund. It took two summits in Paris in 1972 and 1974 to set up the ERDF. This ease rationalised by the Commission in terms of the need to deal with regional disparities, although Helen Wallace (1977) established that it could be better understood as compensation to ease an intergovernmental deal. The deal was linked to enlargement and the need to find a means of compensating the UK for its anticipated large net contribution to the EU budget and, to a lesser extent, to the 1969 decision to move towards economic and monetary union. Deals related to enlargement and new EU objectives and competences have often been facilitated by the structural funds. “The Commission hoped to influence the selection of projects submitted by the member governments, and to prevent them from simply substituting ERDF money for national expenditure” (Wallace, 2005, p.217). At first the Commission was constrained by the ability of the member governments to limit the total value of their project applications to the size of their agreed quotas, and by their reluctance to provide transparent financial information so that “additionality” from this new money could be ensured. Nevertheless the implementing regulations for the ERDF, which included the creation of a Regional Policy Committee, provided the starting point for future reforms, and developed the notions of concentration, programming, additionality, and partnership (see Appendix 1) (Wallace, 2005).

- the European Social Fund (ESF), set up in 1958, contributes to the integration into working life of the unemployed and disadvantaged sections of the population, mainly by funding training measures**.** The ESF supports jobs, helps people get better jobs and

ensures fairer job opportunities for all EU citizens. It works by investing in Europe's human capital which consists of its workers, its young people and all those seeking a job. ESF financing of EUR 10 billion a year is improving job prospects for millions of Europeans, in particular those who find it difficult to get work. The European Union is committed to creating more and better jobs and a socially inclusive society. These goals are at the core of the Europe 2020 (see chapter 2.4) strategy for generating smart, sustainable and inclusive growth in the EU. The ESF is playing an important role in meeting Europe's goals, and in mitigating the consequences of the economic crisis – especially the increase of unemployment and poverty levels. Social Fund is a significant in the construction of the EU (Richardson, 2006).

The ESF is not an employment agency with job advertisements. It is funding tens of thousands of local, regional and national employment-related projects throughout Europe: from small projects run by neighbourhood charities to help local disabled people find suitable work, to nationwide projects that promote vocational training among the whole population. ESF projects have a great variety in the nature, size and aims, and they address a wide variety of target groups. There are projects aimed at education systems, teachers and schoolchildren; at young and older job-seekers; and at potential entrepreneurs from all backgrounds. In general, the focus of the ESF is people (European Commission, 2013b).

2.2.2 Cohesion fund

European Union set up the Cohesion Fund in 1994 in order to speed up economic, social and territorial convergence. It is intended for countries whose per capita GDP is below 90% of the Community average. The purpose of the Cohesion Fund is to grant financing to environment and transport infrastructure projects. However, aid under this fund is subject to certain conditions. If the public deficit of a beneficiary Member State exceeds 3% of national GDP, no new project will be approved until the deficit has been brought under control.

2.2.3 Main objectives

These Funds are used to finance regional policy between 2007 and 2013 in the framework of the three new objectives:

- the "convergence" objective to accelerate the convergence of the least developed EU Member States and regions by improving growth and employment conditions. This objective is financed by the ERDF, the ESF and the Cohesion Fund. It represents 81.5% of the total resources allocated. The co-financing ceilings for public expenditure amount to 75% for the ERDF and the ESF and 85% for the Cohesion Fund;

- the "regional competitiveness and employment" objective to anticipate economic and social change, promote innovation, entrepreneurship, environmental protection and the development of labour markets which include regions not covered by the Convergence objective. It is financed by the ERDF and the ESF and accounts for 16% of the total allocated resources. Measures under this objective can receive co-financing of up to 50% of public expenditure. This objective is completely new for the structural funds during the 2007-2013 period (El-Agraa, 2007);

- the "European territorial cooperation" objective to strengthen cooperation at cross-border, transnational and interregional levels in the fields of urban, rural and coastal development, and foster the development of economic relations and networking between small and medium-sized enterprises (SMEs). This objective is financed by the ERDF and represents 2.5% of the total allocated resources. Measures under the Territorial Cooperation objective can receive co-financing of up to 75% of public expenditure.

Structural Fund and Cohesion Fund support for the three objectives always involves co-financing. The rates of co-financing may be reduced in accordance with the "polluter pays" principle or where a project generates income. All projects must of course comply with EU legislation, particularly with regard to competition, the environment and public procurement (Europa, 2012).

2.3 Management and planning of structural funds

Implementation is managed by the relevant national or regional authorities in each Member State. These authorities are responsible for the preparation of the OPs and selection and monitoring of the projects. Structural Funds are available through the Member States and regions and not directly from Brussels. They are administered at national and/or at regional level. Applications should not be sent to the European Commission but to the managing authority in concrete region or country.

Another important thing is that EU financial support always runs alongside with national public or private financing. Co-financing may vary between 50% and 85% of the total cost of interventions which of course depends on different socio-economic factors. Member States or regions designate a managing authority, a certifying authority and a functionally independent auditing authority for each operational programme. OPs are multiannual programmes agreed on at national or at regional level and then they are negotiated with the European Commission. These programmes set the funding priorities for the specific policy area or region and the amount of money from the various funding instruments that will be made available. OPs are either thematic or regional and are implemented through a broad range of organisations. These organisations include national, regional and local authorities, educational and training institutions, non-governmental organisations, social partners etc.

The managing authority (MA) is the department resuming the overall responsibility for an operational programme. MAs are organised either on a national, regional or local level and can be a public authority or a public/ private body. They are responsible for the implementation of the Funds. They usually carry out functions related to programme management and monitoring, financial management and controls as well as project selection. They are supported by one or several intermediate bodies. Together with Member States, MAs are responsible for ensuring that the communication strategy is implemented in a way to reach all citizens. MAs are a contact point for the European Commission, certifying and auditing authorities as well as for project holders or potential beneficiaries. The certifying and auditing authorities furthermore guarantee the accuracy of accounts, compliance with applicable Union and national rules as well as the control of management systems.

Applications for ESF and ERDF investment are generally invited in response to time-limited calls for proposals issued by the MAs. However, the use of calls is spread in varying degrees across Europe and it is sometimes also possible to present a project in the framework of on-going programmes. Beneficiaries draw up particular projects, apply for funding and eventually implement their project and report to the MA on progress (Pacevicius Mente, Diegelmann, 2013).

2.3.1 The project application

Calls for applications are usually targeted at specific project developers or insist on the existence of a partnership of several bodies. Project developers can be (Pacevicius Mente, Diegelmann, 2013):

- Public authorities, local, regional, national governments, regional or local development and/or innovation agencies, intermediate bodies or any other body governed by public law,

- NGO or business associations,

- Research organisations or universities, including private sector research organisations,

- Companies: micro, small, medium, large – profit or non-profit making, public-private partnerships, service provider, project coordinator, etc.

- Individuals.

Theoretically anyone can apply if they prove financial and operational capacity, sufficient experience of project management, technical expertise and management capacity including staff equipment and ability to manage the budget for the action. This all have to be demonstrated in the application.

Next question is “What can be financed”. Conditions are dependent on the strategies and priorities of each OP. An overview of programmes and priorities is published and available on the websites of particular DGs of the European Commission. The Structural Funds offer many funding possibilities to support small and medium enterprises (Pacevicius Mente, Diegelmann, 2013):

- Entrepreneurial education in schools / creating an entrepreneurial spirit,
- Entrepreneurial training / training how to start an enterprise,
- Advice / coaching to entrepreneurs and business starters (e.g. start-up coaching),
- Support for the transfer of businesses from one generation to the next (e.g. help for company owner and new entrepreneurs to plan and implement the transfer),
- Support for companies to consolidate, grow, innovate, internationalise or similar.

Application procedures are different from one country to another or even from one region to another. It is because of the fact that different priorities and support activities are defined in the different OPs and support is organised in different ways in each region. In some regions the only way how a project holder can submit an application is via calls for proposals. In others, projects can be submitted directly to the MA. Intermediate ways of managing Structural Funds exist as well and are defined as a combination between calls for proposals and programmes. Applications may either be submitted through a standardised paper or online application form or by sending a description of the project to the MA. The most important is to send applications as soon as possible in a draft form so MAs are in a position to help applicants with the writing of the final application.

Support can be divided into direct or indirect. When it is direct grants are given to SMEs directly. When indirect, grants or services are given to a project helping SMEs. Socio-economic factors have a big influence on the allocation of the Funds throughout

Europe. The amount that will be attributed at regional or national level (by the MA) to a project depends on (Pacevicius Mente, Diegelmann, 2013):

- The Fund's total allocation for the region/ country,

- The co-financing rate.

Taking into account the co-financing principle, a subsidy is not wholly paid from European funds, but may vary between 50% and 85% of the total cost of intervention. The co-financing rate depends on whether region is in "more developed region", "intermediate region" or "less developed region" category. Public expenditure on aid to enterprises has to comply with the aid limits laid down in respect of State aid.

Depending on which priority axes are addressed, the project may be more or less financed by Structural Funds. It is crucial to contact the MA at an early stage of the project definition to get advice on how to make it fit best with the OP, unless the project is already mentioned in the OP, or else to look for alternative funding. It has to be mentioned that funding is not paid in advance. So each beneficiary needs to have sufficient resources to pre-finance its project (Pacevicius Mente, Diegelmann, 2013).

2.4 Europe 2020

Europe 2020 is a strategy for sustainable growth for the coming decade. This strategy deals both with short-term challenges linked to the crisis and the need for structural reforms through growth-enhancing measures needed to make Europe's economy fit for the future.

2.4.1 Five objectives

The European Union has set five ambitious objectives — on employment, innovation, education, social inclusion and climate/energy which are to be reached by 2020:

1. ensuring 75 % employment of 20–64-year-olds;

2. getting 3 % of the EU's GDP invested into research and development;

3. limiting greenhouse gas emissions by 20 % or even 30 % compared to 1990 levels, creating 20 % of our energy needs from renewables and increasing our energy efficiency by 20 %;

4. reducing school dropout rates to below 10 %, with at least 40 % of 30–34-year-olds completing tertiary education;

5. ensuring 20 million fewer people are at risk of poverty or social exclusion.

2.4.2 Flagship initiatives

In order to reach these global objectives, each EU country has adopted its own national targets in each of these areas. Moreover EU leaders have agreed a number of concrete actions at EU and national levels. They have also identified the most important areas of action which they believe can be new engines to boost growth and jobs. These areas are addressed through seven 'flagship initiatives'.

• 'Innovation Union': aims to improve conditions and access to finance for research and innovation, so that innovative ideas can ultimately be turned into products and services and thereby create growth and jobs.

• 'Youth on the move': aims to enhance the performance of education systems and to facilitate
the entry of young people into the labour market. This is done inter alia through EU-funded study, learning and training programmes, as well as platforms that help young jobseekers find employment across the EU.

• 'A digital agenda for Europe': aims to speed up the roll-out of high-speed Internet and uptake of information and communication technologies.

• ‘Resource-efficient Europe’: aims to help decouple economic growth from the use of resources. It
supports the shift towards a low-carbon economy, an increased use of renewable energy sources, the
development of green technologies and a modernised transport sector, and promotes energy efficiency.

• ‘An industrial policy for the globalisation era’: aims to improve the business environment notably for SMEs, for example by helping them to access credit and cutting red tape. It also supports the development of a strong and sustainable industrial base able to innovate and compete globally.

• ‘An agenda for new skills and jobs’: aims to modernise labour markets and empower people by developing their skills and improving flexibility and security in the working environment. It also aims to help workers seek employment across the EU more easily in order to better match labour supply and demand.

• ‘European platform against poverty’: aims to ensure social and territorial cohesion by helping the poor and socially excluded to get access to the labour market and become active members of society.

Also other EU policies and activities are being harnessed to support the Europe 2020 strategy. Single market, the EU budget and the EU’s trade policy which, for example, promotes stronger trade relations that can provide European enterprises with access to government procurement and research programmes in third countries (European Commission, 2013a).

2.5 Definition of the Small and Medium Enterprises

Günter Verheugen (2005) said that “Micro, small and medium-sized enterprises (SMEs) are the engine of the European economy. They are an essential source of jobs, create entrepreneurial spirit and innovation in the EU and are thus crucial for fostering competitiveness and employment. The new SME definition, which entered into force on

1 January 2005, represents a major step towards an improved business environment for SMEs and aims at promoting entrepreneurship, investments and growth. This definition has been elaborated after broad consultations with the stakeholders involved which proves that listening to SMEs is a key towards the successful implementation of the Lisbon goals".

Micro, small and medium-sized enterprises play a central role in the European economy. These enterprises are a major source of entrepreneurial skills, innovation and employment. In the European Union of 25 countries, around 23 million SMEs provide approximately 75 million jobs and represent 99% of all enterprises. However, they are often confronted with market imperfections. The main problem for SMEs is that they frequently have difficulties in obtaining capital or credit, particularly in the early start-up phase. Their restricted resources make access to new technologies or innovation more complicated. Therefore, support for SMEs is one of the European Commission's priorities for economic growth, job creation and economic and social cohesion.

To find a simple definition of SMEs it could be said that small and medium-sized enterprises are generally characterised by their number of employees and their turnover or balance sheet total. In 2003 the European Commission published a SME definition that defines SMEs as having fewer than 250 employees and a maximum turnover of €50 million or a maximum balance sheet total of €43 million. It is also displayed in the following figure 1.

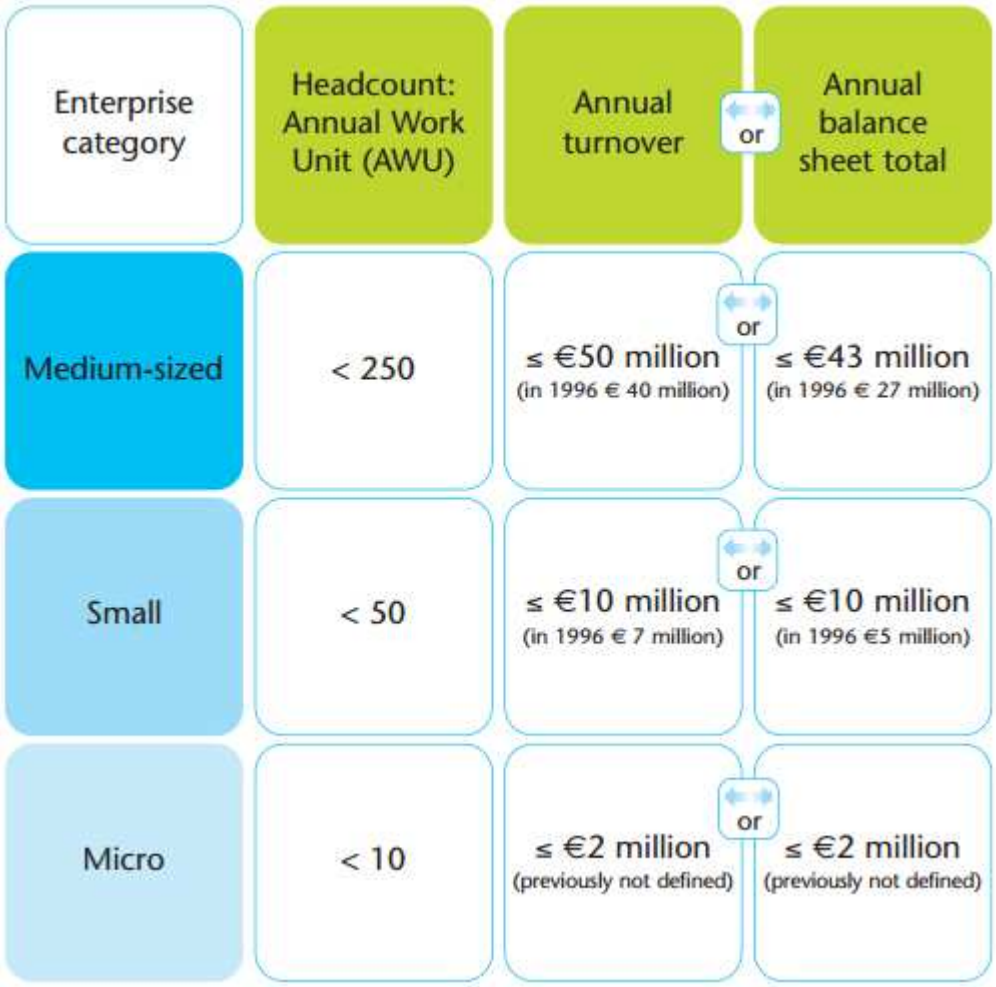


Figure 1: SME definition (Source: European Commission, 2005)

2.5.1 Life cycle of SMEs

Within the last 40 years, different models on the lifecycle of businesses have been elaborated. From the early 1970s until the mid-1980s, models such as Adizes (1979) and Quinn and Cameron (1983) were developed on the basis of the empirical analysis of manufacturing. This needs to be taken into account when using the Greiner theory as a model for SME development. The basic Greiner theory enables us to understand the lifecycles of businesses. Starting point of Greiner's theory was that growing organisations move through five different stages of development. Each phase contains a relatively stable period of growth that ends with a management crisis. This management crisis can be solved by new structures and programmes that allow employees to periodically rest, reflect, and revitalise themselves (see Appendix 3). Greiner also makes difference between different strategies which are needed in the different stages of the business lifecycle. While small companies must concentrate on flexibility with flat,

organic structures, larger organisations deal with economies of scale and vertical hierarchy but have more stable market positions.

In order to adjust this model to SME development characteristics, two adjustments have to be made:

- the lifecycle stages of entrepreneurs must be taken into account (see Appendix 4),
- continuous instead of linear iterations are used.

Using SMEs as a category involves an over-generalised approach, as does the current EU definition, which is based only on size (employment/financially). In practice, micro, small and medium-sized enterprises differ in size, level of innovation, industry sector, and in-house research capacities, age and geographical position. They might be at a different stage of the lifecycle. Many SMEs do not survive the leadership crisis characterising the transition from a start-up to a young and thus more stable enterprise. Also other aspects have to be taken into account. For example some enterprises do not plan to grow. The size of the enterprise also depends on the strategic orientation of the owners, and therefore incentives and support should not just be growth-oriented. For a particular policy instrument to be successful, it has to keep these differences and the associated needs and challenges into account for efficient planning and implementation. For the EU with its centralised and decentralised instruments, this means that each level of policy-making and administration needs to be aware of the fact that differences exist and of the respective implications (Tödtling–Schönhofer, Hamza, Resch, 2011).

3 PROBLEM ANALYSIS AND CURRENT SITUATION

3.1 Structural funds and operational programmes in Czech Republic

This part of the paper introduces a programming period 2007-2013 of the EU Cohesion Policy in the Czech republic. For this seven year period of the regional policy 2007-2013, EU has drawn up The Community Strategic Guidelines which was adopted in October 2006. This document contains the principles and priorities of cohesion policy. National authorities will use the guidelines as the basis for drafting their national strategic priorities and planning for 2007-2013, the so called National Strategic Reference Frameworks (NSRFs). This document is developed on the basis of the National Development Plan for the period 2007-2013 (NDP) which sets targets and drafts of the operational programmes.

The principal strategic document defining the particular rules and the strategy for the use of financial resources from the EU structural funds and the Cohesion fund is the National Development Plan for the period 2007-2013. It comprises a current state of play, SWOT analysis, definition of the targets and priority axes of the NDP for the period 2007-2013, it drafts operational programmes and eventually reports on allocation of the financial resources. The global target of the NDP for the period 2007-2013 is the change of the socioeconomical environment in the Czech republic in-line with the sustainable development principles in a way that would make Czech republic (CZ) an attractive place for realisation of the investments, labour and the life of its inhabitants. A permanent strengthening of the competitiveness will entail sustainable growth in a rate higher than average growth EU-25. CZ will strive to succeed in an employment growth and a balanced and harmonised regional development that will lead to an increase of the standard of living of the czech population.

A basic programming and strategic document that contains the priorities and measures for the programming period 2007-2013 and descriptions of the particular operational programmes is the National Strategic Reference Framework for the period 2007-2013. This document has been drawn up by the Government of Czech republic and then approved in July 2007 by the European Commission. NSRF is divided into two parts – strategic (specifies chosen strategy for the chosen targets of the regional policy) and

operational (contains the list of all operational programmes and allocation of all financial resources between them). From the point of view of the beneficiaries the most important documents are the operational programmes (OPs) themselves. The OPs describe priorities, management and financial resources and defines the area of interventions both at the national level and in the particular regions of the member state (MS). There are two types of the OP – thematic operational programmes and regional operational programmes. On the basis of NDP for the period 2007-2013 and NSRF the Government of Czech republic has adopted 26 operational programmes that were submitted to the European Commission for the further discussion. In the period 2007-2013 approximately 26.69 billion EUR are available for Czech Republic.

3.1.1 Objectives of regional policy

In the programming period 2007-2013, the regional policy is focused on three objectives. These objectives are to be achieved in the European mid-term budgetary framework by the use of the structural funds and Cohesion Fund.

Convergence objective supports economic and social development of NUTS II level regions with a GDP per inhabitant lower than 75% of the average of this indicator for the whole of the European Union. Moreover, the funds from this objective are available to the countries with a GNI per inhabitant lower than 90% of the average of this indicator for the whole of the European Union. Convergence objective is financed from the ERDF, ESF and CF, and all cohesions regions in the Czech Republic are eligible apart from the Capital City of Prague.

Regional competitiveness and employment objective supports regions on the NUTS II or NUTS I level that exceed the limit indicator for inclusion in the Convergence objective. This objective is financed from the ERDF and ESF, with the Capital City of Prague being the eligible region in the Czech Republic.

European Territorial Cooperation objective supports cross-border cooperation of NUTS III level regions located along all internal and certain external borders and all NUTS III level regions along maritime borders that are generally not more than 150 kilometres distant from each other. Interregional and transnational cooperation between the regions

is also supported. This objective is financed from the ERDF, and all regions in the Czech Republic are eligible (Structural funds, 2012a).

Allocation of resources of the EU Funds among the ESC objectives in the period 2007-2013:

Table 1: Objectives (Source: Structural funds, 2012a)

Objective	Funds for the Czech Republic	%
Convergence	€ 25.88 billion	96,98%
Regional Competitiveness and Employment	€ 419.09 million	1,56%
European Territorial Cooperation	€ 389.05 million	1,46%
Total	€ 26.69 billion	100,00%

3.1.2 Convergence Objective

Funds under this objective are implemented through seven regional operational programmes and eight thematic operational programmes. For this objective EUR 25.89 billion are earmarked in the Czech Republic.

Seven regional operational programmes for the cohesion regions (NUTS II) with the allocation of EUR 4.66 billion:

ROP NUTS II North-West

The regional operational programme NUTS II Northwest focuses on the cohesion region Northwest which involves the regions of Karlovy Vary and Ustí nad Labem. The main objective is the improvement of the quality of the physical environment and transformation of the economic and social structures of the region with the target to increase the attractiveness of the region for business, investment and life of the population.

ROP NUTS II Moravia-Silesia

The regional operational programme NUTS II Moravia-Silesia focuses on the cohesion region Moravia-Silesia.

ROP NUTS II South-East

This operational programme targets the cohesion region South-East, which comprises the South Moravia and Vysočina Regions.

ROP NUTS II North-East

Regional operational programme NUTS II North-East targets the cohesion region North-East, which consists of the Liberec, Hradec Králové and Pardubice Regions. Objective of this OP is to increase the quality of the physical environment of the region which would increase its attractiveness for enterprises, investments and the life of the population.

ROP NUTS II Central Moravia

Regional operational programme NUTS II Central Moravia places its target on the cohesion region Central Moravia, which consists of the regions Olomouc and Zlín.

ROP NUTS II South-West

The regional operational programme NUTS II South-West targets the cohesion region South-West, which consists of the South Bohemia and Plzeň Regions. The global objective is the increase of the competitiveness and attractiveness of the region.

ROP NUTS II Central Bohemia

The regional operational Programme NUTS II Central Bohemia targets the cohesion region Central Bohemia. The main objective of this operational programme is to create the conditions for the GDP growth in the region and to contribute to a high quality of life both for urban and rural populations by increasing the attractiveness of the region business, investments, life of the population and tourism.

In general, all seven regional operational programmes focus on the improvement of the transport accessibility and connection to the regions, support of the development of tourism infrastructure and services; preparing smaller-scale business sites; and improvement of living conditions in rural areas by improving education, social and health care infrastructure and mitigating the environmental burdens (Structural funds, 2012b).

3.1.3 Thematic operational programmes

Eight thematic operational programmes with a total allocated amount of EUR 21.23 billion. Each operational programmes has a specific thematic focus and is targeted on the entire Czech Republic apart from the Capital City of Prague. The general rule that the operational programmes of the Convergence objective are set for all regions with the exception of the Capital City of Prague is not applied in the case of the OP Transport and OP Environment. These operational programmes are exceptions as they are co-financed from the Cohesion Fund which is intended for the whole of the Czech Republic.

There are also operational programmes that are financed from resources earmarked for the Convergence objective and resources earmarked for the Regional Competitiveness and Employment objective. Therefore they are implemented in the whole Czech Republic including the Capital City of Prague. These multi-objective operational programmes are OP Human Resources and Employment, OP Education for Competitiveness, Integrated Operational Programme and OP Technical Assistance.

OP Transport

Projects under this operational programme are co-financed from the European Regional Development Fund (ERDF) and the Cohesion Fund and include projects such as modernisation of railway corridors of the trans-European transport network (TEN-T); modernisation and increasing the capacity of sections of category D, R and other first class roads of the TEN-T network; electrisation of other railway networks outside the TEN-T network; measures to minimise the effects of already completed construction projects on the environment and public health; building by-passes and reducing traffic in populated areas outside the TEN-T network; greater inclusion of railways and inland water transport in transport chains, development of the Prague metro, etc.

OP Environment

Projects under this operational programme are co-financed from the ERDF and the Cohesion Fund and involve projects such as waste-water treatment plants; reconstruction of garbage incineration plants; water treatment plants; early flood warning systems; rehabilitation of contaminated sites; infrastructure for the REACH

programme; building facilities for waste utilisation; implementation of the Natura 2000 system, including monitoring of specially protected land; planting and renewal of hedgerows, alleys, and windbreaks; ascertainment of the negative impacts of mining; creation of information materials about the environment; protection against water and wind erosion; installation of renewable energy sources, e.g., solar energy systems, heat pumps, biomass tanks, waste heat recovery, etc.

OP Enterprise and Innovation

Projects under this operational programme are co-financed from the ERDF and are as follows: support of new entrepreneurs; construction and reconstruction of facilities for the production and distribution of electrical and thermal energy from renewable resources; development of information and communication technology; support of enterprise incubators; protection of industrial property rights; reinforcement of the development and innovative capacities of enterprises; infrastructure for the development of human resources; support of offers of quality advisory services; marketing readiness of small and medium enterprises with the objective of increasing their competitiveness on foreign markets; preparation of business real estate and regional infrastructure projects; etc.

OP Research and Development for Innovations

Projects under this operational programme are co-financed from the ERDF and involve renewal of research and development laboratories and modernisation of their equipment; construction, reconstruction and expansion of science and research (S&R) in the public sector, including tertiary education; construction, reconstruction and expansion of centres of excellence; improving public awareness about S&R; etc.

OP Human Resources and Employment

Projects are co-financed from the European Social Fund (ESF) and involve other professional training supported by employers; employment intermediation; implementation of flexible forms of work; training of entities active in the area of social inclusion; advisory services and programmes; support of beginning entrepreneurs; attendant measures to acquire and maintain employment; retraining; development of institutional employment services; advisory services and programmes for socially excluded groups; elimination of barriers to equal access to education and employment;

reinforcement of ethical standards and improvement of the efficiency of human resources management in the public sector, etc.

OP Education for Competitiveness

Projects are co-financed from the ESF and projects might be as follows: introduction of training methods, organisational forums and training activities; improvement of the conditions for using ICT for students and teachers even outside classes; development of the competencies of teachers; support of offers of assistance services for students with special educational needs; expansion of foreign language courses; creation and modernisation of combined and distance forms of learning; expansion of appreciation of enterprise and innovation; support of worker mobility between research and development facilities and the private sector; student, teacher and scientist residencies in the public and private sector; support of other learning; etc.

Integrated Operational Program

Projects under this operational programme are co-financed from the ERDF and involve a support of information society services, including electronic public administration - eGovernment, digitalisation of certain data sources; modernisation of equipment and increasing the level of technology of health care facilities; investment support connected to ensuring access to services allowing members of the most threatened socially excluded Roma localities to get back on the job market and into society; construction of employment services training centres and cooperating organisations; modernisation of crisis and accident management system; implementation of standards in tourist industry services; support of presentation of the Czech Republic as a travel destination; repairs of structural or operational defects of buildings; etc.

OP Technical Assistance

The aim of this operational programme is to support the management and implementation of EU funds in the Czech Republic by following activities: support of monitoring, evaluation, and publicity (Structural funds, 2012c).

3.1.4 Regional Competitiveness and Employment Objective

Regions that do not use funds from Convergence are supported by this objective. There are two operational programmes under its scope in the Czech Republic, the Capital City of Prague. EUR 0.42 billion has been earmarked for the Regional Competitiveness and Employment objective.

OP Prague - Competitiveness

The operational programme Prague Competitiveness (OPPC) is intended to support investment projects such as supporting public transport and transport accessibility in Prague; supporting innovation, information and communication technologies and enterprise; and improving the environment in Prague. All projects have to be implemented in the Capital City of Prague.

OP Prague - Adaptability

The operational programme Prague Adaptability (OPPA) is intended to support non-investment projects focused on education, social integration, employment and human resources development in research and development.

As well as the OPPC, this programme also is designated only for Prague. Project stakeholders have to be from Prague or work for a Prague employer or have to be students of a Prague school. Project implementers may come from any region in the Czech Republic (Structural funds, 2012d).

3.1.5 European Territorial Cooperation Objective

This objective supports cross-border, interregional and transnational cooperation amongst regions. In the Czech Republic, all regions involved in this objective, and resources can be used from nine operational programmes. EUR 0.39 billion has been earmarked in the Czech Republic for the European Territorial Cooperation objective. The main importance of the cross-border programmes is the fact that both sides of the border benefit from implementation of the project. Beneficiaries from both countries cooperate in at least two of the following ways: joint preparation, joint execution, joint utilisation of workers and joint financing.

OP Cross-Border Cooperation CR-Bavaria

This programme focuses on promotion of cross-border economic, cultural and community cooperation; development of tourism; promotion of education and social integration; improvement of transport accessibility to the cross-border region; and environmental protection.

OP Cross-Border Cooperation CR-Poland

The Operational Programme Cross-Border Cooperation Czech Republic - Poland 2007-2013 (OP Czech Republic - Poland) focuses on improvement of transport accessibility to the cross-border region; promotion of economic cooperation; environmental protection; promotion of the development of cross-border infrastructure and tourism services; cooperation with local governments and other entities on both sides of the border and promotion of educational, cultural and social efforts.

This programme is designated for the Czech regions of Liberecký, Královéhradecký, Pardubický, Olomoucký and Moravskoslezský; on the Polish side, the programme is designated for the regions of jeleniogórsko-wałbrzyského, opolského, rybnicko-jastrzębského and bielsko-bialského.

OP Cross-Border Cooperation CR-Austria

Objective European Territorial Cooperation Austria - Czech Republic 2007-2013 (OP Austria - Czech Republic) focuses on improvement of transport accessibility to the cross-border region; promotion of the development of cross-border infrastructure and tourism services; promotion of education and social integration; promotion of cooperation between business entities and transfer of technology; environmental protection; and promotion of cross-border cooperation of local governments on both sides of the border.

OP Austria - Czech Republic is designated for the Czech regions of Jihočeský, Jihomoravský and Vysočina and the Austrian regions of Waldviertel, Weinviertel, Wiener Umland Nordteil, Mühlviertel and the City of Vienna.

OP Cross-Border Cooperation CR-Saxony

The programme focuses on improving transport accessibility to the cross-border region; environmental protection; promotion of the development of cross-border tourism infrastructure and services; promotion of infrastructure construction and the provision of services in the field of education and social integration; promotion of cooperation of business entities and the transfer of technology; and promotion of cross-border cooperation of local governments on both sides of the border.

Objective 3 for the Promotion of Cross-border Cooperation 2007-2013 between the Free State of Saxony and the Czech Republic (OP Saxony - Czech Republic)is intended for the Czech regions of Karlovarský, Ústecký and Liberecký and the German regions of Vogtlandkreis, Aue-Schwarzenberg, Annaberg, Mittlerer Erzgebirgskreis, Freiberg, Weißeritzkreis, Sächsische Schweiz, Bautzen, Löbau-Zittau, Zwickauer Land, Stollberg, Mittweida, Meißen, Kamenz, Niederschlesischer Oberlausitzkreis, Saale-Orla-Kreis, Greiz and the statutory cities of Zwickau, Chemnitz, Dresden, Görlitz and Hoyerswerda, and Plauen.

OP Cross-Border Cooperation CR-Slovakia

The programme focuses on improving transport accessibility to the cross-border region; environmental protection; promotion of development of cross-border infrastructure and tourism services; promotion of improvement of education and social services; support for cooperation of business entities and transfer of technology; and promotion of cross-border cooperation of local governments on both sides of the border.

The Cross-border Cooperation Programme Slovak Republic - Czech Republic 2007-2013 (OP Czech Republic - Slovakia) is designated for the Czech regions of Jihomoravský, Moravskoslezský and Zlínský and the Slovak regions of Trenčínský, Trnavský and Žilinský.

OP INTERREG IVC (all EU states, Norway and Switzerland)

The Interregional Cooperation Programme is focused on cooperation between public authorities and institutions that by their nature are equivalent to public authorities on the regional and local level with the objective of exchanging and transferring experience and ensuring joint development of approaches and instruments that will improve the

effectiveness of regional development policy. The primary areas of cooperation include innovation and knowledge economy, the environment, and protection against risks.

OP Central Europe (CR, Austria, Poland, a part of Germany, Hungary, Slovenia, Slovakia, a part of Italy and a part of Ukraine out of the non-member states)

The Transnational Cooperation Operational Programme, which is an operational programme under the European Territorial Cooperation Objective, is divided up into a number of zones. The Czech Republic falls in the Central European Zone and shares the Transnational Cooperation OP with Austria, Poland, part of Germany, Hungary, Slovenia, Slovakia, part of Italy and, of the non-Member States, part of Ukraine.

Network Operational Program ESPON 2013 (all member states, Norway, Switzerland, Liechtenstein, Iceland, EU candidate countries)

ESPON 2013 is a research programme that supports spatial planning and regional development: Its objective is to provide information, analyses, scenarios, maps, databases, indicators, and the like, which contribute to the balanced development of regional or larger territorial units. The abbreviation ESPON means European Spatial Planning Observation Network, which is focused on regional development and cohesion.

Network Operational Program INTERACT II (all member states)

The Interact II Operational Programme (INTERACT “Sharing Expertise”) is, in the framework of the structural funds, a part of Objective 3 - European Territorial Cooperation of EU Cohesion Policy for the 2007-2013 period. The programme is focused on reinforcing the effectiveness and improving the quality of territorial cooperation in EU Member States and other countries taking part in the programme, especially to expand knowledge, experience and other outputs from the cross-border, interregional and transnational cooperation programmes (Structural funds, 2012e).

3.2 SWOT analysis of the Czech Republic

SWOT analysis is based on the results of the socio-economic analysis of the Czech agriculture and industry and on the results of the SWOT analysis of the Czech National Development Plan for the period 2007-2013 which are related to the sector of industry and entrepreneurship. SWOT analysis comprises overall evaluation of the strengths and weaknesses, opportunities and threats and introduces the base for the formulation of the proposed OP Innovation and Enterprises priorities. This analysis defines the key areas from the socio-economic research and the analysis of industrial sector with the purpose to adopt optimal strategic solution and development of identified areas. SWOT analysis helped to identify the future potential development areas which includes research, development, innovation, support of start-ups, human resources for the entrepreneurship, business infrastructure, energy savings and all that are reflected in the approved priorities of the OP Innovation and Enterprises.

3.2.1 Strengths

- Czech Republic joined EU which had the positive impact on the stabilization of the Czech economy and the process of the real convergence in the average standards of living EU -25,
- High economic growth,
- Price stability with low level of inflation and low growth of domestic prices,
- Relatively high qualification of the labour force,
- Relatively high market liberalization,
- Growth of the industry competitiveness with the significant share on the achievement of the positive balancing item in 2005,
- The ability of the processing industry to cope with faster growth of domestic prices and valorisation of the Czech crown in the previous period,
- Significant place of the Czech SMEs,
- Financial instruments used in the SMEs support,
- Efficient functioning of the state agencies supporting entrepreneurship, investments and export,

- Positive impact of the foreign investments supported by the policy of the state investment incentives for regions as well as for the growth of export of the goods and services,
- Development of the national cluster strategy and the system supporting the sub-suppliers of the final global producers placed in the Czech Republic.

3.2.2 Weaknesses

- Rigidity of the labour market, low mobility of the labour force,
- On-going long-term unemployment,
- Low employability of the fresh graduates of certain universities, people over 50 years old and women,
- Low interest in entrepreneurship and reluctance to bear risks,
- High (according to the European scale higher than average) energetic and raw material requirements of the Czech economy and dependency on their import,
- Low vacancy rate in the regions with high unemployment,
- Insufficient link of the learning system to the demand for particular professions and qualifications,
- High rate of the tax burden demotivating the investment in the implementation of the innovation activities,
- Low level of labour productivity in the processing industry within the Eurozone (especially SMEs),
- Difficult access of SMEs to investments in the modern technologies and licences,
- Insufficient quality of the network for high speed data transfer and high costs for its use,
- Lagging in the amount of registered and approved patents,
- Insufficient business infrastructure and offer of appropriate and economically accessible business areas and properties,
- The potential of brownfields used insufficiently,
- Insufficiently developed the sector of services for industry,
- Insufficient capacities of the service providers in general and specifically of the services connected with the increase of quality of the human resources,

- Low equity strength of the SMEs for the financing of the large projects,
- Weak position of the SMEs in the tender competition,
- Low ability of the SMEs to acquire top qualified staff,
- Low rate in the use of modern management methods,
- Steering of the foreign investments in less sophisticated production,
- Low level of the systematic development of the human resources in SMEs including the enterprises doing the foreign trade,
- Lack of the business and marketing skills including the ability to carry out international benchmarking studies of the competition,
- Low knowledge of the foreign markets and foreign business opportunities of SMEs,
- Low share of the expenditures of GDP on the R&D,
- Undeveloped venture capital financing of the innovation-oriented companies,
- Low initiative of SMEs at the innovation activities, the use of R&D and the increase of the quality of human resources,
- Insufficient share of the use of renewable resources on the primary consumption of energy resources,
- Low readiness of SMEs for the mutual co-operation and the co-operation with the scientific and research institutes,
- Lack of the qualified work force at the certain technical professions in some regions,
- Lagging efficiency in the transfer of the R&D results into the industrial practice,
- Lack of the workplaces with the efficiently functioning systems of the transfer of R&D results,
- Lower economical access of the foreign know-how, technologies and patents for most of the SMEs including the high costs of the intellectual property protection.

3.2.3 Opportunities

- Expansion of the world economy in particular in EU,
- Decrease of the regional disparities by the use of the structural funds in the 2007-2013 period,
- Access to the foreign equity and investments in particular into the sophisticated fields,

- Growth and innovation potential of the SMEs,
- Stability and attractiveness of the Czech economy,
- Convenient geographical position of the Czech Republic within the EU,
- General improvement of the qualification structure and the learning system according to the development needs of the knowledge economy,
- Dynamics of the Czech foreign trade which significantly contributes to the GDP growth,
- High share of the SMEs in the corporate structure and their potential,
- Improvement of the investment climate,
- Increase of the offer of the business properties,
- Increase of the share of the industrial products with higher technological level in the foreign trade,
- Diversification of the export offer and diversification of the territorial structure of export,
- Development of services,
- Creation of the clusters with the participation of SMEs and scientific and research workplaces,
- Development of the "Mobility" and the organisation of contacts, information exchange and co-operation between enterprises and R&D workplaces,
- Interconnection of the R&D capacities with European scientific and technical structures,
- Emerge of the foreign investments focused on the development of technological centres and "high-tech" and "medium-tech" enterprises,
- Higher use of the renewable sources of energy.

3.2.4 Threats

- Long-term lasting of the current economy recession in the main areas of the world economy,
- On-going weak enforcement of the law,
- Increasing dependency of the Czech economy on activities of the equity-strong multinational corporations,

- Increasing foreign competition at the world markets in particular cheap products manufactured in Asia,
- External shocks caused by the growth of the oil prices at the world markets, energy prices and other raw materials,
- Dependency of the export-oriented sectors of industry on the development of economy cycles within EU,
- Risk of the creation of dual economy (regional and sectorial),
- Slow reaction of the learning process to the needs of knowledge society,
- Lagging efficiency of the transfer of R&D results into the industrial practice,
- Low mobility at the labour market in areas of the high-qualified and science-technical professions,
- Insufficient link and small transfer of the R&D results into the industrial production and into the development of industrial services,
- Slow reaction of the R&D workplaces and innovation companies to the possibility of entering the new fields and applied research (nanotechnology, biotechnology, genetics, etc.).

On the basis of the performed SWOT analysis it is obvious that business sector in the Czech Republic has to make a significant progress in the field of the development of R&D, innovations, strengthen the co-operation within the entrepreneurship and science and research sector, in the field of energy savings. The focus should be placed on the development of the business environment (business infrastructure) and entrepreneurship itself and the development of human resources. Czech Republic possesses a strong and wide industrial base in particular when it comes to the processing industry. It is a country with the tradition of technical and machinery branches. During the last years the performance of the Czech economy has been strengthened by the successful realisation of the foreign direct investments that positively influenced the creation of vacancies at the multinational companies as well as at SMEs and therefore mitigated the impact of the loss of job opportunities in the heavy machinery and mining sector. But the foreign investments did not run equally in the each region which entailed the different development of the economy performance. In order to develop the economy and its competitiveness it is crucial to spread the business infrastructure, improve the business environment, strengthen the development of business services, focus on the support of

the R&D areas and innovations, develop physical and intellectual infrastructure which would enable Czech Republic to become competitive at the world economies based on the knowledge and the use of modern technologies. The business sector should not focus only on the industrial activities but also on industrial services (Ministry of Industry and Trade, 2011).

3.3 SMEs in the Czech Republic

One of the priorities of the Government of Czech Republic is a support of the competitiveness of the small and medium enterprises that represent more than 1 million of the economic subject in the Czech Republic (99.84% of all entrepreneurs). Currently SMEs employ around 2 million people and have a significant share in country's export and import. SMEs play also play a significant role in the development of the endogenous potential of the particular regions in the Czech Republic since they have a strong business inter-connection with the regions.

Small and medium-sized enterprises occupy in the last 10 years in the Czech economy significant place in its roughly 60 percentage share in total employment and in around 52 percentage share on the performance and on added value created in non-financial sphere of the Czech economy. Also in the industry small and medium-sized enterprises have an important position and they significantly contribute in creating of the value-added.

In terms of labor productivity (derived from sales) are SMEs about two thirds of the average of the processing industry. Firm size category (number of employees) is an important factor in the labor productivity in the Czech industry.

Small and medium-sized businesses are stabilizing element in particular from the employment perspective, where they permanently maintain share just over 60 % of the total employment with a slight growing trend. These entrepreneurs were so far capable to keep up with the development of the effectiveness and performance in the large companies. It proves that they maintain their share on the GDP and export, performance and produced added value.

Support of the SMEs position in economy of the Czech Republic does not have only economic reasons. An aspect of the business environment development has to be taken into account as well in particular the role of SMEs in the mitigation of negative effects of the structural changes in employment:

- A possibility to address such needs of the market, which are not interesting for large enterprises,
- To facilitate the orientation of the public support in the areas affected by economic recession or in areas economically weak,
- An option to integrate SMEs in economic strategy clusters (improve co-operation with other potential partners at the level of the regions and from higher education and research sphere).

Findings from the monitoring carried out in the Czech Republic during the programming period 2004-2006 show that:

- there is a weak motivation of the SMEs management in increasing their participation in the education, ensuring the conditions for the standardisation and comparability of the certificates and diplomas,
- an offer of the affordable advisory and consultancy services required for the use of the systems of support for business development is missing,
- the problem of the companies engaged in business activity in the services sector in the Czech Republic is not the low rate of return of these companies, but difficult starting conditions, which are associated with setting up of the new business entities. Business Services are currently involved in the production of the GDP about 8 % and stagnate both in the terms of creating added value and in the terms of employment.
- the knowledge of foreign markets and the foreign trade opportunities of the SMEs remain low as well as the a lack of the commercially-marketing skills such as dealing with the International Studies of "benchmarking" competing firms, etc. (OP Enterprise and Innovations, 2011).

At the beginning of the current programming period 2007-2013:

- small and medium businesses are stabilizing element in particular from the employment point of view where they permanently maintain share just above 60 % of the overall employment in a mild tendency toward growth,
- small and medium-sized businesses were able to keep up with the development of the efficiency and performance in large enterprises. This is demonstrated by maintaining their share of the GDP and exports (around 35 %), as well as performance and produced added value (over 50 %),
- small and medium-sized businesses significantly dominate in employment and added value in hospitality, in services, in the business and in the construction industry with the share of more than 80 %,
- in the industry and transport, small and medium-sized businesses have around one-third share in the employment and creating value-added,
- growing and a relatively high percentage of small and medium-sized entrepreneurs on the overall investments realized in the Czech Republic, which in 2004 already exceeded 50 %, and this trend has continued,
- the sector of the small and medium-sized enterprises consists mainly of the entrepreneurs operating in the processing industry, business and services,
- technological lagging of the sectors is compensated by cheaper labor force and relatively long real working time (Ministry of Industry and Trade, 2006).

3.4 OP Enterprise and Innovations

3.4.1 Priority axis 1

Priority axis 1 of the OP Enterprises and Innovations consists of two areas, which focus on creating the conditions for the emergence of new firms, with the emphasis on the support of the innovation-oriented firms.

Support for start-up entrepreneurs

The operational objective under this area is to strengthen and develop activities entrepreneurs entering the business for the first time or with a longer time delay. This area of support is targeted at improving the motivation to start business by creating the offer of the privileged and concessional financing services to operate business activities.

The purpose of the aid is to allow starting businesses and implementation of the business projects of the small businesses (businesses entering into business for the first time or with a longer time lapse), geared in particular to support the projects in the new technologies and the competitive products and services. The offered products will be of great importance for start-up businesses, because similar products are not offered by any subject in the Czech Republic nor by monetary institutions which provide their products on the commercial basis.

The rationale for aid is the lack of capital, problematic access to financial resources, especially for start-ups, together with a legal system and social perception of the business activities in the Czech Republic. This environment is not favorable enough for the business development and the creation of new business and taking of the business risk are difficult. In the Czech Republic about 70 thousand of new entrepreneurs emerge annually. Within this area of support is foreseen to provide support of roughly 400 start-up entrepreneurs annually. This number can be considered appropriate in particular as only a part of the early-stage entrepreneurs uses medium-term loans or is an appropriate object for the capital input.

In order to sum it up in bulletpoints, the aim is to support (Ministry of Industry and Trade, 2011):

- improve access to financial resources in particular start-up small businesses,
- finance implementing business plans citizens for the first time or with a longer time
  hindsight entering the business,
- increase interest in the business, to facilitate entry into new business entities, remove
  obstacles to the financing of projects early stage entrepreneurs and increase employment.

The use of new financial instruments

Operational objective under this area is to stimulate and facilitate emergence of new innovative firms through relevant financial instruments. The introduction of new financial instruments will help address the issue of the funding projects of SMEs in the initial development phase and associated with high-risk resulting from the nature of the

aid beneficiaries and the types of implemented projects within this area of support. It is assumed that the investment aid for SME development will focus on the use of the tools such as venture capital. The rationale for area aid is that in the Czech Republic there are barriers for new firms in obtaining loans or capital private investor entry. Innovation-oriented businesses (e.g. type spin-off), especially in seed stage or just after the establishment, but also in the development stage, is often faced with the need to implement relatively large investments in equipment, for which they do not have enough of their own resources, and in view of the very short history or the amount of investment is too risky for standard bank products. These firms have a high potential for growth, competitiveness, innovation and long-term as well as creation of new qualified jobs. In the Czech Republic at the same time there is not sufficiently developed venture capital market such as. Therefore there is a need for support for the development of the venture capital market through seed fund and venture funds with the contribution from public funds (Ministry of Industry and Trade, 2011).

3.4.2 Priority axis 2

This axis contains two areas of support.

Bank instruments to promote small and medium-sized enterprises

The operational objective of this area is to create a competitive small and medium-sized enterprises by supporting their developing business plans with banking instruments. The aid is to accelerate the development of small and medium-sized enterprises capable to realise more significant projects leading to an increase in their level of competitiveness or enterprises capable of engaging the sub-contracting chains of the large enterprises.

The aim is to support (Ministry of Industry and Trade, 2011):

- Support the implementation of smaller developing business projects of small businesses

with a short history, for which the barrier of obtaining external financing lower own capital

amenities or limited opportunity to provide credit protection, with particular emphasis on

facilitating access to external financing in the form of different types of the capital entry from
private investor,
- to encourage more extensive business development projects and in particular small medium-sized entrepreneurs with a focus on purchase of technology and innovation products normally associated with them and the processes with a higher potential for revenue growth, but the risk of failure,
- facilitate the implementation of the business projects of small and medium-sized entrepreneurs providing the maintenance of competitiveness or undertaking further expansion, and that in cases where supply bank credit is risky due to the limited possibility of providing sufficient secure of the loan,
- support the development venture capital market in the Czech Republic.

Support for new production technologies, ICT and selected business support services

The operational objective of the second area is stimulating the creation of small and medium-sized enterprises in selected regions by promoting investment in modern technologies, and to increase the level ICT infrastructure in enterprises, help improve contribution of services to GDP.

The support provided within this area will therefore be directed to the projects with growth potential, so the projects at the same time contributing to removal of regional disparities (in the structurally affected regions, economically weak regions and regions with highly above average unemployment). Support will also be directed to the development of information and communication technologies, and broader application and use of ICT in enterprises, and in the development of selected strategic services with close continuity with the information and communication technologies. The aim of this area is therefore to promote implementation in selected regions by developing the business projects of small and medium-sized businesses in particular relating to investment in new modern technologies, contributing to the consolidation of positions of supported enterprises on the market and thus to contribute to the maintenance and growth in employment (Ministry of Industry and Trade, 2011).

3.4.3 Priority axis 3

This axis contains one area of support whose operational objective is to reduce the energy intensity of the Czech engineering and processes associated with the production, transformation and uses energy.

Energy-saving and renewable energy sources

This area will aim to support business activities in the energy-saving and renewable energy, possibly, secondary sources of energy. The aim of the aid is to reduce energy intensity per unit of production while maintaining long-term stability and availability of energy for the business sphere, to reduce dependence of the Czech economy on the import of energy commodities, to reduce their consumption of fossil primary energy sources and to support entrepreneurs in the field of renewable energy sources, while contributing to the increase of their competitiveness. The intention is also to use the significant potential energy savings and renewable sources of energy in larger enterprises. The construction of facilities for the production and distribution of the electrical and thermal energy made from renewable energy sources and reconstruction of existing production equipment for the use of renewable sources of energy will be supported as well. Another area of support is the modernisation of existing installations for the production of energy leading to an increase in their effectiveness, the introduction and modernization of the measurement and control systems, modernisation, restructuring and reducing losses in the distribution of electricity and heat and loss-making energy use in industrial processes (Ministry of Industry and Trade, 2011).

3.4.4 Priority axis 4

Increasing innovation performance of businesses

The operational objective of the first area of support is to stimulate innovation activity of enterprises (especially small and medium-sized enterprises), increase the intensity of the use of instruments protecting the intellectual property rights.

Implementation of innovation and large-scale application of research and development in industry and the business services creates a strong potential for faster economic growth. From a practical point of view the innovation supports the creation and

maintaining high-quality jobs thanks to greater productivity and flexibility, adopting more efficient technologies and management practices, skills to react quickly to changes and opportunities in the market and creating an environment in which entrepreneurs can start new businesses of innovative character. The purpose of the aid within this area is therefore to stimulate innovation activity in particular of small and medium-sized enterprises.

Capacity for industrial research and development

The second area of support focuses on the increase of research, development and innovation capacities, deepen cooperation between the enterprises with the research and developmental institutions. The aim of this promotion is to enhance development and innovation capacity enterprises (especially SMEs), increase the number of business entities that carry out their own research, development and innovation, promote employment growth through creation of new skilled jobs and deepen cooperation between businesses with research and developmental institutions. These activities will contribute to increasing the competitiveness of enterprises and also to create the conditions for involvement of enterprises in the domestic and European programs for the research and development support (Ministry of Industry and Trade, 2011).

3.4.5 Priority axis 5

Priority axis 5 contains three areas of support, creating an appropriate environment for the creation and development of the innovation business.

Cooperation Platform

This area is aimed at supporting cooperation between enterprises, scientific research and educational institutions and municipal spheres on the regional and trans-regional level with the possibility of aid and international cooperation in both new and existing clusters. Projects for the identification, creation and development of clusters and technology platforms will be supported in particular.

The predominant focus of this support is to create infrastructure for development of co-operation especially in the research and development, training, internationalisation, transfer of know-how, support for specific projects and jointly realised industrial

research and development by enterprises and R& D institutions. Within this area the creation and development of regionally concentrated sectoral grouping business to business and business support institutions, including research and education bodies, i.e. clusters will be supported as well as the support of technology Platforms, both emergence and development of national technology platforms and the link between public and private sector as well as the involvement of the Czech research institutions and enterprises in the international Technology Platforms.

Development of the infrastructure for industrial research, development and innovation with a focus on technology transfer between the entities, innovation environment to support direct links between research institutes and business community will be supported under this area as well.

Infrastructure for development of human resources

Support under this area is directed at improving the conditions for learning and development of the key skills in the field of further professional growth in the human resources business entities. The aim of this promotion is to focus investments in infrastructure for the development of human resources in enterprises, as well as in the institutions that provide services for businesses in the area of further professional education. Support will be directed primarily to the acquisition or reconstruction training equipment, including their equipment training aids and programmes.

Infrastructure for business

Within this area the support is targeted to improve the quality of infrastructure for business. Specifically to promote the development of properties for business including related infrastructure, in particular the construction and other development of the existing industrial parks and construction halls with the priority use of the land and the objects such as brownfields. That area also aims to promote knowledge and information base for development of the regional business infrastructure and business support in the area of market development of the commercial real estate property (Ministry of Industry and Trade, 2011).

3.4.6 Priority axis 6

Support advisory services

This area will be to support the relevant advisory services for business bodies, in particular small and medium-sized enterprises, in connection with setting-up and development enterprises, by introducing innovation and increasing their competitiveness. Support will be further directed to the development and coordinated decentralisation of the regional consultancy infrastructure based on local knowledge needs of the businessmen, their greater or lesser ability to engage separately in more complex projects, using the local conditions, such as the proximity to the potential foreign customers. Also the analysis and monitoring of the acute needs of entrepreneurs and world trends in order to update subsidised advisory, information and educational services especially those which will help Czech economy competitiveness will be supported.

Support marketing services

Within this area the attention is concentrated to support of the educational, assistance and information services and consultancy services for international trade, marketing readiness of the small and medium-sized enterprises in order to increase their competitiveness in the
foreign markets, and to improve the quality presentation of the Czech Republic abroad through the implementation of joint participation by firms on foreign trade fairs and shows (Ministry of Industry and Trade, 2011).

3.4.7 Priority axis 7

The activities supported under the axis 7 „Technical assistance“ are aimed at the preparation, management, implementation, monitoring, evaluation, publicity, and Control.

Technical assistance in the management and implementation OPPI

This area of support includes the following (Ministry of Industry and Trade, 2011):

- expenses associated with the preparation, selection, implementation, evaluation, and monitoring of the Operational programme,

- the costs associated with meetings of the Evalutaion Commission and the Monitoring Committee of the Operational programme, including the cost of participation of external experts,

- the cost of data processing, the cost of audits and checks carried out by on-the-spot, costs of the staff compensation (including social security) who are involved in the preparation, selection, evaluation and monitoring of the programme, audits and controls for increasing the absorption capacity of management structures for this OP.

Other technical assistance

Implementation of the Operational Programme Enterprise and Innovation involves conducting various external studies, analyses, and evaluation strategies, the financing of which would be handled through this area. It also will be used to finance seminars, workshops, exchanges of experience and information, promotion and publicity, informative events, processing information analyses, acquisition and installation of computerised systems necessary for the management, implementation and monitoring of an operational programme, the preparation for the next programming documentation programming period, pilot projects and evaluation (Ministry of Industry and Trade, 2011).

3.5 Result indicators and statistics

3.5.1 Results of the OP Enterprise and Innovations per priority axes

In order to quantify objectives at the programme level, various indicators have been derived from the global and specific programme objectives. Used result indicators express the effect of interventions supporting the creation and development of business activities within the SMEs sector. Target values have been determined on the basis of the qualified estimate performed by the group of experts of the Ministry of Industry and Trade as well as by the expert from the implementation agencies from the previous programming period and external experts. Following of the indicators fulfilment is part

of the Monitoring System of the OP Enterprise and Innovation. Results are published annually at the Annual Implementation Reports of this operational programme. When drawing up this dissertation only 2011 Annual Implementation Report was available and therefore there are no figures from the year 2012.

3.5.1.1 Priority axis 1

Table 2: Priority axis 1 (Source: Ministry of Industry and Trade, 2012a)

Indicator	2007	2008	2009	2010	2011	Target for 2015
N. of the projects of the direct aid to SMEs	59	130	130	171	177	480
N. of newly established enterprises	59	130	130	171	177	450
N. of SMEs supported from the fund of venture capital	0	0	0	0	0	30
N. of newly created vacancies	0	153	153	188	237	1500

In the year 2011 there was no significant progress at the fulfilment of the specific objective of the priority axis 1 which is increasing of the motivation for starting up a business, intensifying of the SMEs‘ activities and creating of the conditions for the use of new financial instruments helping start-ups. Current state of the fulfilment of the specific objective of priority axis is 20,5 % and achieved values of indicators reached the increase only by 14,2 %. Both values are considered the lowest within the OP Enterprise and Innovation. The most significant progress was spotted at the creation of vacancies which increased by more than 25%. Number of newly established enterprises is still at the level of 39% of the target value in 2015. In 2011 no SME was supported from the fund of venture capital. This indicator is aiming at the companies established 5 years ago or less.

3.5.1.2 Priority axis 2

Table 3: Priority axis 2 (Source: Ministry of Industry and Trade, 2012a)

Indicator	2007	2008	2009	2010	2011	Target for 2015
N. of supported projects	491	1688	2222	2852	3554	11000
N. of SMEs supported from the fund of venture capital	0	0	0	0	0	20
N. of companies that received an aid in the purchase of new technologies	0	119	219	344	596	1400
N. of projects for ICT development (large companies excluded)	0	49	179	282	529	3250
Added value of supported companies	0	22,9	-2,2	19,2	29,6	30%
N. of newly created vacancies	0	2347	3970	5150	8378	25000

Result indicators of priority axis 2 go successfully towards the target in 2015. Current state of the fulfilment of priority axis 2 is 32,5%. Out of the entire OP, the operations of axis 2 are focused on the creation of vacanies the most. By the end of 2011 the number of created vacancies have reached 8 378 under this axis. Number of installed modern production technologies co-financed by this programme support has reached 1 703. The part of the priority axis 2 is also a support of projects of SME through the financial instrument for the SMEs development. Number of project for the ICT development reached 529 which represents an increase by more than 88% in comparison with the year 2010.

3.5.1.3 Priority axis 3

Table 4: Priority axis 3 (Source: Ministry of Industry and Trade, 2012a)

Indicator	2007	2008	2009	2010	2011	Target for 2015
N. of projects – efficient use of	0	28	67	149	245	800

energy (SMEs)						
Production of the electricity from renewable energy sources	4,7	5,2	6,8	8,24	N/A	9%
Energy savings	0	2,129	58,589	156,971	398,948	9000

Priority axis 3 "Efficient Energy" is focused especially on the improvement of environment through the implementation of eco-efficient technologies in-line with its specific objective "to increase the efficiency of the energy in industry and the use of renewable energy resources". Development of the implementation of priority axis 3 is approaching the fulfilment of the given specific target for 2015. Fulfilment rate of the specific objective through the achieved value of indicators is the lowest out of all OP's axes (19%). Despite this fact development of the axis can be evaluated as successful. Key factors, which influence this state, are high target value of the indicator "Energy savings and long-term character of the project implementations". Number of supported projects reached 245 in 2011 which is an increase by 64,4%. Increase of the indicator "Energy savings" reached 150% TJ. The reached value of 400 TJ represents 4,4% of the target value for 2015. According to the high success rate of the calls for applications it can be said that the priority axis 3 is on the way to the fulfilment of set targets.

3.5.1.4 Priority axis 4

Table 5: Priority axis 4 (Source: Ministry of Industry and Trade, 2012a)

Indicator	2007	2008	2009	2010	2011	Target for 2015
N. of supported projects (large companies excluded)	0	18	104	238	431	1350
Share of the sales from innovated products of the supported companies	0	7,01	23,53	19,26	20,64	25%
Expenditures on the innovations in the business sector (billions of CZK)	N/A	123,4	N/A	81,984	N/A	60,7

Share of the companies doing innovations in the business sector	N/A	29,2	N/A	32,4	N/A	45%

Priority axis 4 is heading to the fulfilment of the 2015 target values. Overall state of the specific objective of priority axis 4 is 44,4% which is the highest value in the framework of OP's priority axes. Axis 4 is something like a spine of the OP Enterprise and Innovation strategy. 516 projects in the field of research and development, innovation and patents have been funded by the end of 2011, which represents 29,5% of the target value for 2015. In the framework of the programme Innovations 906 innovations of products, processes, organisation and marketing have been implemented which is the increase by more than 100%. Implemented innovations bring positive impact on the competitiveness of the supported enterprises. Products with implemented innovations maintain around 20% share on the total sales of these enterprises.

3.5.1.5 Priority axis 5

Table 6: Priority axis 5 (Source: Ministry of Industry and Trade, 2012a)

Indicator	2007	2008	2009	2010	2011	Target for 2015
N. of projects for the entrepreneurship infrastructure development	0	0	58	162	313	900
N. of projects supporting the co-operation between companies and research institutes (large companies excluded)	0	0	0	0	11	175
N. of newly established centers for the transfer of technologies and	0	0	5	23	36	40

science and technology parks						
Business areas and objects prepared for investments (t. m^2)	0	0	185,5	287	323,5	800
Increase of the capacity of learning activities	0	0	626	2363	6593	20000
N. of newly established incubators	0	0	5	16	18	40

Specific objective of the priority axis 5 is to "support the co-operation of the industry sector with subjects from the field of R&D, to improve infrastructure for the industrial research, technological development and innovations, to make the use of the human potential in industry more efficient and to improve the business infrastructure." In 2011 there was a significant progress especially in the increase of the achieved values and priority axis 5 is heading to the fulfilment of 2015 targets. Current state of the fulfilment of specific objective is at the level of 36,1%. There was a fast growth in the achieved results in 2011 due to the finishing of the big amount of money- and time-consuming projects. Number of newly established centres for the transfer of technologies and science and technology parks increase by more than 56%. As a result of the projects in the programme "Learning centres" more than 6 500 centres were built. In comparison with the previous year there was almost 3 times increase. Very positive results are also brought by the programme supporting "Real Estates". Areas and objects prepared for investments reached at the end of 2011 value of 324 000 m^2 which represents 40% of the 2015 target. Most of the projects of the programme "Real Estates" focus on the reconstruction of existing objects with the perspective of productive use. Programme has also positive impact on the improvement of environment.

3.5.1.6 Priority axis 6

Table 7: Priority axis 6 (Source: Ministry of Industry and Trade, 2012a)

Indicator	2007	2008	2009	2010	2011	Target for 2015
N. of projects of the advisory services for the entrepreneurship development	0	0	41	115	164	600
N. of projects in the area of the innovative advisory	0	0	0	0	0	20
N. of projects of the marketing presentation abroad	0	312	490	513	646	1400
N. of participation in the specialised fairs and expositions (large companies excluded)	0	0	0	597	1368	1000
Increase of the added value of supported firms	0	0	6	-2,6	1,2	30%

The rate of the objective fulfilment is at the level of 53,6% which is in terms of OP Enterprise and Innovation over the average. Number of supported projects in the framework of the programme Advisory increased during 2011 to 27,3% of the target value. Due to the realisation of the call of the programme Marketing there was also an increase by 26,7% in the number of issued decisions in the framework of individual projects of SMEs. Number of projects of the marketing presentation abroad rose by 26%. Among supported project of marketing presentations abroad there is an increasing trend of interest in the eastern emerging markets in particular a production of machines, furnisher etc. Success at these markets is one of the ways to the growth of competitiveness of the Czech industry. Besides the number of supported projects, the specific objective is also monitored through the indicator „Increase of added value of supported firms“, which defines anticipated positive gross influence of the support on the competitiveness of supported firms.

3.5.1.7 Priority axis 7

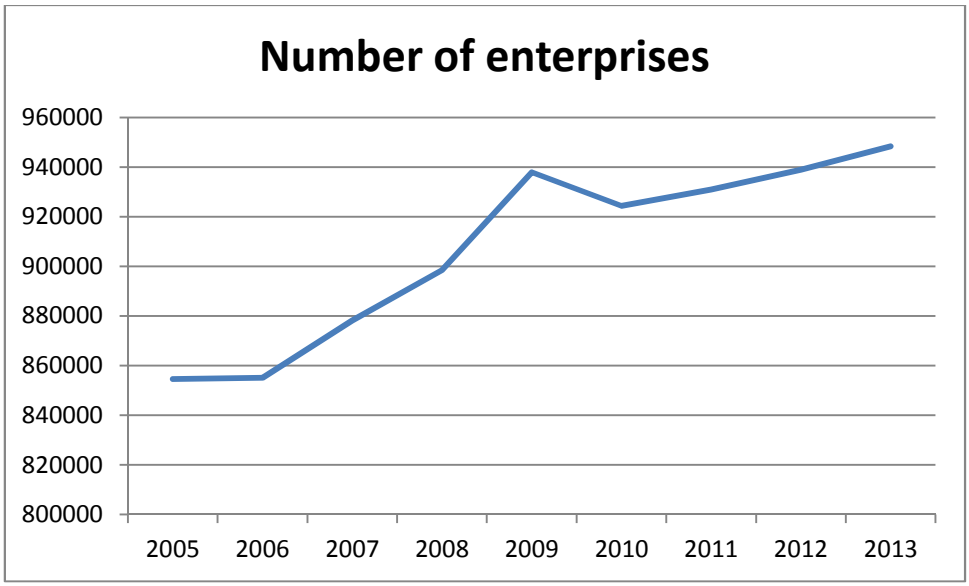
Table 8: Priority axis 7 (Source: Ministry of Industry and Trade, 2012a)

Indicator	2007	2008	2009	2010	2011	Target for 2015
N. of evaluation studies	1	4	10	14	19	30
N. of realized seminars	15	85	131	281	485	550

During the year 2011 there was another growth of the achieved results under the priority axis 7 "Technical assistance". It can be said that priority axis is heading to the fulfilment of the specific objective "to create institutional, technical and administrative conditions for the realisation of operational programme". More than 200 events have been included in the indicator "Number of realised seminars". Seminars were especially focused on the selection process, the most often errors during the project implementation, presentation and consultation of the intentions of the Ministry of Industry and Trade for the next programming period. These seminars had very positive impact on participants.

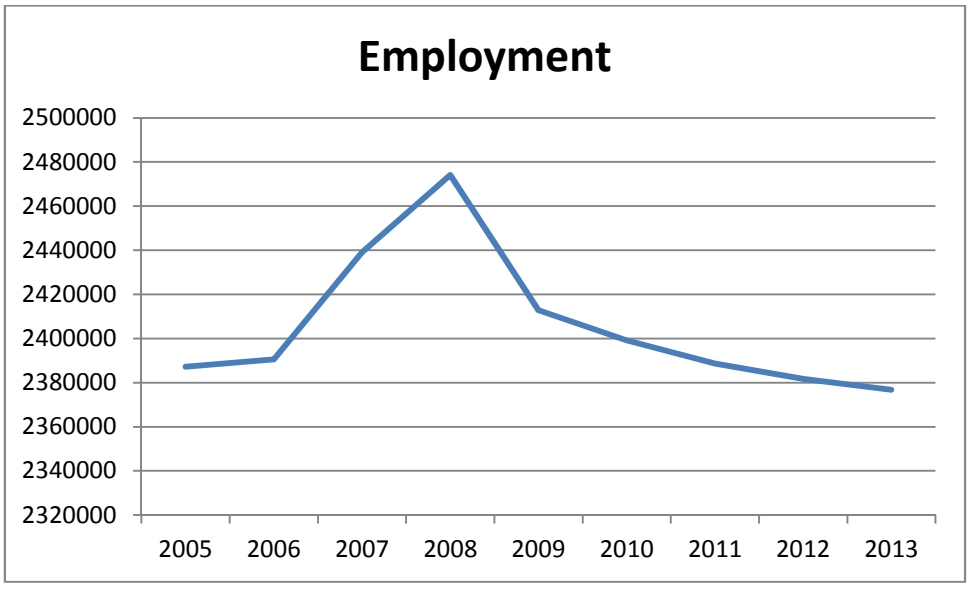
3.5.2 Overall statistics for the SMEs in the Czech Republic

Results indicators from the previous chapter focused on the particular specific objectives within each priority axis of the Operational Programme Enterprise and Innovation. In order to see the global impact of the OP on the Czech SMEs it is necessary to provide readers with an overall statistical results focusing on the indicators such as number of enterprises, employment, added value and turnover of SMEs.



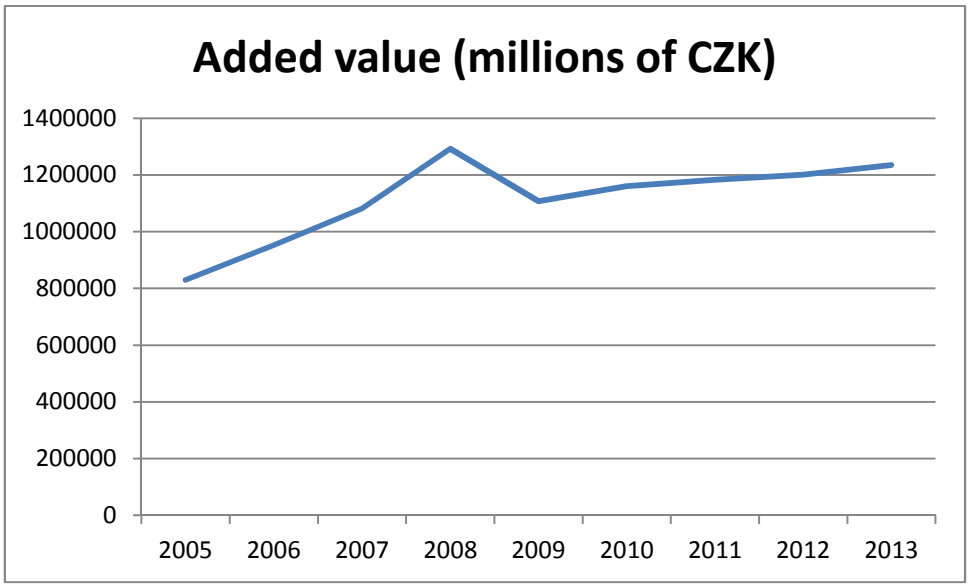
Graph 1: Number of enterprises (Source: DG Enterprise and Industry, 2012)

The total number of SMEs in Czech Republic has been growing since 2006 and has been consistently above the EU average. During years 2009 and 2010 a slight drop occurred. It might have been caused by the consequences of the economic crisis. Overall the number of enterprises has a growing trend which will continue in the future.



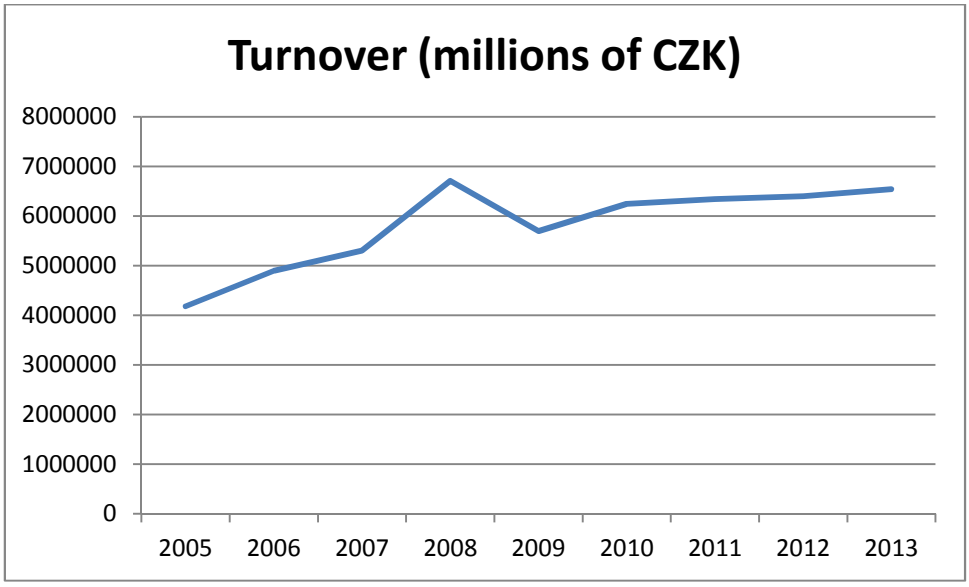
Graph 2: Employment (Source: DG Enterprise and Industry, 2012)

Employment figures fell slightly but steadily between 2008 and 2010. Even though the trend is still decreasing it's slowing down and it might rise again during the next programming period.



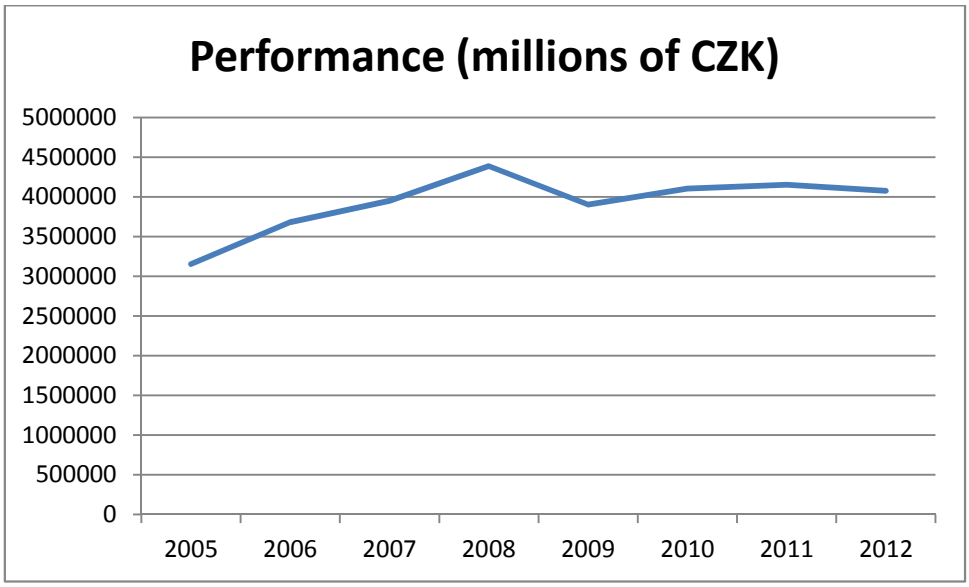
Graph 3: Added value (Source: DG Enterprise and Industry, 2012)

The value-added produced by Czech SMEs consistently outperforms the EU as a whole. The only drop was recorded during the years 2008 and 2009. Overall, the trend is growing and it can be said that Czech SMEs have been spared the worst impacts of the economic crisis (DG Enterprise and Industry, 2012).



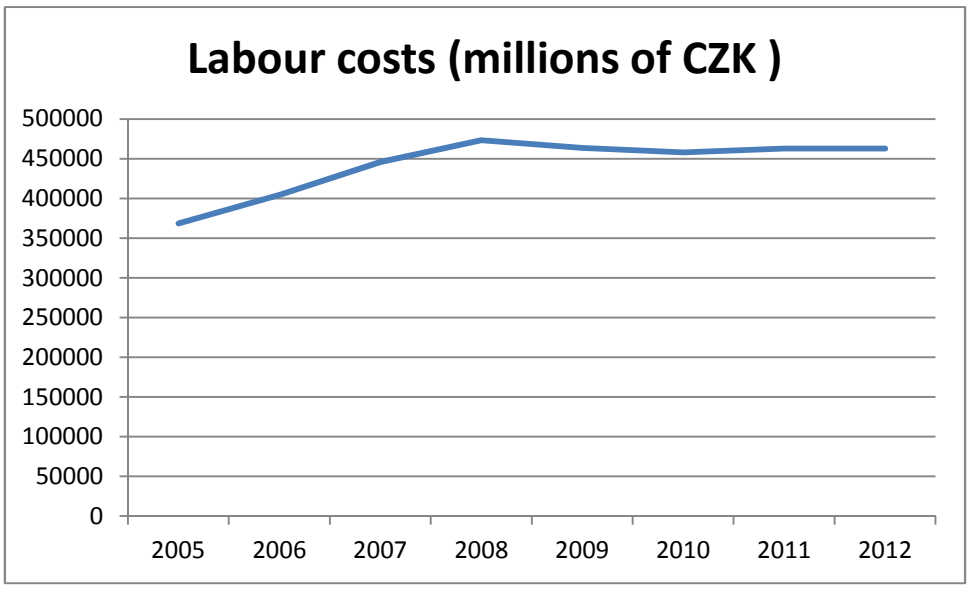
Graph 4: Turnover (Source: DG Enterprise and Industry, 2012)

Turnover of the Czech SMEs has also growing trend. The only drop can be seen between the years 2008 and 2010 similarly as in the previous cases.



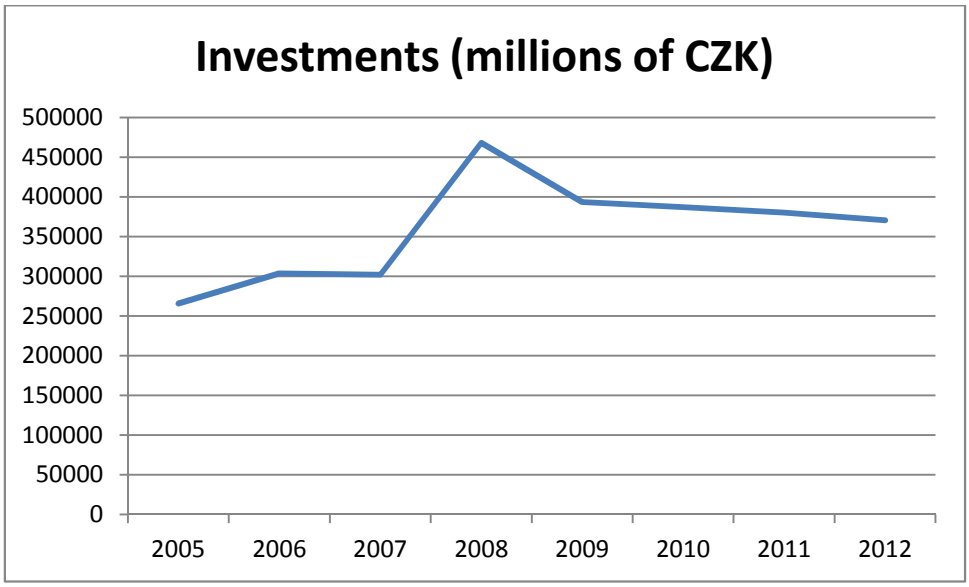
Graph 5: Performance (Source: Ministry of Industry and Trade, 2013)

In 2012 the performance of Czech SMEs was at the level of 4 075 345 mil. CZK, which is lower by 76 037 mil. CZK in comparison with 2011. A share of small and medium enterprises on the total performance in 2012 reached 48,33% which means a decrease by 1,33%.



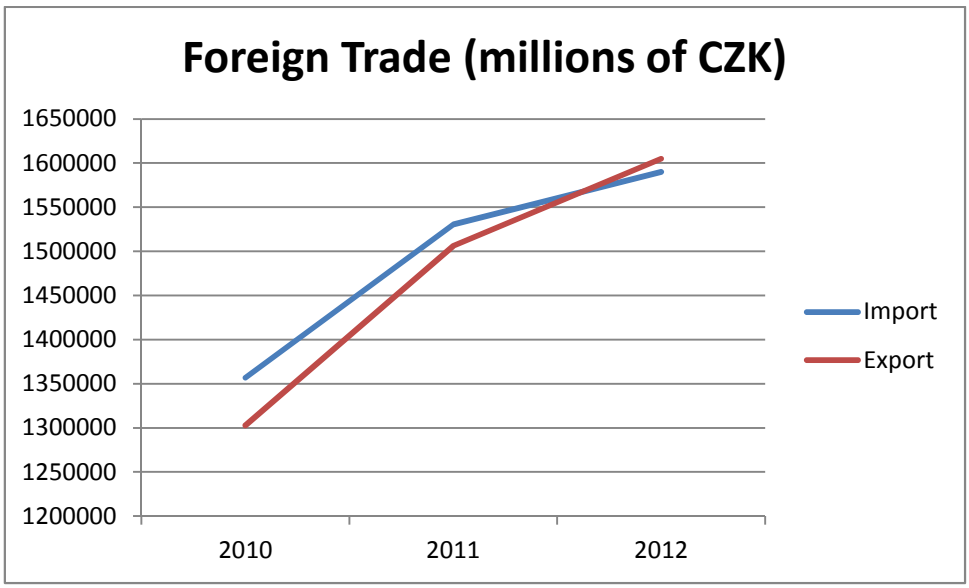
Graph 6: Labour costs (Source: Ministry of Industry and Trade, 2013)

In the sector of small and medium enterprises an average monthly wage was 21 587 CZK in 2012. There was an increase of average wage by 392 CZK (1,85%).



Graph 7: Investments (Source: Ministry of Industry and Trade, 2013)

Investment costs (physical and intangible, including a land) of the small and medium enterprises reached in 2012 a value of 370 483 mil. CZK, which is by 9 729 mil. CZK less than in 2011 (-2,56 %).



Graph 8: Foreign trade (Source: Ministry of Industry and Trade, 2013)

Export and import of the Czech SMEs is growing constantly. In 2012 the export of small and medium enterprises rose by 98 747 mil. CZK (6,56%). Furthermore, between years 2011 and 2012, the export has surpassed the import. The share of SMEs on the total import was 59,88% in 2012 and the share on total export was 53,51%.

4 PROPOSALS AND CONTRIBUTION OF SUGGESTED SOLUTIONS

Following proposals are based on the results of SWOT analysis, results indicators of the Annual Implementation Report of the OP Enterprise and Innovation, the overall statistical results and author's personal experience from the work with structural funds and EU policy at the European Commission.

The key challenge for the Czech economy going forward is to mobilise factors facilitating the transition to growth based on innovation, higher value added, human capital and resource efficient economy. The essential ingredients for this transition include investments in a skilled and flexible labour force and competitive enterprises that can achieve and put forward the technological frontier. Looking towards the future, factors such as the institutional and regulatory framework, the flexibility in the labour market, the quality and availability of infrastructure, energy policy and quality and efficiency in the education and research system will increasingly determine the feasibility of improving the competitive position of the Czech economy. In addition, the growth model envisaged cannot neglect environmental sustainability and social cohesion. These challenges and priorities in the area of economic and budgetary policies and defined measures to enhance economic growth and employment must be in line with the EU 2020 objectives (see chapter 2.4).

In order to simplify this part of the dissertation, proposals are divided into three main areas:

- support of start-ups,
- enhancement of competitiveness of the existing SMEs,
- increase of the use of funds among the Czech SMEs.

4.1 Support of start-ups

According to the statistical results number of enterprises in Czech Republic is growing. However result indicators showed that there are still some tools aiming the support of new business, which are not fully used by Czech SMEs.

There is a strong need for the availability of a range of **financial instruments** in support of the starting up of new and of the further development of existing enterprises with growth potential. There is currently a shortage of different forms of financial instruments, in particular risk capital and seed funds, available for SMEs on the Czech financial market. This also applies to agricultural and aquaculture enterprises and SMEs active in rural areas. The Czech Republic should make a decisive move from grant-based support towards financial instruments for the support of SMEs.

The development of **business advisory services** is important as well. Not only in the area of business start-ups but also in technology transfer, access to new markets and energy efficiency. Therefore more emphasis should be put on the development of this tool during the next programming period.

Concrete measures (Ministry of Industry and Trade, 2012b):

- Improvement of the quality of advisory services,
- Advisory services for entrepreneurship based on knowledge – mentoring, technology scouting, couching and technology foresighting,
- Support of entrepreneurship (organising of competitions for the best business plan etc.).

4.2 Enhancement of competitiveness of the existing SMEs

The main issue to be tackled in the next programming period is the low level of competitiveness of the economy, especially SMEs, caused by the low level of innovation and technological advancement of both production processes and products offered by businesses in particular, the low share of knowledge-based economy in the economy as a whole and the low internationalization of companies.

4.2.1 Research and innovations

According to the experience from the current programming period Czech Republic still suffers from the weak research and innovation system and competitiveness. Private expenditure on R&D is highly concentrated in a few multinational corporations and the level of private R&D performed by domestic companies (mainly SMEs) is still rather

low. The low levels of investments in R&D are also reflected in poor scientific and technological performance. The Czech innovation performance is below average within the EU – the Czech Republic ranks 18th out of 27 Member States in the 2013 Innovation Union Scoreboard (see Appendix 5) belonging to the moderate innovators. The weaknesses concern in particular the lack of creative outputs (patenting, trademark registrations or business and organisational models), badly coordinated research activities at the tertiary education level, and general lack of cooperation and coordination between the different government players in the area as well as between the public, private and academic spheres. There is insufficient awareness of R&I results and their potential utilisation both among the academic and business sphere. A developed model for transfer of technology between the research centres and SMEs is lacking.

In order to increase the performance of R&I investment, the Czech government should clarify how the target for public R&D (1% of GDP by 2020) will be attained, in terms of areas of research, of research centres/universities, allocation of funds and type of priority expenditure, quality performance, overall governance model and cooperation with the private sector, promotion of international cooperation, transfer of research results to SMEs, etc. The government should also encourage the private business sector to spend more on R&I activities and may introduce incentives to reach this objective. A more active involvement of the private business sector, in particular SMEs, in innovation is of key importance for enterprises that have to move up the value chain in order to remain competitive on the EU, as well as on the global market. A priority should therefore be given to the creation of an innovationfriendly business environment by better matching R&I support to business demand and by providing the necessary ancillary infrastructure.

RTD centres should develop a more outward-looking policy concept, in particular in terms of research activities and cooperation with SMEs. This will require further investments in complementary infrastructure around or close to these centres, e.g. spin-off facilities, incubator centres, scientific and cluster parks with adequate access facilities.

Concrete measures (Ministry of Industry and Trade, 2012b):

- Upgrading of SMEs to the entrepreneurship based on the innovative competitive advantage,
- Support of own research and development capacities of enterprises,
- Support of the co-operation between SMEs, universities and research institutes (innovation vouchers, support of horizontal mobility),
- Support of the cluster development,
- Support of the transfer of knowledge and technologies,
- Support of the commercialisation of R&D results, interconnection between R&D institutions and SME's demand,
- Support of the implementation of technical and non-technical innovations in enterprises and new technologies,
- Support of the implementation of new products on the basis of modern technologies,
- Support of the protection of Industrial Property rights,
- Support of design,
- Development of digital economy – centers of progressive ICT services,
- Support of the development of new solutions through the public contracts.

4.2.2 Quality of information and communication technologies

Under the thematic objective 'Enhancing access to, and use and quality of, information and communication technologies' the development of web-tools providing targeted information and facilitating regulatory procedures for SMEs, particularly in the area of public procurement, employment law, social security, taxation and standardisation is required. There should be a better access to training, advice and services in the ICT field for SMEs.

Concrete measures (Ministry of Industry and Trade, 2012b):

- Support of business and innovation infrastructure,
- Development of industrial areas and parks,
- Support of the construction of rental properties,

- Regeneration of brownfields,
- Support of business incubators and innovation centers,
- Development of strategic services and shared service centers,
- Support of investments into the technological and laboratory equipment,
- Support of the repair center for high-tech products and technologies.

4.2.3 Eco-innovations and green technologies

The promotion of the application of eco-innovations and green technologies among SMEs, in particular through supporting development of clusters in green technologies; eliminating key hurdles to the deployment of eco-innovations; and raising awareness among companies about the adoption of eco-management and audit schemes (EMAS) or other recognised environmental management systems is also one of the ways towards the increased competitiveness.

Concrete measures (Ministry of Industry and Trade, 2012b):

- Modernisation of the contemporary equipment used for energy production for own needs leading to the increase of its efficiency,
- Implementing and modernising systems for measuring and regulation,
- Modernisation, reconstruction and decrease of the losses in the electricity and warmth network,
- Improving thermal properties of buildings,
- Use of residual energy in industrial processes,
- Decrease of energy requirements of the production and technological processes,
- Construction of the new and reconstruction of the current production facilities for the production and transfer of electricity and heat with the use of renewable and secondary energy sources,
- Support of the use of secondary raw materials.

4.2.4 Internalisation

In order to competitivenss of the SMEs there should be the strong export orientation of the Czech business sector, provision of support to the internationalisation of Czech enterprises through the development of new business models, including higher value chains and marketing organisation.

Concrete measures (Ministry of Industry and Trade, 2012b):

- Education and trainings focused on internalisation,
- Support of the search of business partner and building the co-operation network,
- Partnership networks, knowledge development for the internalisation of entrepreneurship,
- Participation of the Czech SMEs in the specialised fairs and expositions,
- Trainings supporting the greater participation of SMEs in the public contracts,
- Development of training centers.

4.3 Increase of the use of funds among the Czech SMEs

One of the main reasons that lower the interest of the potential beneficiaries in the structural funds is the high administrative burden of the entire process. In order to ensure the maximum potential use of the EU funding, this burden has to be reduced as much as possible. Further steps have to be taken in this area to meet also the target set in the Europe 2020 strategy (see chapter 2.4), namely a reduction of administrative burden by 30 % compared to 2005. This could be achieved by the enhanced use of electronic systems within the e-cohesion principles (full electronic exchange between the beneficiaries and the authorities, the ‘only once’ encoding principle, enhanced use of electronic signature, sharing of documents of common interest within electronic storage systems, interoperability of the systems) should decrease the administrative burden for beneficiaries as well as reduce the administrative workload for the Authorities concerned.

CONCLUSIONS

Master's thesis analysed the impact of the European structural funds on the Czech small and medium enterprises and provided readers with the future proposals and recommendations. The current programming period is ending and the European Commission in the tight co-operation with member states is preparing next programming period 2014-2020. Member states are starting their work on the drafting of operational programmes and financial allocations.

The first part of the paper familiarised the reader with the theoretical background of the European policy, structural funds and its management, Europe 2020 strategy and definition of the term "small and medium enterprises". The analytical part is supported by the description of the issue of structural funds in Czech Republic as well as the operational programmes implemented in this country with the emphasis on the OP Enterprise and Innovation. SWOT analysis of the Czech business environment is provided as well. Crucial part of the analytical part is the overview of the results indicators per each axis used under the OP Enterprise and Innovation. On the basis of concrete figures from this part of the thesis further proposals are carried out in the last part.

The given recommendation and proposals are suggested for the next programming period which is already the stage of preparations. To sum it up, the CSF funds 2014-2020 should assist SMEs in a number of areas such as advisory services regarding the application of innovation and green technologies, energy efficiency, skills requirements, access to new markets and marketing strategies, setting up of a business, cluster development, etc.; providing targeted information regarding the envisaged reduction in administrative burdens (e.g. e-government-tools); improving the overall business environment through the provision of specific infrastructure of high quality (e.g. incubators and technology parks, quality upgrading of business sites). These proposed measures should increase the number of newly established enterprises, raise the interest of entrepreneurs in the EU policy and structural funds as well as enhance the competitiveness of the existing companies on the domestic and foreign markets.

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APPENDICES

Appendix 1

The Commission's four principles for implementing the structural funds

- *Concentration* of measures around priority objectives.
- *Programming*, whereby multi-annual, multi-task, and occasionally multi-regional programmes, rather than uncoordinated individual national projects, are funded.
- *Additionality*, making EU funds complement, rather than replace, national funding.
- *Partnership* involving the closest possible cooperation between the Commission and the 'appropriate authorities' at 'national, regional and local level' in each member state, and at every stage in the policy process from preparation to implementation.

Figure 2: The Commission's four principles (Source: Wallace, 2005)

Appendix 2

Evolution of the structural funds for cohesion, 1975–2013

Year	mn. ecu/€	% EU budget
1975	257 ecu	4.8
1981	1,540 ecu	7.3
1987	3,311 ecu	9.1
1992	18,557 ecu	25.0
1998	33,461 ecu	37.0
2002 (includes pre-accession aid)	€34,615	35.0
2006 EU25*	€38,791	32.0
2013 EU27*	€50,960	32.0

*Excludes EAGGF—Guidance and FIFG and includes the Solidarity Fund.

Figure 3: Evolution of the structural funds (Source: Wallace, 2005)

Appendix 3

Figure 1: Greiner's growth theory

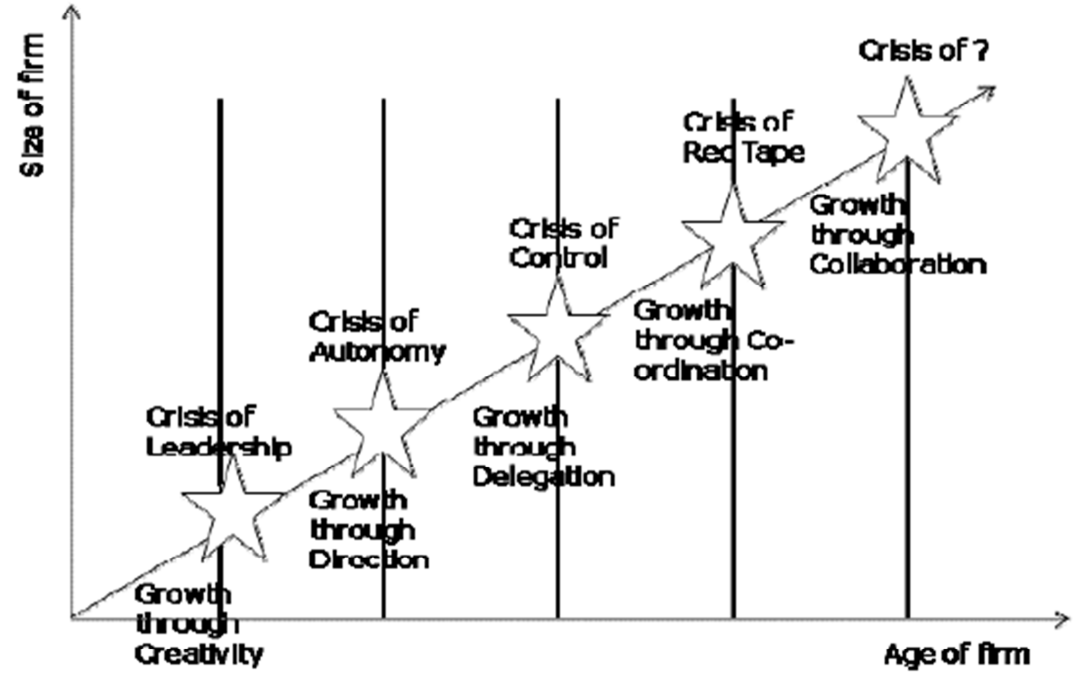

Figure 4: Greiner's growth theory (Source: Tödtling–Schönhofer, Hamza, Resch, 2011)

Appendix 4

Table 3: Enterprise division in age

Description	Time frame
Seed companies	Before office start
Start-ups	< than 2 years
Young enterprises	between 3 to 5 years
Mature enterprises	> than 5 years

Figure 5: Enterprise division in age (Source: Tödtling–Schönhofer, Hamza, Resch, 2011)

Appendix 5

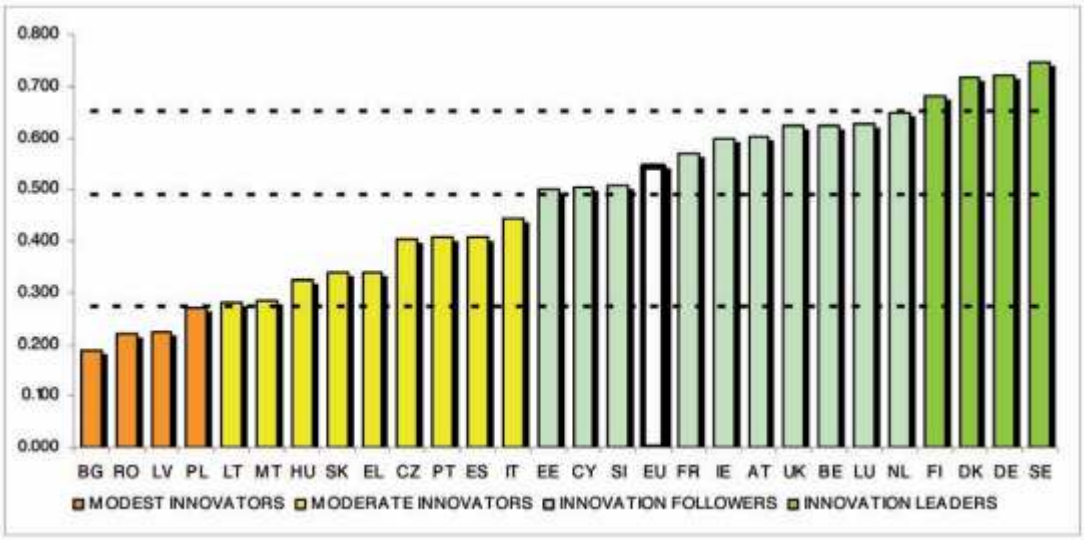

Figure 6: Innovation Union Scoreboard (Source: Hollanders and Es-Saski, 2013)