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Programmes in the Czech Republic
and the United Kingdom**

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Enterprise Promotion within 2000-2006 Programmes in the Czech Republic and the United Kingdom

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Summary:

This paper compares enterprise promotion systems in the Czech Republic (CR) with those in the UK over the programming periods 2004-2006 and 2000-2006, respectively. The comparison focuses on programmes under Objectives 1 and 2 of the EU cohesion policy. Particular attention is paid to differences in number and nature of programmes, eligible activities, institutional frameworks, and the extent to which structural funds allocations are committed and spent. In the CR, the approved projects within the Operational Programme Industry and Enterprise (OPIE) are also classified in line with the Frascati manual and compared with the structure of the business base in order to reveal the position of high-tech manufacturing and services vis-à-vis the low-tech sectors.

Key words: enterprise promotion, EU structural funds, OPIE

Podpora podnikání v České republice a ve Spojeném království v programech pro léta 2000-2006

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Abstrakt:

V příspěvku je uvedeno srovnání systému podpory podnikání v České republice se systémem uplatňovaným ve Spojeném království v průběhu programovacího období 2004-2006, resp. 2000-2006. Srovnání je zaměřeno na programy spadající pod Cíl 1 a Cíl 2 politiky hospodářské a sociální soudržnosti EU. Zvláštní pozornost je věnována porovnání počtu a charakteru programů, podporovaných aktivitám, institucionálnímu zajištění implementace a míře, v jaké jsou alokace ze strukturálních fondů využívány a čerpány. V ČR v případě Operačního programu Průmysl a podnikání jsou schválené projekty navíc tříděny podle Frascati manuálu, a tím je možno sledovat postavení high-tech oborů zpracovatelského průmyslu a služeb ve vztahu k low-tech odvětvím.

Klíčová slova: podpora podnikání, strukturální fondy EU, OPPI

JEL: H25, H71, H81

Reviewer: doc. Ing. Emílie Kalínská, CSc.

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Introduction

In general, the quality and the transparency of the enterprise promotion system, as part of the overall economic governance are deemed to be one of the determinants of competitiveness. Compared to the programmes financed only by national resources (either public or private), the overall allocation for the supranational programmes co-financed by the EU budget, via the structural funds is extensive.

This paper compares two countries of considerably dissimilar economic, political, as well as historical backgrounds. The UK has a long history of having had a market economy with common law tradition and is well known for its very liberal approach to governance and enterprise promotion tools. Furthermore, the UK has been an EU member State for more than three decades, and, as a result is well experienced in the implementation of supranational programmes co-financed by the EU structural funds. On the other hand, the CR as a former centrally planned economy belongs among the newcomers to the EU and shows a more significant presence of state intervention in the economy. Within the EU programming period 2000-2006, the CR had the opportunity to draw money from the SF only during the so-called shortened programming period 2004-2006, following its accession to the EU. The latter gave the new members the chance to establish the institutional apparatus and find the ways to improve the administration process. Owing to the aforementioned factors, the comparison of both systems reveals interesting facts and partly forms the basis for the evaluation of the Czech system.

The aim is to analyse and compare the systems of enterprise promotion within supranational programmes that are being implemented in the CR and in the UK and are co-financed by the EU structural funds (SF). Only the programmes under Objectives 1 and 2 implemented over EU programming period 2000-2006 (in the UK) and 2004-2006 (in case of the CR) are under scrutiny. It is already possible to follow the effects and level of the actual expenditure of the allocations – if the necessary data are available, special attention is paid to the level of technology or knowledge intensity of the branches in which the approved projects were, or are, going to be carried out.

Firstly, overviews of both systems are given and compared. Secondly, attention is paid to OPIE in the CR as well as to the programme dedicated exclusively to the North East of England. (The selection is attributable to the fact that OPIE represents the main tool of enterprise promotion in the CR. As for the UK, twenty programmes were implemented under Objectives 1 and 2; all of them involved enterprise promotion. Due to this fact, it is not feasible to analyze all of them). Thirdly, the paper focuses on the actual expenditure of SF allocations, i.e. activities and sectors that were granted a financial assistance.

Businesses are not eligible beneficiaries within all the Priorities of supranational programmes. Consequently, in order to distinguish what Priorities genuinely involve the enterprise promotion, the ‘*criterion of beneficiary*’ was established – the point being whether businesses belong among the beneficiaries of the Priorities. The aforementioned criterion is not followed in cases of actual expenditure of SF allocations in all supranational programmes in the CR, as well as in the UK – separate data for Priorities involving enterprise promotion were not available. In the case of the UK, facts on the actual expenditure of SF allocations are not entirely up-to-date – the data are accessible only in the mid-term evaluation updates, but indicates the actual expenditure only by the end of 2004, or by various dates during 2005.

The sectors of the manufacturing industry and services, according to, respectively, technology and knowledge intensity, are classified in line with the so-called *Frascati manual*. (The detailed methodology can be found in Český statistický úřad (2006b.)). The latter represents the methodology developed by the OECD, and recognized by the EU. The level of technology as well as knowledge intensity is considered one of the determinants of the innovation activities and competitiveness of businesses.

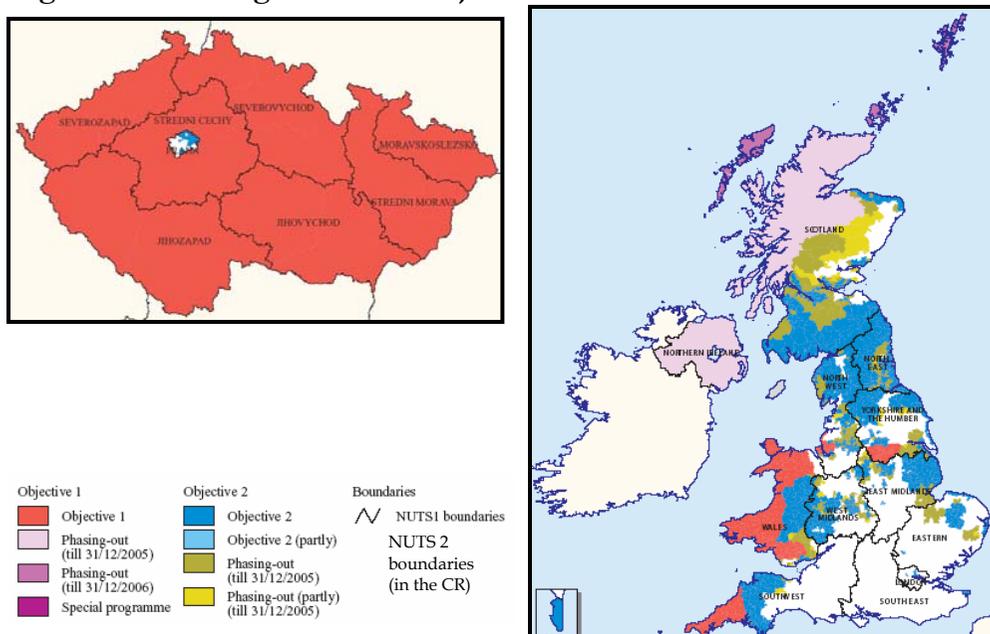
In the CR, the data concerning the branches of approved projects were available, so it was possible to classify them (i.e. the branches) into Frascati groups in harmony with the Frascati manual. Manufacturing industries were divided into the following four Frascati groups - high-tech (HT), medium high-tech (MHT), medium low-tech (MLT) and low-tech (LT) industries. The Frascati groups in which the branches of services were divided into are listed below - high-tech knowledge-intensive services (HT IK), financial knowledge-intensive services (financial IK), market knowledge-intensive services (market IK), other knowledge-intensive services (other IK), market less knowledge-intensive services (market LIK) and other less knowledge-intensive services (other LIK). The data involve approved (committed) projects and offered grants and loans, not the actual spending of allocations.

In case of the UK, this kind of information was not available. The only data at our disposal were general information on the character of final beneficiaries and overall information on supported activities.

1. Overall comparison of systems

Objectives 1 and 2 of the EU cohesion policy showed different position in both countries – unlike in the UK, in the CR, Objective 1 played a dominant role; see Fig. 1. Assistance under Objective 1 was available all over the CR, except in Prague; Objective 2 just in some districts of Prague city.

Fig. 1: Areas Eligible under Objectives 1 and 2 in the CR and the UK



Source: European Commission (2000a.), European Commission (2003).

In the UK, there were six regions under Objective 1: all of Northern Ireland, part of Scotland, part of Wales, part of the South West and North West of England and part of South Yorkshire. Some regions in the UK had “transitional area” status, i.e. the assistance was not available over the whole programming period.

Tab. 1: SF allocations on enterprise promotion in CR and UK in EUR, (number of business in the end of 2005)

Regions in CR	Allocation 2004-2006 (thousand)	Allocation per business	Regions in UK	Allocation 2000-2006 (thousand)	Allocation per business
CR except Prague	797 250	406.3	England	5 653 393	1,625.5
			Wales	1 133 060	6,574.8
Prague	15 897	37.3	Scotland	981 089	3,674.6
			Northern Ireland	876 115	8,421.8
			Gibraltar	8 584	NA
CR	813 147	340.4	UK	8 652 241	1,992.7

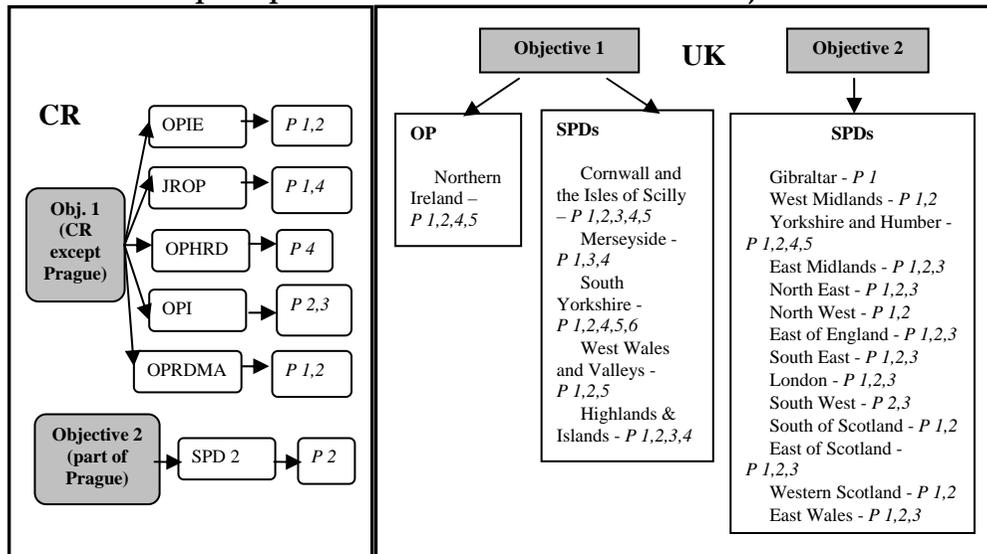
Source: European Commission (2000b.), European Commission (2004b.), Český statistický úřad (2006c.), Small Business Service (2006), own calculations.

As for the financial allocations, the CR was granted considerably lower allocations than the UK, which is partly attributable to the shortened

programming period, and at the same time, to the fact that the UK represents a significantly more extensive territory.

In the CR there were five Operational Programmes (OP) and one Single Programming Document (SPD), whereas in the UK, twenty programmes were implemented (one for Northern Ireland, twelve in the counties of England, four in different parts of Scotland, two in different parts of Wales and one in Gibraltar); see Fig. 2. According to the ‘criterion of beneficiary’ indeed, not all Priorities (P) of programmes contributed to enterprise promotion. As it was already mentioned before, in the CR, the OPIE acted as the main tool of enterprise promotion because it represented its main objective and field of interest. Primary goals of the other supranational programmes implemented in the CR were not to promote enterprise; furthermore it can be stated that the enterprise promotion was rather a kind of ‘side effect’.

Fig. 2: Supranational programmes¹ and their Priorities involving enterprise promotion in CR and UK under Objectives 1 and 2



Source: European Commission (2000b.), European Commission (2004b.), own elaboration.

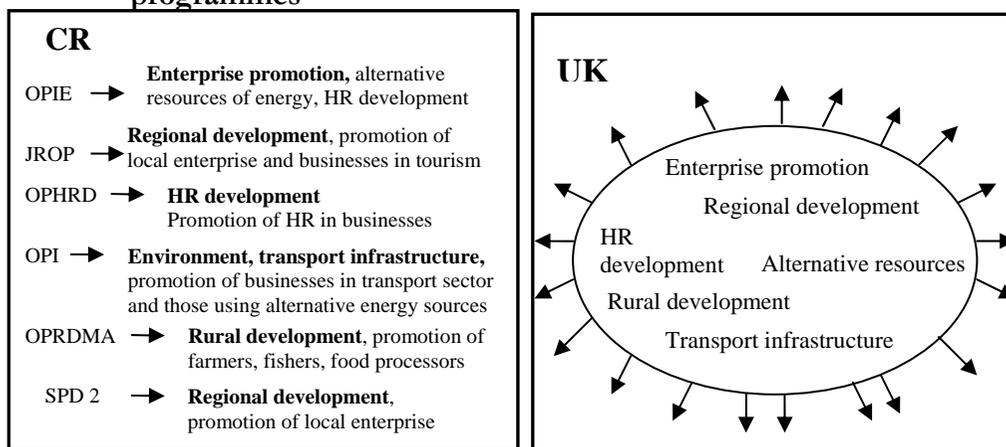
The main difference between the systems arises from the obviously different approach to the administration and implementation of programmes; see Fig. 3.

As far as the CR is concerned, the programmes were implemented on a nationwide basis (except for Prague and its Single Programming Document representing a kind of regional programme), and were thematic, which means

1 OP Industry and Enterprise (OPIE), OP Human Resources Development (OPHRD), Joint Regional OP (JROP), OP Infrastructure (OPI), OP Rural Development and Multifunctional Agriculture (OPRDMA), Single Programming Document for the Objective 2 (SPD 2).

that each of them specialized in a very narrow field of intervention. Consequently, in each region, five different programmes were available.

Fig. 3: Supported activities in CR and the UK – distribution among programmes



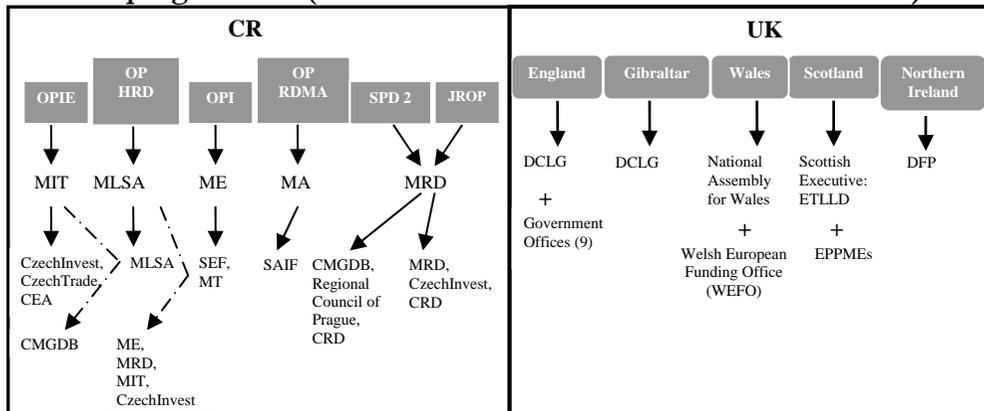
Source: Own elaboration.

On the other hand, in the British system, all the programmes were implemented on a regional basis, each of them involved a full spectrum of assistance available in the given region (*inter alia*: enterprise promotion, also). As a result, there was merely one programme per region. The nature, structure and content of the programmes were closely connected to the institutional framework, and the division of the political, as well as, administrative powers within the country; see Fig. 4.

As for the CR, the first place in the hierarchy was occupied by the *Managing Authorities*, the second one by, either, *Intermediate Administrative Bodies* (IAB), or the final beneficiaries (dash-dotted line). As far as the British system is concerned, the first position was occupied by the, *de iure* Managing Authorities that are complemented by the, *de facto* Managing Authorities occupying the second place in the hierarchy. The latter were in charge of the day-to-day administration of the given programme. Unlike the Czech system, the IABs were not mentioned since each region had its own range of IABs.

One interesting point is that in the UK, the *final beneficiaries* (i.e. the institutions named on the application form) are never the *target beneficiaries* (i.e. the ‘real’ recipients of the projects’ benefits). Consequently, the project was submitted and carried out by the final beneficiary (mostly universities, city councils, development agencies etc.), but the target beneficiaries are entities such as, e.g., businesses.

Fig. 4: Institutional frameworks in CR² and UK³ within supranational programmes (dash-dotted line indicates final beneficiaries)



Source: European Commission (2000b.), European Commission (2001), European Commission (2004a.), European Commission (2004b.), own elaboration.

2. Comparison of OPIE and OP for North East of England

In Tab. 2, the fields of intervention and forms of assistance offered within the OPIE are indicated. The OPIE comprises three Priorities, two of them (Priority 3 involves Technical assistance) contained Measures whereby enterprise and business were supported. Priority 1 involved programmes representing indirect support as they led to the development of the business environment, through, for instance, the construction of business incubators, training centres, industry parks, sites and businesses premises, mapping of clusters etc. The aid always took the form of a grant.

On the other hand, the implementation of the sub programmes of Priority 2 contributed to the direct support – the monies approved might be used directly by the target beneficiary in order to purchase e.g. equipment, stock and so forth. In general, in the case of new small and medium-sized enterprises (SMEs) as target beneficiaries, the aid took the form of a loan. Otherwise, it took the form of a grant.

2 Abbreviations: Ministry of Industry and Trade (MIT), Ministry of Labour and Social Affairs (MLSA), Ministry of Environment (ME), Ministry of Agriculture (MA), Ministry for Regional Development (MRD), CzechInvest Agency (Investment and business development agency CzechInvest), Czech Trade Promotion Agency (CzechTrade), Czech Energy Agency (CEA), Czech-Moravian Guarantee and Development Bank (CMGDB), State Agricultural Intervention Fund (SAIF), Centre for Regional Development (CRD).

3 Department for Communities and Local Government (DCLG), Enterprise, Transport and Lifelong Learning Department (ETLLD), European Partnership programme management executive (EPPME), Department for Finance and Personnel (DFP).

Tab. 2: Priorities, Measures and Sub programmes of enterprise promotion within OPIE

Priority	Measure	Sub programmes	Form
Priority 1 Business Environment Development	1.1 Infrastructure for industrial research, development and innovations	Prosperity	grant
	1.2 Development of business infrastructure	Real Estates	grant
	1.3 Infrastructure for HRD in industry and business services	Training Centres	grant
	1.4 Development of information and consulting services	Clusters, Register of Advisors	grant
Priority 2 Development of Enterprise Competitiveness	2.1 Establishing and development of SMEs	Start, Credit, Development, Marketing	loan or grant
	2.2 Support of innovation of products, technologies and services	Innovation	loan or grant
	2.3 Reducing energy consumption and higher use of renewable sources of energy	Energy Savings, Renewable Sources of Energy	grant

Source: Ministerstvo průmyslu a obchodu (2003), own elaboration.

As for the North East of England the support was concentrated in one single programme combining all fields of intervention; see Tab. 3. In harmony with the ‘criterion of beneficiary’, only three out of five programmes’ Priorities are considered tools of enterprise promotion. Certain parts of the territory were subject to the status of ‘transitional areas’ and were eligible for support only by the end of 2005.

The Priorities were divided into 15 Measures out of which eight were reserved for SMEs only. Final beneficiaries were given grants that were spent in order to finance the projects that target beneficiaries would benefit from. However, the supported activities could be revenue-funded (R), capital-funded (C) or funded by a combination of both (C, R). In the case of ESF-funded Measures (ESF), it was not necessary to distinguish the assistance’s destination.

Indeed, the aid available for target beneficiaries did not necessarily take the form of a grant. It mostly concerned business support services, loans and venture

funds investment. The grant was provided only as a last resort aid in case of a market failure.

Tab. 3: Priorities, Measures and Direction in the programme for North East of England

Priority	Measure	Destination
Priority 1 Establishing an Entrepreneurial Culture	1.1 Growing New Businesses & Marrying Entrepreneurs with Ideas	R
	1.2 Providing Access to Finance for Entrepreneurs	R
	1.3 Accommodation for Entrepreneurs	C
	1.4 Human Resources and micro finance for Entrepreneurs	ESF
Priority 2 SME Growth and Competitiveness	2.1 Assisting SMEs to Expand Through Developing Best Practice	R
	2.2 Providing Access to Finance	R
	2.3 Developing New Markets and Customers for SMEs	R
	2.4 Transferring Technological Assets to SMEs	C,R
	2.5 Developing SMEs in Clusters and Sectors	R
	2.6 Accommodation for SMEs	C
	2.7 HRD for SMEs in Clusters and Sectors	ESF
	2.8 HRD for Technology Skills	ESF
Priority 3 Strategic Employment Opportunities	3.1 Strategic Spatial Developments	C
	3.2 Embedding Spatial Employment Opportunities	ESF
	3.3 Realising the Renaissance of Our Rural and Urban Communities	C

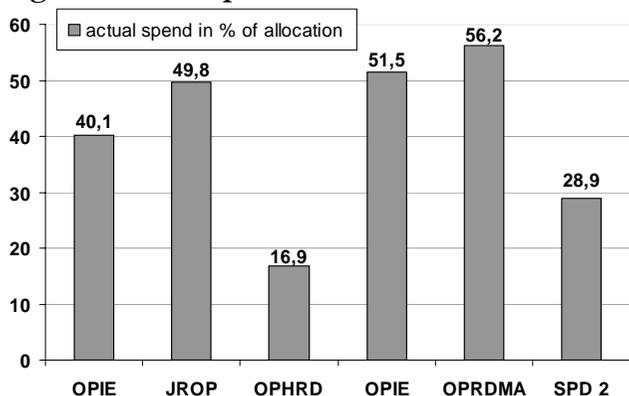
Source: Government Office for the North East (2005), own elaboration.

All Priorities combined direct, as well as, indirect support. Priority 1 was available for businesses of all sizes, whereas Priority 2 was dedicated exclusively to SMEs. Priority 3 concerned mainly employment promotion measure support. The final beneficiaries could be, e.g. private sector, public institutions, cities, borough councils, voluntary sector, universities and venture funds (the range is mentioned in more detail thereafter). The target beneficiaries are businesses.

3. Comparison of actual expenditure and commitments of SF allocations

This chapter is made up of two parts. Firstly, the overall rates of expenditure in both the CR and the UK are mentioned. The statistics covering the whole of the programmes, not just Priorities involving enterprise promotion, are indicated. Then the analysis focuses on the commitment rates within the Priorities contributing to enterprise promotion in the OPIE and the programme for the North East of England.

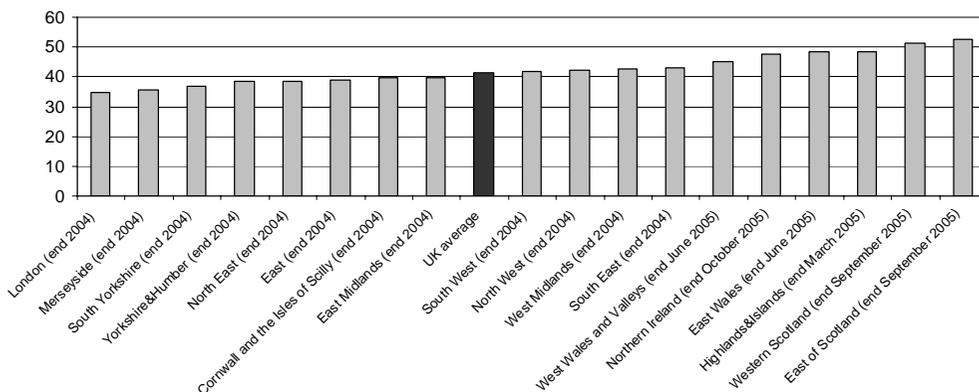
Fig. 5: Actual expenditure of allocations in CR by July 31, 2007



Source: CzechInvest (2007), own elaboration.

In the CR, the highest rates of expenditure, exceeding 50%, can be seen in the cases of OPRDMA and OPIE, while the lowest in the cases of OPHRD and SPD 2.

Fig. 6: Actual expenditure as % of allocations under Objectives 1 and 2 programmes in UK⁴, UK weighted average⁵



Source: Department for Transport (2005), own elaboration.

⁴ Data for Gibraltar and South of Scotland were not available.

⁵ Weight=share of programmes' allocations in total allocation for UK as a whole.

The results of each programme implemented in the UK depend predominantly on the deadline; see Fig. 6. In general it can be stated that the actual spending of programmes with deadlines at the end of 2004, ranges from 35 to 43%, whereas the programmes with deadlines during 2005 show the fluctuations of actual expenditure between 45 and 53%.

Although there are dissimilar deadlines in the CR and the UK, it is possible to draw conclusions concerning the success of both countries in drawing money from the EU SF. It turns out that the UK is more successful in spending SF allocations than the CR.

In the case of the CR, the deadline (July 2007) does not fit in the programming period, but the truth is, that by that date, the assistance had been available for three years (which is a crucial point mainly in the case of immense building projects, whose construction is very time consuming). In line with the 'n+2 principle', the projects approved at the end of 2006 are eligible to be granted support by the end of 2008. Due to this fact, there is still some room for further spending, but it is rather limited.

As for the UK, the deadlines (either the end 2004 or during 2005) are within the programming period. Consequently, there is (given the 'n+2 principle') even more scope for further spending. Indeed, by these dates, the assistance had already been available for four, or even, five years and big construction jobs had been given enough time for completion.

Due to the analysis of approved projects within the OPIE, and the programme for the North East of England, it is possible to draw some conclusions concerning the efficiency and prospective outcomes of the assistance.

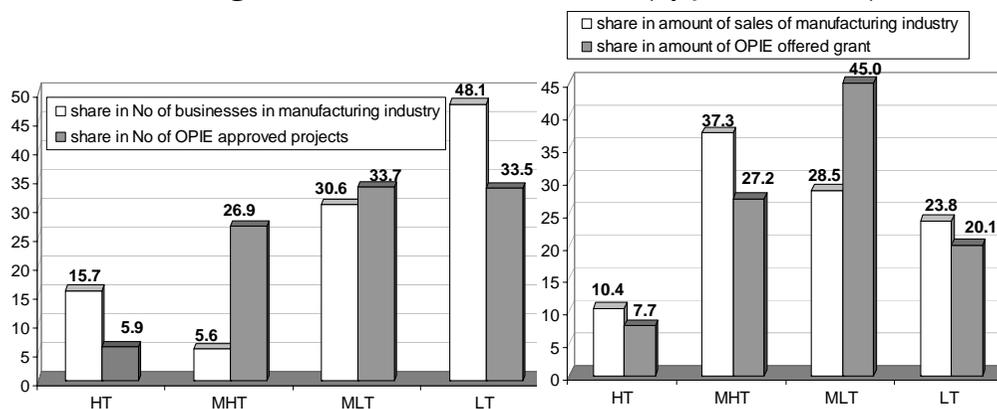
In general, it is seen as a very hard task to measure the actual effects of any aid; which is considered the weak point of, *inter alia*, all State aid or aid granted under the EU cohesion policy. In my opinion, it is particularly difficult to quantify the effects of indirect aid, e.g. supporting the construction of business incubator units, technology parks and training centres. The completion of these types of projects does not necessarily lead to the improvement of the growth potential, performance and competitiveness of the supported businesses. On the other hand, in cases of direct support the quantification of the effects seems to be more feasible.

In the section dedicated to the OPIE, the level of technology or knowledge intensity of the branch in which the supported project had been, or would have been, completed, was selected as a criterion of a certain informative value. Firstly, the attention is paid to the Frascati groups within the manufacturing sector, and secondly, to the Frascati groups in the service sector. It is necessary to point out that the following branches were excluded from the list of eligible target

beneficiaries: the manufacture of tobacco products, food industries that are under EU Common Agriculture Policy and financial services. The latter is obviously reflected in Fig. 8 (zero shares of financial services in the actual spending of allocations within the OPIE).

Fig. 7 is focused on the situation in the manufacturing sector. It compares ‘passive’ criteria, i.e. the share of the Frascati groups (manufacturing sector) in the number of businesses in the manufacturing sector in the CR, and their share in the number of approved projects within the manufacturing sector. At the same time the ‘active’ criteria representing the economic power of the Frascati groups are compared, i.e. their share in the sales, and, amount of grants and loans offered within OPIE. These criteria are considered to be of higher informative value than the ‘passive’ ones.

Fig. 7: Comparison of the share of the Frascati groups in the manufacturing sector – total number of businesses and amount of sales (in 2005), total number of approved projects and amount of offered grants and loans within OPIE (by June 20, 2007)



Source: Český statistický úřad (2006c.), Ministerstvo průmyslu a obchodu (2006), CzechInvest (2007), own calculations.

It is evident that there are huge discrepancies in the positions of the Frascati groups. The share of HT in a number of businesses is nearly three times as high as the share in number of approved projects. As for the ‘active’ criteria, the situation is of a similar, yet, less outstanding character. Similar trends can be seen in the case of LT, although the distortions are rather subtle. A similar distortion in the opposite direction can be observed in case of MLT.

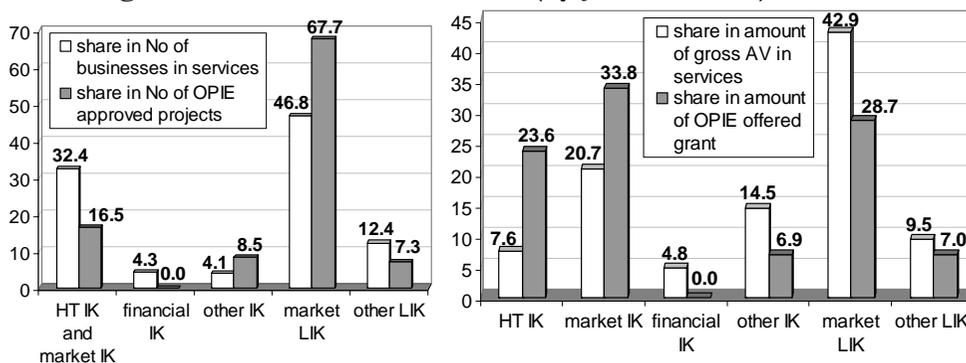
MHT seems to be subject to a sweeping imbalance – its share in the number of approved projects is approximately five times higher than its share in the number of businesses, while its share in the amount of offered grants and loans is lower than the share in sales from the manufacturing industry.

In overall terms, more than 65% of the amount of grants and loans are granted to MLT, or even, LT groups. As a result, a decisive majority of all aid was

allocated within sectors with a very low level of added value and a weak attitude to innovation. Already, the marginal position of HT group in the actual expenditure does not even correspond to its position in, neither the number of businesses, nor the amount of sales.

As far as the Frascati groups in the service sector are concerned (Fig. 8), a lower share in the number of approved projects than the shares in the number of businesses can be observed in the cases of HT IK and market IK services. On the other hand, their share in the amount of offered grants and loans is more than three times higher than their share in the amount of gross added value. Market LIK services as well as other IK services show opposite trends.

Fig. 8: Comparison of the share of the Frascati groups in the service sector – total number of businesses and gross added value (in 2005), total number of approved projects and amount of offered grants and loans within OPIE (by June 20, 2007)



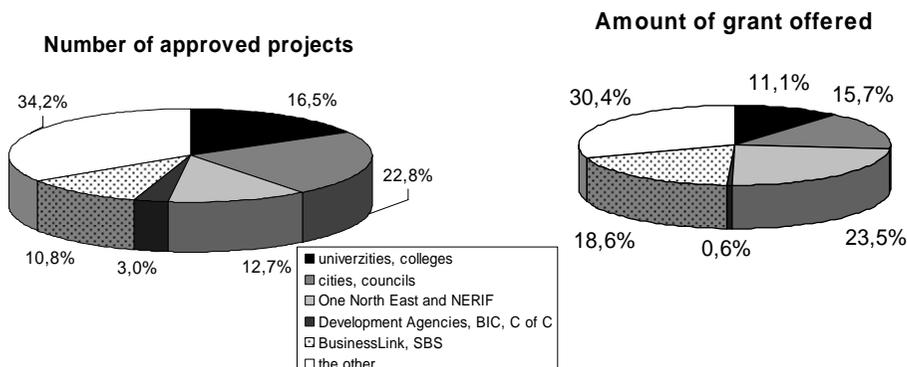
Source: Český statistický úřad (2006a.), Český statistický úřad (2006c.), CzechInvest (2007), own calculations.

In overall terms, 25% of projects and 64% of grants and loans offered were approved to knowledge-intensive services. From the point of view of the effectiveness of the approved assistance, the situation can be considered very favourable.

As for the programme implemented in the North East of England, Fig. 9 analyzes the structure of the final beneficiaries and specifies the shares of the identified groups in the number of approved projects, and the amount of approved grants. For the purposes of this paper, the final beneficiaries were divided into six groups⁶.

6 'Cities and councils' comprise - cities, city councils, county councils, district councils, borough councils. One North East represents Regional Development Agency for North East England. NERIF (North East Regional Development Fund) is wholly owned company by One North East – it manages funds of loans/equity focused on SMEs. 'BIC' stands for business innovation centre, 'C of C' means chambers of commerce and SBS represents Small

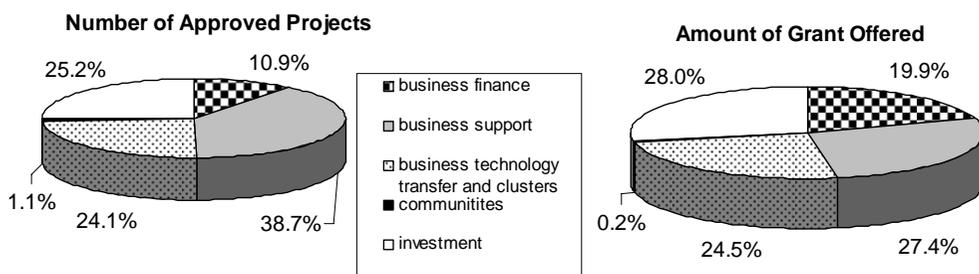
Fig. 9: Shares of types of final beneficiaries in number of approved projects and grant offered within enterprise promotion Priorities by January 2007



Source: Government Office for the North East (2007a.), Government Office for the North East (2007b.), own calculations.

Approximately 70% of all projects are carried out by public sector bodies (universities, colleges, cities and councils or various organizations involved in the provision of enterprise promotion activities). A quite strong role is played by universities, colleges, municipalities and local authorities, which is attributable to their extensive involvement in the sphere of collaborative research with business bases, spin-out activities, technology transfer and the development of clusters. The presence of municipalities is strong mainly in the case of providing access to finance for new SMEs and start-ups, construction of business premises and transport infrastructure.

Fig. 10: Shares of types of activities in number of approved projects and grant offered within enterprise promotion Priorities by January 2007



Source: Government Office for the North East (2007a.), Government Office for the North East (2007b.), own calculations.

Business Service. The category 'the other' comprises mostly private sector, museums, trusts, technology transfer organizations and innovation centres.

Fig. 10 gives an overview of types of supported activities and compares their shares in the number of approved projects and also the grants offered. The highest proportion of projects is occupied by business support actions, whilst the greatest amount of grants has been offered to various types of investments. It can be stated that in terms of amounts of grants, there is more or less equilibrium, except for community support, which received only a marginal portion of all grants offered.

Conclusion

The comparison of programme spectra, institutional frameworks and actual expenditure rates in the CR and in the UK has been carried out. The CR and the UK show considerably dissimilar approaches to programme administration and institutional frameworks. Given the number of programmes in the CR, the system is obviously rather complicated, mainly from the point of view of project applicants, because each programme is implemented by means of its own institutional framework. Yet, it can be stated that in the UK, there are five main parallel independent institutional frameworks. Although from the global point of view, the overall set of bodies seems to be complicated, from the point of view of the beneficiary, the system offers the one-stop-shop approach.

As far as the actual expenditure of allocations is concerned, it turns out that in overall terms, the CR is less successful in drawing money from the EU structural funds. This can be partly attributed to the current lack of experience of businesses in submitting projects.

In addition, the OPIE unfortunately fails to promote mainly the innovative and promising manufacturing sectors with higher added value represented mostly by HT and also MHT. The suggested explanation is two-fold:

The HT sector was not interested in the available spectrum of assistance, because it did not match its needs or because the system was perceived as too complicated.

The HT sector was not successful in submitting the project applications, e.g. because the projects did not meet the required criteria.

Indeed, the structure of the projects is predominantly determined by the structure of the business base, but in the case of, e.g. HT, their share in grants and loans offered in relative terms is even lower than their share in the sales of the manufacturing sector. This failure is considered a negative phenomenon, as it is evident that the genuinely positive effects of enterprise promotion on competitiveness and innovative enterprise highly depend on the sectors to which the grants and loans are provided.

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