

Support of SMEs from Operational Program Enterprise and Innovation

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Abstract

This paper aims to analyse support given to SMEs in the Czech Republic through grants from the Operational Program Entrepreneurship and Innovation (OP EI). SMEs are generally accepted as extremely important to every national economy and the Czech Republic reflects that in many documents on a national level and in the OP EI which in majority of its grant schemes favours the SMEs and especially those that are located in regions that are subject to intensive state aid. This paper examines the allocation of OP EI funds among the enterprises with regards to their size and location based on data published regularly by the CzechInvest agency. It concludes that the resources are invested mainly into projects implemented by the SMEs but not necessarily in the state supported regions though applicants from these categories are strongly supported in the process of project evaluation. However there is decidedly positive trend of larger percentage investments of public funds into projects implemented by SMEs.

Keywords: European Union, grants, regions with intensive state aid, small and medium enterprise

Introduction

Small and medium enterprises (SMEs) are generally regarded as a key economic actors participating significantly on adopting new technologies, creating innovation and being rather flexible to market changes. It is a fact that in 2008 the SMEs represent 99.2% of European Union (EU) non-financial business enterprises and employed more than 60% of European work force while contributing 58.6% to value added generated in the EU (European Commission 2011). The Czech Republic notes a similar importance of SMEs with 99.84% of SMEs among active businesses in 2010 and 60.9% of work force employed (Ministry of Industry and Trade 2011).

In spite of being clearly the engine of economy and an important factor to emergence of economically weak regions (Jáčová 2008) the SMEs face various obstacles most often connected with the financing of their establishment,

research and development capacity and financing and promotion (Müller and Zimmermann 2009; Roman 2011; Scellato and Ughetto 2010; Tödtling and Kaufmann 2001). Since the importance of the SMEs is a generally accepted idea the EU and Member States and developed numerous support schemes targeting the SMEs. According to Floyd and McManus (2005) the strategies on support of SMEs while converging are still rather different on national levels drawing on shared idea of need of support but implementing it in accordance with Member States unique conditions.

On the EU level we can observe continuous increase of interest in SMEs which Grimm (2011) illustrates on German example where since 1990 investments into SMEs have always been one of the most prominent objectives of cohesion policy. The importance of SMEs is later expressed in key documents such as Lisbon Strategy, Europe 2020 Strategy and several specifically SMEs oriented documents such as Small Business Act for Europe from 2008 which was further revised in February 2011. The overall success of cohesion policy is discussed in terms of its effectiveness by Walburn and Saublens (2011) and while being rather critical they highlight the positive impacts of some SMEs focused interventions such as cluster initiatives, business angels support or help to access already available finances and promote their further use in future cohesion policy.

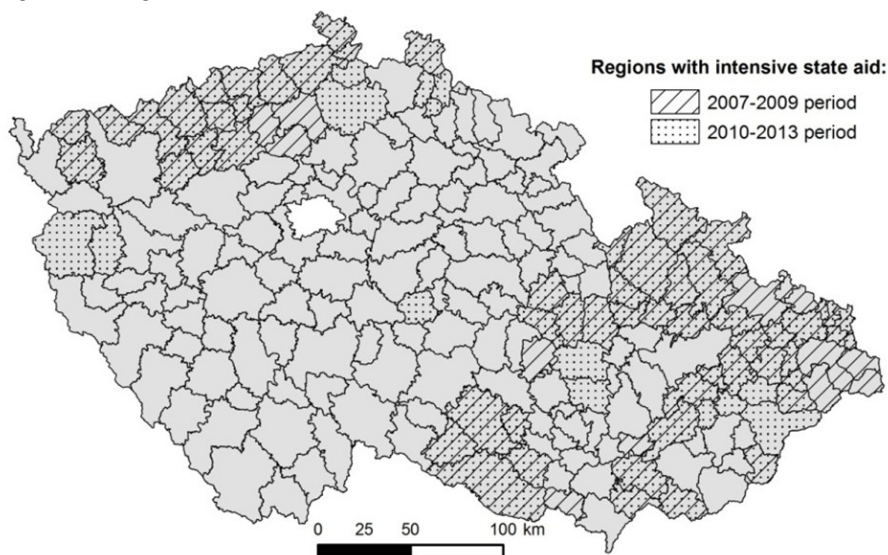
This paper aims to verify whether the previously established significance of SMEs for economic development is reflected in cohesion policy implementation in the Czech Republic's most business oriented operational program Entrepreneurship and Innovation (OP EI). Similar studies concerning use of EU and other public support for SMEs were conducted in Poland where simplification and promotion of programmes was suggested as a result (Klonowski 2010) or United Kingdom where greater focus on SMEs specific problems was suggested (Williams and Fasianos 2011). In the Czech Republic Váchal et al. (2010) researched the support of SMEs from EU resources in South Bohemia region and compared it with other regions with conclusion that no region had particular advantage in fund drawing at that time.

The Czech Republic stressed the importance of SMEs in its primary regional policy and economic development related documents. Strategy of Regional Development of the Czech Republic names lack of SMEs in certain regions as one of possible reasons of their lagging economically (Ministry of Regional Development 2006) and Support Concept for SMEs 2007–2013 aims to improve entrepreneurial environment, entrepreneurial infrastructure and its quality, and support the SMEs by direct financial subsidies (Ministry of Industry and Trade 2006). One form of these subsidies is represented by the EU funded operational programs, OP EI in particular.

Support of SMEs is of special importance in underdeveloped regions that Czech government describes as regions with intensive state aid. The delimitation of state support regions was based on variety of economic indicators including tax revenues, purchasing power in region, number of entrepreneurs and unemployment characteristics (Hornická and Brožová 2012). These regions were delimited twice; first in the above mentioned Strategy of Regional Devel-

opment confirmed by government resolution no. 560/2006. The second update was made at the beginning of 2010 by resolution no. 141/2010 reflecting the new economic standings of regions (see fig. 1). This paper will evaluate the financial support from OP EI in these regions and confront it with others.

Figure 1: Regions with intensive state aid



Source: Author based on governmental regulations no. 560/2006 and 141/2010

Materials and Methods

Czech Ministry of Industry and Trade through the CzechInvest agency regularly publish an updated list of beneficiaries from the OP EI's grant schemes. The loans and guarantees providing schemes are not subject of this research. As of 19th May there were 7088 projects' information published in a detailed matrix which included name and identification number of beneficiary, title and number of project, grant scheme, regions of seat of beneficiary and of realization of project, amount of support in CZK and several other characteristics not used in this particular research. The information was complemented by data gathered by Regional Information Service Website. According to identification numbers of projects the characteristics were complemented by amount of European, national and private monetary support, the total budget of the project in CZK and more detailed description of the place of realization. The characteristics were further complemented by the number of employees of beneficiary, its institutional sector and location from the Registry of Economic Subjects. In order to find out more about regional distribution among the most deserving regions the author added information about each location in terms of its placement among state specially supported regions at the time when the respective call for proposals was issued and what category of supported region it belonged to (see tab. 1).

Table 1: Selected attributes and their possible values

Attribute	Possible values
Place of realization/ Seat of beneficiary	Municipality – Municipality with extended power – District – Region
Number of employees	Micro-enterprise (up to 9 employees) Small enterprise (10–49 employees) Medium Enterprise (50–249 employees) Large enterprise (more than 250 employees)
Institutional sector	Local and central government institutions Private enterprises Economically weak
Regions with intensive state aid	Structurally affected Affected by above-average rate of unemployment Not supported

Source: Author's own elaboration based on Ministry of Regional Development

However there were several economics subjects that were not recognized by any of the databases. These projects, together with those that were not included in both databases as the update frequencies vary and therefore only incomplete information was available, were excluded from the analysis. The characteristics of utmost importance for this research were especially detailed description of location that was derived from the existing administrative structure of the Czech Republic and information about enterprise size. For the purposes of this research the term SMEs does not fully agree with the EU definition that operates with both number of employees and economic characteristics of turnover and balance sheet total. The economic characteristics are often regarded as a trade secret therefore the definition of SMEs in this paper is simplified to only include the number of employees.

The information from above mentioned databases created an extensive grid which was examined while using methods of descriptive statistics.

Results

The analysis included 6471 projects with a complete information grid. As the paper intends to examine only the private sector the institutional sector attribute was used to exclude local and central government institutions which resulted in a further analysis of 6403 projects. These were distributed in twelve different grant schemes that have closer relationship with the thematic focus of the project. Some of them stress the size of beneficiary and location of the project realization when evaluating the projects before actually recommending their funding by the EU. Tab. 2 clearly shows that majority of the grant schemes have advantages for supported regions and SMEs but there are also topics which are promoted in the whole Czech Republic. These are mostly oriented on innovations, cooperation, export and human resources. Most of the schemes favour SMEs with the exception of cooperation and realities oriented schemes.

Table 2: Grant schemes of OP EI and advantages

Grant scheme	Thematic focus	Supported regions advantage	SMEs advantage
Rozvoj (Development)	Acquiring new technologies	Supported regions only	SMEs only
Potenciál (Potential)	Research and development	yes	1 st call for proposals SMEs only; others no
Inovace (Innovation)	Innovations, protection of industrial property rights	no	some calls for proposals SMEs only
ICT v podnicích (ICT in Companies)	Implementing and improving ICT	yes	SMEs only
ICT a strategické služby (ICT and Business Support Services)	Custom software solutions, centres of strategic services	yes	yes
Prosperita (Prosperity)	Cooperation among research and development institutions and enterprises	yes	no
Školící střediska (Training Centres)	Acquiring, reconstruction of training centres and training rooms	no	yes
Marketing	Export opportunities	no	SMEs only
Nemovitosti (Real Estate)	Acquiring realities	yes	no
Poradenství (Consultancy)	Counselling to improve internal processes	no	SMEs only
Eko-energie (Eco-Energy)	Cost reduction and new technologies in energy sector	yes	SMEs only
Spolupráce (Cooperation)	Technology platforms and clusters	no	no

Source: Author's own elaboration based on CzechInvest.org

The advantages given to SMEs and particularly SMEs in state supported regions are quite obvious. The question remains whether the targeted enterprises have so far been able to take the opportunity. Tab. 3 describes the distribution of projects among the size types of enterprises and types of regions. From the point of view of enterprise size the success of SMEs support is noticeable. Almost 90% of all projects were implemented by SMEs. The success of SMEs in the state supported regions is, however, less clear. Due to changes of state supported regions definition we can only work with average number of inhabitants of each region type during the reference period 2007–2012. Approximately 65% of the population has lived in unsupported regions and 35% in one of the supported types which means that in unsupported regions there are cca 66.9 projects per 100 000 inhabitants while in supported regions the same value reaches about 74.3 projects. When decomposed to specific supported regions type the economically weak regions recorded a value of 85.9 projects per 100 000 inhabitants, regions affected by above-average unemployment 72.7 projects and structurally affected regions came out worst with only 64.8 projects. It is clear that while supported regions as whole surpass the unsupported as was planned the structurally affected regions record noticeably smaller values of projects signaling possible problems with absorption capacity. The analysis of individual grant schemes further revealed that supported regions lag behind in the number of projects in every scheme but the Rozvoj (Development) scheme which actually targets only supported regions and is the most frequent theme in supported regions. Apart from acquiring new technologies frequent themes are also cost reduction in energies, acquiring new realities and ICT implementation or export themes. Unfortunately the more progressive themes dealing with clustering or research and development belong among the least utilised in supported regions.

Table 3: Number of projects in region and enterprise size types

Region type	Enterprise size					Total
	Micro	Small	Medium	Big	Unknown	
Not supported	490	1390	1595	380	144	3999
Economically weak	96	351	435	52	22	956
Affected by above-average unemployment	71	262	277	35	11	656
Structurally affected	99	330	307	39	17	792
Total	<i>756</i>	<i>2333</i>	<i>2614</i>	<i>506</i>	<i>194</i>	<i>6403</i>

Source: Author's own elaboration based on CzechInvest.org

Every project has total budget which can be decomposed into EU funding, national fund and private funding. As for the actual EU support allocation the total sum allocated to 6 403 analysed projects is 45.26 billion CZK, the national support reached 8.06 billion CZK and the private funding amounted to 61.49 billion CZK. The distribution in case of monetary support is rather different from previously analysed distribution of number of projects. The SMEs

were paid 75.3% of total EU funded allocation and large enterprises gained 20% which suggest relatively financial demanding projects implemented by big enterprises.

The distribution among different types of regions is more pronounced when the actual allocation is recalculated per inhabitant. The unsupported regions received an EU allocation of 4 880 CZK per inhabitant while the supported received 4 974 CZK per inhabitant. This result in itself is not entirely satisfactory and further decomposition of the support in particular supported regions type shows that economically weak regions record a value of 5 083 CZK per inhabitant, above-average unemployment regions record 4 448 CZK per inhabitant and structurally affected regions record 5 263 CZK per inhabitant. The SMEs in the unsupported regions alone recorded the support of 3 804 CZK per inhabitant while SMEs in state supported regions recorded higher value of 4 161 CZK per inhabitant. The decomposition of supported regions once more showed that economically weak and structurally affected regions are better off with 4 282 and 4 390 CZK per inhabitant respectively than the unemployment affected regions where SMEs gained only 3 701 CZK per inhabitant.

Table 4: Share of EU funds allocation in region and enterprise size types

Region type	Enterprise size					
	Micro	Small	Medium	Big	Unknown	Total
Not supported	7.1%	16.9%	22.4%	14.2%	3.9%	64.4%
Economically weak	0.9%	3.9%	5.4%	2.0%	0.3%	12.5%
Affected by above-average unemployment	1.2%	2.4%	3.7%	1.5%	0.1%	8.9%
Structurally affected	2.1%	3.9%	5.4%	2.4%	0.4%	14.2%
Total	11.4%	27.0%	36.9%	20.0%	4.7%	100%

Source: Author's own elaboration based on CzechInvest.org

As previously stated the budget of every project can be decomposed and the amount of private funding is of obvious interest as one can suppose the projects in the regions with intensive state aid might receive a greater share of public funding as well as projects implemented by SMEs while respecting that public funding will not exceed 85% of the budget.

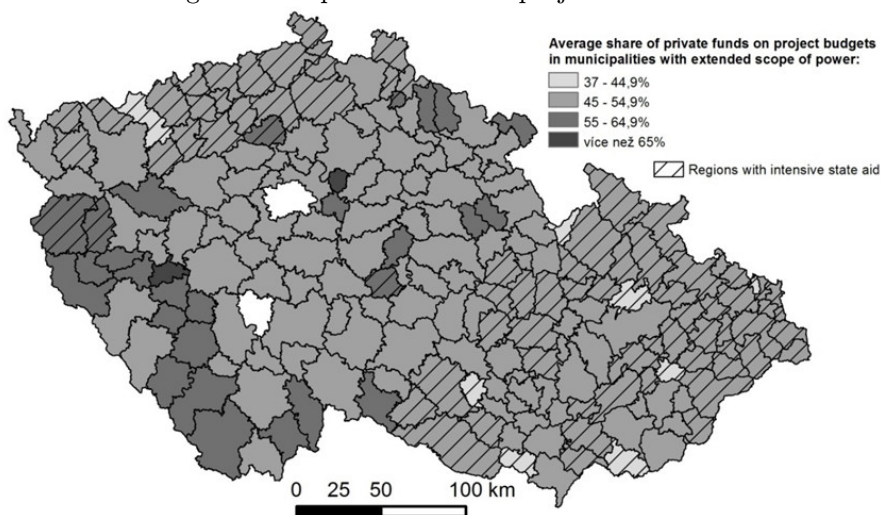
First all the projects were examined with regard only to the size of the enterprise. The results show that the amount of private funds invested into project grows with the size of the enterprise. Where small enterprises invested on average 44.8% of total budget the big enterprises invested 58.9% of the budget. The only exception from this rule are the micro-enterprises that invested on average 46% of budget which is more than small enterprises (44.8%) but less than medium enterprises (51.1%).

Calculations of the average share of private funds in project implemented in individual municipalities with extended scope of power (MESP) revealed that the amount of private financing in projects ranges from 37% to approximately

70%. Pic. 2 illustrates that the MESP's with smallest shares of private funding were indeed those with intensive state aid. Otherwise these regions have little in common as they are not geographically close neither are they of particular supported type nor thematic focus. The exception is that most of them are named as supported in both governmental regulations and the projects are realized almost solely by the SMEs.

Most state aided MESP's as well as other MESP's record the share of private funding on project budgets between 45% and 55%. The exceptions with very high private funding above 65% are mostly caused by extremely low number of implemented projects (only one or two) that are oriented on reducing energy costs.

Picture 2: Average share of private funds on projects



Source: Author's own elaboration based on CzechInvest.org

Discussion and Conclusion

A brief look at the national strategic documents of the Czech Republic confirmed the acknowledgement of importance of the SMEs for the Czech economy and especially for economy of underdeveloped regions. These observations were further encouraged by detailed analysis of calls for proposals issued within the twelve grant schemes of OP EI in the period 2007–2012. The calls for proposals heavily favour both SMEs and underdeveloped regions specified in governmental regulations some are even exclusive for one of both categories. The administrative support for these applicants is strongly reflected especially in the activity of SMEs in project implementation even though their activity weakens in fund drawing where the analysis showed the ability of big enterprises to implement projects with greater costs. There is, however, relative success of supporting the SMEs with regards to the share of private and public funds

that are invested to the projects. The share of public funds grows when the size of the enterprise shrinks.

The support of regions with intensive state aid that are also of special focus is more pronounced in fund drawing than the actual project application activity. Apart from regions affected by above-average unemployment both other types of supported regions managed to draw relatively greater amounts of support per inhabitant than unsupported regions albeit the thematic focus of projects implemented in these regions does focus rather on the projects with smaller added value. Research and development or innovation oriented projects are rather under represented which raises the question of long term economic development success in these regions as they seem to be unable to implement more advanced tools to boost the knowledge economy.

The above mentioned findings lead to the conclusion that the SMEs support on the whole is quite effective as the targeted enterprises gain 75% of EU financial support in 90% of approved projects. The advantages given to SMEs in project evaluation are sufficient measure to ensure their access to EU finance. The effectiveness of support of regions with intensive state aid is less clear. While the regions gain on average a greater amount of support per inhabitant than unsupported regions the difference per capita is less than 100 CZK and also the regions affected by the above-average unemployment can be regarded as quite unsuccessful when compared with other two supported types. However there is one important difference between these regions. This paper only examined projects implemented by the private sector enterprises. The inclusion of central and local government projects reveal that unemployment affected regions received significant amount of support in projects implemented by the public sector. This can lead to the conclusion that while the private sector remains less active in these regions the public institutions, that specifically focus on employment policy, implement EU funded projects. Unfortunately this is rather an undesired situation which reflects deeper issues with the inner potential of enterprises in these regions.

The issue of state supported regions and the question of their ability to draw EU funds was previously researched by Hájek et al. (2012) who researched all the operational programs in the present programming period and came to a similar conclusion stating that there are no pronounced preference of these regions in the cohesion policy as the policy focuses on disparities on larger level of NUTS II regions and countries in general. Felixová (2012) who evaluated the absorption intensity of entrepreneurial support in state supported regions also concluded no visible preference on entrepreneurs in state aided regions although interestingly points out that the so called problematic regions defined by state are still the subject of more intensive support than problematic regions defined by NUTS III governing bodies. These conclusions are consistent with the findings of this article which revealed that while the state supported regions and its entrepreneurs are strongly favoured in calls for proposal the actual fund drawing does not reflect this fact quite so obviously. The measures to improve activity of the enterprises in these regions may include a special advantage in

the evaluation focus on unemployment affected regions only or special call for proposals spatially limited by boundaries of the said regions.

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Podpora malého a středního podnikání z operačního programu Podnikání a inovace

Tento příspěvek analyzuje podporu malého a středního podnikání (MSP) prostřednictvím dotací z operačního programu Podnikání a inovace (OP PI). Malé a střední podniky jsou obecně považovány za velmi důležitou součást každé ekonomiky a v České republice se tento fakt odráží na úrovni národních strategických dokumentů a také v OP PI, jehož dotační schémata často zvýhodňují MSP a zejména ty z nich, které realizují své projekty v regionech se soustředěnou podporou státu. Tento článek zkoumá alokaci prostředků OP PI mezi podniky s ohledem na jejich velikost a lokalizaci na základě dat publikovaných pravidelně agenturou CzechInvest. V závěru konstatuje, že prostředky jsou skutečně alokovány do projektů prováděných MSP, ovšem podpora regionů se soustředěnou podporou státu není natolik výrazná, přestože MSP i tyto regiony jsou v průběhu hodnocení projektů obvykle zvýhodněny. Objevuje se nicméně velmi pozitivní trend většího podílu veřejných prostředků na projektech realizovaných MSP.

Klíčová slova: dotace, Evropská unie, malé a střední podniky, regiony se soustředěnou podporou státu

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