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EKONOMICKO-SPRÁVNÍ FAKULTA

Impacts of the Transformation on the Regional Development in the Czech Republic

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1. Regional policy in the Czech Republic¹

1.1 Introduction to the Czech regional policy

Last decade brought dynamic and radical changes to Europe and its understanding of regional policy. On the one hand, the European Union aims at widening of integration; on the other hand, the deepening of the integration is the issue number one in connection with the process of the EMU forming. The member countries as well as accession countries can feel that the integration can be jeopardize if economic and social disparities are not addressed as a problem and economic and social cohesion recognized as a political priority number one. In this perspective the Czech government started to place emphasis on the identification of regional problems and the best way of addressing them.

Regional policy is generally understood as state intervention into economic and social development in different parts of the state's territory. An actual profile of regional policy tends to be strongly dependent on the role of the state in its historical development, on the affluence of the society, on the severity of regional disparities and on the nature of ruling political will.

Regional policy in the Czech Republic until the year 1990 can be associated only with massive redistribution and reallocation of resources. No systematic regional policy was articulated and numerous problems in the sphere of regional development could be found in this period, such as an emergence of new peripheral zones.

It is clear that the change of the system at the end of 1980s meant absolute disbelieve in planning of any form. National as well as regional plans no longer applied. The central government however maintained its power (partly because of the abolition of regional governments at the beginning of 1990s) and it's the attitude towards the regional policy matters remained largely unchanged. State interventions were considered the best solution for the transformation of the country into the market economy. The character of the regional Policy Act from 1991 was mainly declarative, though it did indicate principal problems to be tackled. Trough this act regional policy was declared by the Czech government to be an integrated part of its economic policy. The main objective was defined as the creation of the preconditions for a minimal standard of working and living conditions for citizens in all regions of the Czech Republic.

No substantial regional inequalities could be traced at the beginning of the 1990s. Nevertheless some aspects of the transformation process presaged the severe problems that were to become associated mainly with the growth of unemployment. These were: a substantial decline of heavy industry; a reduction of agricultural sector employees; the very low inter-regional mobility of the work force or severe environmental problems.

The ministry responsible for the regional industrial policy placed special emphasis on the level of unemployment, being aware of the importance attached to this indicator in most European countries. The suspiciously low level of unemployment (around 4%) at the beginning of 1990s, however, raised the question of reliability of this indicator in the as yet not well established market economy. One could assume the undeniable existence of latent unemployment, especially in the state-owned heavy industry companies.

¹ prepared with the use of www.mmr.cz (8.11.2006)

According to the subsequent Act on Principles of Government Regional Economic Policy from the year 1992, regional policy was defined as an activity of the state aimed at supporting the effective functioning of the market economy taking into account the regional economic differences. The policy was clearly oriented toward the support of small and medium sized enterprises and the improvement of the infrastructure and can be thus regarded as regional industrial policy. The role of the state remained essential even though it did not include proper co-ordination of the relevant ministries on regional issues. Partnership with regional or municipal level was similarly not a declared aim.

In 1996, newly formed Ministry for Regional Development was awarded a coordinating role in securing regional policy of the state. And it was only in April 1998 when the general rules governing the implementation of regional policy were set in the new Principles of regional policy. This document does not come with concrete solutions of regional problems; rather it replaces temporarily missing legislation. Compared to the government principles of 1992, a broader approach is proposed. The regional policy is understood as a conceptual activity of the state and regional authorities with the aim to: 1) contribute to the balanced and harmonious development of the regions in the Czech Republic, 2) reduce the differences in the levels of development between the regions and 3) improve the regional economic and social structure.

The effort to achieve a balanced development cannot be understood as an effort to secure completely equal development in all regions, instead the aim is to give equal chances to all regions and make full use of their democratic, natural, economic and any other potential.

1.2 Regional Structure²

Pursuant to Act No. 347/1997 Coll., on Establishing Higher Territorial Self-Governing Units and Amending Constitutional Law of the Czech National Council No. 1/1993 Coll., the Constitution of the Czech Republic, the territory of the Czech Republic is divided into 14 regions and 77 districts (abolished on 31st December 2002) including the territory of the capital city of Prague effective from 1st January 2000. The regional level corresponds to the division of the Czech Republic into NUTS III territorial statistical units. The NUTS II regions consist of one to three NUTS III units. They were created with regard to the need of coordinating and implementing the economic and social cohesion policy as per Act No. 248/2000 Coll., on Regional Development Support, and are denominated as the cohesion regions.

The NUTS I unit is formed by the territory of the whole Czech Republic. No major differences existed among the individual cohesion regions in the early 1990s (with the exception of Prague) that would have substantially determined possibilities of their further development. Nevertheless, soon after some factors gained ground whose effects contribute to an increasing differentiation among the economic performance of the regions. These are particularly the factors of hierarchy and location of settlements, reflecting varying attractiveness and accessibility of the regions. It becomes clear that the position of the regional centers forming a backbone of the regional system has improved. The role of the large centers is then enhanced by the necessity to develop much needed large-scale infrastructure connecting the regions of the Czech Republic to Western European systems.

² National Development Plan, MMR, 2004.

Figure: Cohesion Regions (NUTS II) in the Czech Republic



Source: MMR, 2003.

Figure: Regions (NUTS III) and Districts (NUTS IV) in the Czech Republic



Source: MMR, 2003.

1.3 Ministry for Regional Development

The Ministry for Regional Development was established on November 1st, 1996 by the Law No. 272/1996. This Law specified the scope of powers of the Ministry as the central body of the State Administration of the Czech Republic in following areas:

- regional policy, including regional support for private enterprises;
- housing policy;
- development of housing resources;
- leasing of residential and non-residential facilities;
- zoning;
- building regulations;
- investment policies;
- tourism.

The Ministry for Regional Development also manages financial resources provided by the Government for areas of housing and regional policy of the State, co-ordinates the activities of other Ministries and central bodies of State Administration when implementing the housing and regional policy of the State, including the co-ordination of the financing of these activities in cases when the Ministry itself does not directly manage these financial resources. The Ministry for Regional Development also provides information and methodology for counties, cities and municipalities and their associations and supervises the activities associated with the process of integrating regions into European regional structures. Companies where the ministry manages state ownership interest:

- Czech-Moravian Guarantee and Development Bank;
- Institute for Territorial Development;
- PRIVUM;
- Czech Tourist Authority;
- Centre for Regional Development of the Czech Republic.

Czech-Moravian Guarantee and Development Bank (Českomoravská záruční a rozvojová banka) - a specialized bank acting in conformance to the governmental economic policy and with governmental participation, this institution supports the availability of capital to small and medium sized businesses, promotes the development of housing, regions, municipalities and communes and other areas of economy. In particular, the bank provides guaranties, loans, and financial contributions. In detail: www.cmzrb.cz.

Institute for Territorial Development (Ústav územního rozvoje, directly controlled budgetary organization) - the Institute for Territorial Development is engaged in methodological, consulting and literature research activities, fosters study activities (including the operation of a specialized library for the public), documentation activities and publishing of specialized professional handbooks. Furthermore, the Institute prepares documents for practical needs of the Ministry for Regional Development, creates information systems, takes care of international specialists' contacts and organizes participation in international organizations. All activities are related to zoning, regional policy, housing issues and housing policy, and programs of development of regions, cities, towns and villages in the Czech Republic. Another field of Institute's activities includes the settlement of rights and liabilities of liquidated engineering organizations (KIO) in the Czech Republic and their legal predecessors. In detail: www.uur.cz.

PRIVUM (directly controlled budgetary organization) - the assignment of the organization PRIVUM consists in the taking-over, documentation, administration and privatization of national property in the territories of the former military zones Ralsko and Mladá. In this, PRIVUM co-operates with other state administration bodies, interest organizations, banking institutions, research and consultancy organizations as well as with representatives of the regional governments concerned. PRIVUM also administers and updates the information system regarding the territories concerned and territories organically related to them. PRIVUM invites public competitions for the sale of property, and is responsible for the implementation of principles of approved zone plans with a view to revitalizing the areas involved. In detail: www.pvtnet.cz/www/privum.

Czech Tourist Authority (Česká centrála cestovního ruchu - CzechTourism, directly controlled contributory organization) - the state funded Czech Tourist Authority was set up in 1993 to promote the country as an attractive tourist destination abroad and on the domestic market. The Czech regions, towns and commercial entities are important partners of the agency in the promotion of the country. The agency comes under the Czech Ministry for Regional Development. Since 1st August 2003 the agency's official title has been the Czech Tourist Authority - CzechTourism. You will find more detailed information on the Czech Tourist Authority - CzechTourism and the agency's activities on www.CzechTourism.com

Center for Regional Development of the Czech Republic (Centrum pro regionální rozvoj, directly controlled contributory organization) - basic mission of the Centre for Regional Development of the Czech Republic is the support of regional policy of the Ministry for Regional Development, support and monitoring of social and economic development in regions. This assistance is delivered through the implementation of the EU programs, which is within the competencies of CBC Phare within the Ministry for Regional Development: Regional Development Fund, preparatory programs for Structural Funds, methodological and material support to activities of Regional Development Agencies, development of a regional information system including information support to enterprise, and support to and organization of training programs aimed at European integration. CRD CR is a host organization for EURO INFO CENTRE, a member of European information and counseling centers established by the European Commission. Centre for Regional Development CR supplies state administrative and self-government bodies information on national and international Phare programs, cross-border-cooperation programs, and all the other interested parties information from national publicly accessible databases. It participates in programs preparing public servants for the use of Structural Funds in the CR. EURO INFO CENTRE (EIC) provides information on legislation, EU customs and taxes, EU projects and activities to support SME's. It also mediates the participation of Czech businesses in some of the EU programs. For the domestic companies a bulletin "Entrepreneurial contacts" (Podnikatelské kontakty) is issued and the possibility of promoting their own products or business activities in BRE (Bureau de Rapprochement des Entreprises) offered. In detail: www.crr.cz.

2. Implementation of the structural funds in CZE

2.1 Objectives of the European regional policy³

The European Union is one of the most prosperous economic zones in the world. Since the accession of 10 new Member States on 1 May 2004, it has the power of an internal market and the human potential of more than 450 million citizens. But economic and social disparities among its Member States and among its regions weaken its dynamism overall. These disparities are twice as great in the Europe of the Twenty-five, with its 254 regions, than they were in the Europe of the Fifteen.

More than a third of the budget of the Union is devoted to regional development and economic and social cohesion through a series of European funds. For the period between 2000 and 2006, EUR 213 billion has been earmarked for all structural instruments for the 15 Member States. In addition, about EUR 22 billion in pre-accession aid, and another EUR 22 billion in structural interventions for the new Member States in the period 2004–06, will be spent within the Union's adjusted financial perspectives. The total of about EUR 257 billion represents approximately 37 % of the EU budget for the period up to 2006. Most of the funding is being spent through multi annual development programs, managed jointly by Commission services, the Member States and regional authorities. The European subsidies do not replace but rather supplement national aid.

The Structural Funds - each of the four existing Structural Funds has its own specific thematic area. The European Regional Development Fund (ERDF) finances infrastructure, job-creating investment, local development projects and aid for small firms. The European Social Fund (ESF) promotes the return of the unemployed and disadvantaged groups to the workforce, mainly by financing training measures and systems of recruitment assistance. The Financial Instrument for Fisheries Guidance (FIFG) helps adapt and modernize the fishing industry. The Guidance Section of the European Agricultural Guidance and Guarantee Fund (EAGGF-Guidance) finances rural development measures and provides aid for farmers, mainly in regions lagging behind in their development. Other financial instruments exist in addition to these Structural Funds, including notably the Cohesion Fund.

To enhance its impact and secure the best possible results, 94 % of structural funding for the period 2000–06 is concentrated on three objectives:

- Objective 1: Helping regions whose development is lagging behind to catch up;
- Objective 2: Supporting economic and social conversion in industrial, rural, urban or fisheries dependent areas facing structural difficulties;
- Objective 3: Modernizing systems of training and promoting employment. Measures financed by Objective 3 cover the whole Union except for the Objective 1 regions, where measures for training and employment are included in the catch-up programs.

Community initiatives and innovative actions - four Community initiatives are aimed at finding solutions to problems common to a number of or all Member States and regions: Interreg III for the development of cross border, interregional and transnational cooperation; URBAN II to support innovative strategies in cities and urban neighborhoods; Leader+ to promote rural development initiatives; EQUAL to combat discrimination in the labor market. The Community initiatives absorb 5.35 % of the Structural Funds budget. In addition,

³ prepared with the use of <http://ec.europa.eu> (10.11.2006)

programs for innovative actions receive funding to work as laboratories of ideas for disadvantaged regions.

The Cohesion Fund - a special fund, the Cohesion Fund, is designed to assist the least prosperous countries of the Union: the 10 new Member States as well as Ireland (until the end of 2003), Greece, Portugal and Spain. At the beginning, the criterion is that the country's gross national product (GNP) is no greater than 90 % of the average for the Union. The Cohesion Fund intervenes throughout the national territory to co-finance major projects involving the environment and trans-European transportation networks rather than programs and thus makes it possible to avoid having the cost of these works disrupt budgetary efforts in the countries to satisfy the demands of economic and monetary union. Furthermore, it assists these countries to conform to European norms in these areas. One third of the funding for the Cohesion Fund is reserved for the new Member States between 2004 and 2006.

Tab.: *Financing of the Objectives from the Structural Funds*

2000 – 2006		2007 - 2013	
goals	financial tools	goals	financial tools
Cohesion	Cohesion Fund		
Goal 1	ERDF ESF EAGGF - guidance section FIFG	Convergence	Cohesion Fund ERDF ESF
Goal 2	ERDF ESF	Regional competitiveness and employment	
Goal 3	ESF	- regional level - national level	ERDF ESF
INTERREG	ERDF		
URBAN	ERDF	European territorial integration	ERDF
EQUAL	ESF		
LEADER+	EAGGF - guidance section		
Rural dev. and fish. (outside goal 1)	EAGGF - guarantee section FIFG	<i>CAP is going to take it over.</i>	

Source: www.strukturalni-fondy.cz, 2006.

The regional policy of the Czech Republic was designed to respect the basic principles of the structural policy of the EU and the overall aim of economic and social cohesion. In this respect, allocation mechanism as a part of the institutional framework, have to be set up to enable the future use of structural funds.

The European Commission determines the volume of funds available for the Czech Republic under the Cohesion Fund, Objective 1, Objective 2 and Objective 3, and the Community Initiatives. Further detailed distribution for activities eligible under Objective 1 is at the discretion of the Czech Republic. In practice this means that the funds shall be distributed among individual operational programs pursuant to a consensus achieved within the CR.

The starting criterion for allocations from the Structural Funds is respecting the global as well as the specific objectives of the NDP (see Chapter II). As an additional and orientation

standpoint taken into account is the proportion of the individual Structural Funds in total allocation for programs under Objective 1 in the EU Member States.

Tab.: Financing of the Objectives from the Structural Funds in CZE

2000 – 2006		2007 - 2013	
goals	financial volume	goals	financial volume
Cohesion	31,1 billions CZK	Convergence	777 billions CZK
Goal 1	48 billions CZK		
Goal 2	4,3 billions CZK	Regional competitiveness and employment - regional level - national level	12,5 billions CZK
Goal 3			
INTERREG	2,3 billions CZK	European territorial integration	not defined yet
URBAN	-		
EQUAL	1,0 billions CZK		
LEADER+	-		
Rural dev. and fish. (outside goal 1)	-	<i>CAP is going to take it over.</i>	

Source: MMR, 2004, 2006.

A key role in the implementation of the European Union's Economic and Social Cohesion (ESC) Policy plays the Ministry for Regional Development. The policy is mainly administered by its European Integration Section (Cohesion Fund, Joint Regional Operational Program, Single Programming Document for Objective 2 - Prague); Regional Policy Section (Phare CBC, Interreg IIIA) and Land Planning and Building Regulation Section (Interreg IIIB, IIIC).

An important condition for the drawing on pre-accession instruments and, after the CR joins the EU; also on the Structural Funds is the provision of national co-financing. In order to make a general estimate of the amount that will be spent on co-financing we can currently expect the pre-accession assistance to be co-financed from national resources at 33.3 % rate in years 1999 – 2003 based on the estimates followed from the implemented programs until today. As far as the financing of structural policy after the accession of the CR to the EU in 2004 is concerned, the average national share of public funds for Objective 1 is estimated at 50.3 % in years 2004 – 2006. The rate was calculated based on the expected national co-financing of basic priorities according to individual operational programs.

2.2 National Development Plan⁴

The basic strategic document for receiving support from the Structural Funds and the Cohesion Fund is the National Development Plan (NDP). The NDP strategy for Objective 1 will be detailed in the follow-up operational programs (OP's) Industry and Enterprise, Human Resources Development, Rural Development and Multi-Functional Agriculture, Infrastructure and the Joint Regional Operational Program. Strategic plans of the NDP concerning the Cohesion Fund are being elaborated by the Cohesion Fund Strategies for Transport and the Environment. Central Bohemia, North-West, South-West, North-East, South-East, Central Moravia and Moravia-Silesia belong among the cohesion regions eligible for support within Objective 1. The Prague cohesion region will be eligible to draw funds within Objective 2 and Objective 3. The INTERREG and EQUAL Community Initiatives will be further available to the Czech Republic.

The NDP has been prepared in the Czech Republic since 1999 and focuses in a comprehensive manner on the area of economic and social cohesion (ESC) in the cohesion regions falling under Objective 1. The basic version of the NDP was several times updated and amended partly on the basis of comments received from the European Commission. The final version of the National Development Plan was prepared in 2003.

The NDP as the initial document to negotiate support from the Structural Funds for the shortened programming period of 2004 – 2006 describes the current situation, defines the strategy, sets forth the orientation of the OP's, proposes the managing and monitoring system and determines the financial framework of the NDP. The structure and content of the document ensue from the EU legislation, particularly from Council Regulation (EC) No. 1260/1999 of 21st June 1999 and other documents issued by the European Commission – the „Working Paper“ edition „Vademecum for Structural Funds Plans and Programming Documents“, „Ex-ante Evaluation of the Structural Funds Interventions“ and „Indicators for Monitoring and Evaluation“.

The first chapter of the NDP contains a description of the current macroeconomic situation in the Czech Republic. The individual data and trends, wherever suitable, are compared with those of the EU and the accessing countries. The chapter offers a general description of the territory, demographic characteristics, economic and social situation as well as situation in agriculture, rural areas and the environment. The macroeconomic situation forms a framework within which the NDP strategy will be implemented. With respect to the fact that the NDP has been prepared for the shortened programming period, it does not contain macroeconomic models quantifying the impacts of the NDP measures on the level of macroeconomic indicators in the Czech Republic. The chapter is concluded by a description of the existing development programs; both national regional and sector policies as well as the EU pre-accession assistance.

At the beginning of the second chapter the results of the socio-economic analysis are summarized in the SWOT analysis forming a bridge to the subsequent formulation of objectives and strategies. The objectives will be achieved by implementing priority axes by means of the OP's. Following is a section describing how compliance with the Communities policies will be ensured.

⁴ National Development Plan, MMR, 2004.

As opposed to the previous versions of the NDP that contained separate sector and regional sections describing in addition to basic characteristics also the orientation of the proposed regional and sector OP's, the final version outlines only the orientation of the individual prepared OP's included in the third chapter. The OP's are described by their objectives and priorities whose implementation will help achieve the objectives. Further details will be given in the individual OP's and program complements.

The fourth chapter covers management and monitoring measures. It gives an overview of the system of management authorities and monitoring committees as well as financial management and control. This chapter defines responsibilities and powers of the individual bodies as well as the monitoring indicators used to monitor progress in achieving the NDP objectives. Information on carried out ex-ante evaluation and Strategic Environmental Assessment including main evaluators' recommendations and the way of their consideration is also a part of this chapter. Measures for insuring information and publicity requirements are also presented.

The fifth chapter presents the financial framework and distribution of funds among individual OP's. Calculation of additivity for Objective 1 is also presented.

By the end of June 2003, the Commission informed the Czech authorities about its comments on the NDP in a letter from Commissioner Barnier. The formal negotiations opened on 3 July 2003 in Prague, followed by three technical meetings in August to discuss several specific issues more in depth. After an intensive period of negotiations the Czech Republic and the European Commission were able to agree the main elements of assistance during a second formal negotiation meeting on 12 September 2003 in Brussels.

The Community Support Framework (CSF) for the Czech Republic 2004 - 2006 is the final result of a long period of preparations and internal negotiations within the Czech Republic between many different public and non-public, national, regional and local partners followed by an intensive period of negotiations with the European Commission. This document constitutes the basic strategy for socio-economic development of the cohesion-regions Central Bohemia, North-West, South-West, North-East, South-East, Central Moravia and Moravia-Silesia for the period 2004 - 2006.

2.3 Operational Programs, overview (period 2004-2006)

The Czech Republic has prepared five operational Programs for the period 2004 - 2006 within the Community Support Framework:

- Joint Regional Operational Program;
- OP Infrastructure;
- OP Rural Development and Multifunctional Agriculture;
- OP Industry and Enterprise;
- OP Human Resources Development.

The global objective of the OP Industry and Enterprise is to contribute to a competitive Czech business sector on the European common market with a high labor productivity and efficient production.

The OP Infrastructure contributes to the development of the second priority axis-Development of Transport infrastructure - and the fourth priority axis - Protection and improvement of the environment - of the CSF.

The OP Rural Development and Multi-Functional Agriculture is in line with the fifth priority axis of the CSF "Rural development and Agriculture" and will contribute to a part of the specific objectives " creating conditions of the business environment" and "improvement of the infrastructure quality", while at the same time supporting the horizontal objectives of "sustainable development" and "balanced development of regions".

The OP Human Resources Development caters directly for the third CSF priority axis "Human Resources Development" and moreover for two of the three specific objectives that have been identified for the shortened programming period 2004 - 2006.

The Joint Regional Operational Program (JROP) contains the development priorities of seven cohesion regions eligible for support under Objective 1. The JROP is based on a joint development strategy with the regional differences being reflected by different financial weights to priorities and measures in the individual regions.

Tab.: Allocation of Structural Funds among Operational Programs (in 1999 prices)

	share	cur.	2004	2005	2006	total
OP Industry and Enterprise	15.0 %	mil. EUR	45.889	64.439	81.957	192.285
		mil. CZK	1,422.556	1,997.603	2,540.676	5,960.835
OP Infrastructure	13.5 %	mil. EUR	41.300	57.995	73.762	173.057
		mil. CZK	1,280.301	1,797.842	2,286.609	5,364.752
OP Human Resources Development	21.0 %	mil. EUR	64.244	90.214	114.740	269.199
		mil. CZK	1,991.579	2,796.644	3,556.947	8,345.169
OP Rural Development and Multi-Funct. Agr.	12.0 %	mil. EUR	36.711	51.551	65.566	153.828
		mil. CZK	1,138.045	1,598.082	2,032.541	4,768.668
Total JROP	38.5 %	mil. EUR	118.855	166.901	212.275	498.032
		mil. CZK	3,684.519	5,173.929	6,580.528	15,438.977
of which TA CSF		mil. EUR	1.074	1.508	1.918	4.500
		mil. CZK	33.292	46.749	59.459	139.500
Total OP	100 %	mil. EUR	307.000	431.100	548.300	1,286.400
		mil. CZK	9,517.000	13,364.100	16,997.300	39,878.400

Source: MMR, 2003.

2.3 Community Initiatives

In addition to the operational Programs, Czech Republic will be participating in two Community Initiatives financed from ERDF and ESF - Interreg III and Equal. In the Initiatives Leader+ and Urban the Czech Republic will not be active during 2002-2006. The Community Initiative Program was first introduced as part of the reform of the European Structural Funds in 1989 to promote European cohesion and increase co-operation between regions within the European Union. The Community Initiatives play an experimental role as they focus on areas where new solutions are needed or need to be encouraged.

2.3.1 Interreg

Interreg III is a Community initiative which aims to stimulate interregional cooperation in the EU between 2000-06. It is financed under the European Regional Development Fund (ERDF)

This new phase of the Interreg initiative is designed to strengthen economic and social cohesion throughout the EU, by fostering the balanced development of the continent through cross-border, transnational and interregional cooperation. Special emphasis has been placed on integrating remote regions and those which share external borders with the candidate countries. Interreg III is made up of 3 strands and has a total budget of 4,875 billion euro (EU level, 1999 prices).

Strand A - cross-border cooperation: cross-border cooperation between adjacent regions aims to develop cross-border social and economic centers through common development strategies. The Initiative Interreg IIIA is an extension of the Phare CBC (1994-2003) pre-accession program. It targets support for cross border cooperation during the years 2004-2006. The volume of budget funds allocated to this budgetary period is EUR 55 million. In the Czech Republic, the INTERREG IIIA Initiative for the years 2004-2006 is divided into five separate programs according to individual border regions - Saxony, Bavaria, Austria, Poland, and Slovakia.

Strand B - transnational cooperation: transnational cooperation involving national, regional and local authorities aims to promote better integration within the Union through the formation of large groups of European regions.

Strand C - interregional cooperation: interregional cooperation aims to improve the effectiveness of regional development policies and instruments through large-scale information exchange and sharing of experience (networks).

2.3.2 Equal

The EQUAL Initiative supports transnational co-operation to promote new approaches to combating all forms of discrimination and inequalities in connection with access to the labour market. In this way it is additional to the actions supported under the Community Support Framework and especially the OP Human Resources Development. Successful projects under the CSF can be presented via EQUAL in international networks. The Initiative is funded by the European Social Fund (ESF) and the key principals are:

- transnational co-operation;
- innovation;
- empowerment;
- thematic and partnership approach;
- dissemination and mainstreaming to ensure that EQUAL informs policies and practice.

2.4 Single Programming Documents (Objective 2 and 3)

In 2001, the European Commission decided that the Prague cohesion region should be focused on support under Objectives 2 (ERDF) and Objective 3 (ESF). This decision was taken in view of the fact that Prague – unlike other regions in the Czech Republic – is not eligible to receive support under Objective 1, due to its high GDP/cap even in comparison to EU-15.

The first part of the Single Programming Document for the Prague NUTS 2 region was therefore prepared in the second half of 2001 on the basis of guidelines from the Czech Ministry for Regional Development ("MRD"). This was effected by the transformation of the Regional Operational Program of 1999 and in connection with the Prague Strategic Plan. The above document covered problems that could be dealt with by drawing on support both from the European Regional Development Fund ("ERDF") and the European Social Fund ("ESF"). This document was approved by Prague City Council on 11 December 2001 (under Resolution No. 2171) and was presented to MRD with a view to its completion in 2002 in accord with the requirements of the Ministry.

At the beginning of 2002, however, the Government of the Czech Republic (under Resolution No. 102 of 23 January 2002 on the completion of the preparation of programming documents for the utilisation of the Structural Funds and the Cohesion Fund) elected to have two single programming documents (SPDs) drawn up for the Prague region – under Objective 2 (support for the economic and social conversion of regions which are facing structural problems) and Objective 3 (support for adaptation and modernisation of education, training and employment strategies and systems). SPD for Objective 2 (hereinafter referred to as "SPD Objective 2") is being drawn up under the direction and co-ordination of MRD; the guarantor of the Single Programming Document for Objective 3 (hereinafter referred to as "SPD Objective 3") is the Ministry of Labour and Social Affairs ("MLSA").

The manner and level of the City of Prague's involvement in the preparation of the two documents vary. Prague is the main drafter of SPD Objective 2; in the case of SPD Objective 3, city representatives, in working groups attached to MLSA, are contributing only to the preparation of supporting documents for individual priorities and measures. The work progress and important phase results are regularly assessed by the SPD Committee, which was established by the Prague City Council (via Resolution No. 1589 of 25 September 2001) with a view to securing the involvement of all the key partners in the preparation of both documents and to providing for their co-ordination and expert supervision. An important aspect of the preparatory work was, therefore, an endeavour to ensure that the measures and projects planned under Objectives 2 and 3 are connected in terms of substance, time and space.

The committee evaluated all important phases of the preparation of SPD Objective 2 until termination of its activities after the November 2002 municipal elections. The new political representatives of the City of Prague elected in November 2002 resumed the activities of the SPD Committee in early 2003 by Prague City Council Resolution No. 0062 of 28 January 2003. The task of the new SPD Committee of the Prague City Council is to supervise the completion of the preparation of the city's documents (and their respective Program complements) and to serve the Prague City Council as an advisory body during the process of implementation of both Programs on issues related to utilisation of the EU Structural Funds in the period 2004 – 2006. The SPD Committee again fully works on the partnership principle and with a similar composition as its predecessor committee.

Both Programs were discussed by the Assembly of the City of Prague in October 2002 (SPD Objective 2 was adopted, SPD Objective 3 was acknowledged), and in January 2003 they were authorised by the Government of the Czech Republic and preliminarily accepted by the European Commission's organs (they have both received an "Admissibility Letter"). Based on the European Commission's comments and requirements as set out in the "Negotiating

Mandate” to Prague’s SPD Objective 2, the document was supplemented and substantially modified to the form being hereby submitted.

2.5 Cohesion Fund Strategy⁵

Cohesion Fund Strategy - Implementation System is a key document determining structure, interactions and tasks of the Managing Authority, Ministry of the Environment of the Czech Republic, Ministry of Transport of the Czech Republic and Intermediate Bodies. The document defines procedures when developing the system of co-financing within the Cohesion Fund. Following table shows the support allocation from the Cohesion Fund to the Czech Republic during 2004 - 2006.

Tab.: Allocation of the funds for the Cohesion Fund (CZK)

Cohesion Fund	2004	2005	2006	2004 - 2006
Total (all new memb.)	2 897 484 293	2 430 146 474	3 250 932 202	8 578 562 969
CZE - 9,76%	282 794 467	237 182 296	317 290 983	837 267 746
CZE - 12,28%	355 811 071	298 421 987	399 214 474	1 053 447 532
CZE - Average	319 302 769	267 802 142	358 252 729	945 357 640

Source: MMR, 2004.

The Cohesion Fund Strategy for Transport includes the main trends in national transport policy, description of the transport infrastructure in the Czech Republic, analysis of requirements related to transport of individuals and freights, the current situation in implementation of *acquis communautaire*, possible resources of alternative financing of construction and modernization of transport infrastructure and a summary of projects eligible for financing under the Cohesion Fund. Eligible projects are focused on modernization and construction of transport infrastructure located on the extended TEN networks in the road, railway, air and internal waterway sectors.

Priority should be given to the development of the recently agreed TEN-T network for the Czech Republic. Furthermore in its proposal of 1/10/2003 for the amendment of the TEN-T guidelines, adopted the Commission a list of 29 priority projects of European interest; three of these concern the Czech Republic:

- Rail Athens - Budapest - Wien - Praha - Nürnberg;
- Rail Gdansk -Warsaw - Brno;
- Road Gdansk -Brno.

The Strategy for Environment includes a description of the current status of the environment in the Czech Republic, description of environmental infrastructure, main elements of environmental policies, methods of financing projects, priority areas for financing and a summary of projects eligible for funding under the Cohesion Fund.

More information regarding Operational Programmes, Cohesion Fund and Community Initiatives you can find on www.strukturalni-fondy.cz - the official European funds information web-site for the Czech Republic.

⁵ prepared with the use of www.strukturalni-fondy.cz (10.11.2006)

3. Operational Programs 2004-2006

3.1 Joint Regional Operational Program

The Joint Regional Operational Program (JROP) represents one of the five Programs, which will be implemented under the Community Support Framework for Objective 1 in the Czech Republic. The JROP is covering the development priorities of seven Cohesion Regions of the Czech Republic, which are eligible under Objective 1:

- Central Bohemia;
- Southwest;
- Northwest;
- Northeast;
- Southeast;
- Central Moravia;
- Moravia-Silesia.

The Cohesion Regions are established in Act no. 248/2000 on the support of regional development and are "regions, whose territorial demarcation is identical with the territorial statistical units NUTS 2, set up for the needs related to coordination and implementation of economic and social cohesion based mainly on using the funds from the pre-accession and structural funds of the European Communities").

On 23 January 2002, the Czech Government adopted Resolution no. 102 "to finish the preparation of programming documents and to determine the managing and paying authorities for using the Structural Funds and the Cohesion Fund of the European Union". In this government resolution, the Ministry for Regional Development was appointed as the JROP Managing Authority; the Ministry of Finance was entrusted with the function of the JROP Paying Authority. At the same time it was decided to delegate the competence related to the implementation of projects to the NUTS 2 Regional Councils and to secure their share in managing the total Program.

The priorities and measures of the JROP have been originally specified in the Czech government Resolution no. 401 of 17 April 2002. The JROP was negotiated and adopted by the Czech Government in resolution no. 79 of 22 January 2003. Additionally, based on the Czech government resolution no. 149, dated 12 February 2003, the activities of the cancelled Operational Program Tourism were merged into the JROP. The Program was submitted to the European Commission on 16 April 2003.

The JROP was distinctively revised on the basis of the comments from and negotiations with the EC. The financial allocation was reduced, the potential overlap with other OP's has been taken out, the structure of priorities and measures has been simplified and several parts of the JROP have been redrafted. The final JROP framework is based on four priorities and nine operational measures (without the priority Technical Assistance and its two measures) focusing on:

- Support of small and medium enterprises in the selected regions;
- Improving regional infrastructure;
- Developing the infrastructure for the human resources development;
- Support of tourism.

The proposed JROP priorities respect the main objective of the Community assistance to the Objective 1 regions - to contribute significantly to a reduction of the economic and social

disparities of regions in comparison with the EU average and among the regions within the Czech Republic. The Joint Regional Operational Program has been designed as a Program for targeted interventions to solve the most urgent common problems of the Cohesion Regions in the Czech Republic, taking into account the shortened Program period and the available funds.

The financing of the JROP will be provided from the Structural Funds (the EU contribution will be 75% of the public expenditure for the majority of measures), while also private sources are expected to be involved. The Czech Republic public sources will be provided first of all from the state budget (Ministry for Regional Development) and from the budgets of Regions (kraj) and municipalities.

The support of the JROP from the EU Structural Funds will be provided from two funds. The European Regional Development Fund (ERDF) and The European Social Fund (ESF).

3.2 OP Infrastructure

The Operational Program Infrastructure is an operational Program covering development priorities of the transport sector and sector of the environment in the Czech Republic. This plans co-financing from EU Structural Funds within the Objective 1. Almost 17% of the available Structural Funds budget under the CSF will be allocated to this Operational Program.

The OP Infrastructure contributes to the development of the second priority axis- Development of Transport infrastructure – and the fourth priority axis - Protection and improvement of the environment - of the CSF. Implementation of the OP Infrastructure will be mainly contributing to the achievement of the specific objective "improvement of the infrastructure quality" of the CSF, but also supporting the horizontal objectives of "sustainable development" and "balanced development of regions".

The OP Infrastructure will be supported by one Structural Fund - the European Regional Development Fund (ERDF). The OP Infrastructure comprises four priorities and the measures following from them. The Ministries of Transport and Environment will be responsible for the implementation of the different priorities; the Ministry of the Environment has been designated as the Managing authority of the OP Infrastructure.

Initially, in accordance with the Resolution of the Government two operational Programs were prepared: the OP Transport (the Ministry of Transport) and the OP Environment (the Ministry of the Environment). However, in its session of 12 February 2003 the Government of the Czech Republic decided by its Resolution No. 149 that the operational Programs for the transport sector and for the sector of the environment would be consolidated into one Operational Program Infrastructure. This decision was taken following a Commission's recommendation to reduce the number of operational Programs. The OP Infrastructure followed a merger of the already adopted separate operational Programs. The Operational Program Infrastructure lays down following priorities.

Priority 1 – Modernization and Development of Transport Infrastructure of National Importance: the objective of the priority is to improve the current rail, road, water and air infrastructure, and to contribute in this way to upgrading its performance. It will improve the links between all regions of the Czech Republic, and ensure connection of all regions with the

international transport network. The measures are proposed in line with comprehensive approaches to transport infrastructure and environmental area. The major part of the budget will be reserved for the rail and road transport modes.

Priority 2 - Reducing the Negative Environmental Impacts of Transport: the objective is to ensure the quality of the living conditions of people and, at the same time, to restrict the negative environmental impacts of growing transport by e.g. including support to environmental-friendly transport modes. This priority will also contribute to an improvement in road traffic safety.

Priority 3 - Environmental Infrastructure Improvement: the measures within this priority are in compliance with long-term strategic objectives of the State Environmental Policy, and are approved by the Czech Republic Resolution of the Government No. 38/2001. They respect the horizontal objective of environmental protection formulated in the CSF, and are in conformity with the European Strategy of Sustainable Development and the 6th Action Program of the EU.

Priority 4 – Technical Assistance.

3.3 OP Rural Development and Multifunctional Agriculture

The "Rural Development and Multifunctional Agriculture" Operational Program (Agriculture OP) represents a detailed elaboration of the 5th priority axis of the National Development Plan of the Czech Republic (NDP) for the period of 2004-2006.

In accordance with the 5th priority axis of the NDP, the Agriculture OP applies to the regions of the Czech Republic falling under Objective 1 (the territory of the Czech Republic except for the capital city of Prague). The content of the Agriculture OP has been defined in relation to the other operational Programs and there are not overlaps with them.

The purpose of the Agriculture OP is to support primary competitiveness of agricultural sector as the whole, a higher level of the processing of agricultural products, good forestry and water management as well as fisheries and to provide for a sustainable development of rural areas.

The objective of the Agriculture OP is, in accordance with the global and specific objectives of the National Development Plan, to support a sustainable economic growth as well as a growth in the quality of life of the population, based in particular on:

increasing the competitiveness of the sector;

- providing for the employment and human resource development;
- reducing the disparities in social conditions;
- preserving the cultural landscape;
- the protection and improvement of the environment.

In the period of 2004-2006, the Agriculture OP will have a comprehensive effect on Czech agriculture and rural areas emphasizing the preservation and development of the socio-economic conditions of rural population. Projects implemented under the Agriculture OP will be co-financed from the EAGGF, Guidance Section and from the FIFG.

The Agriculture OP responds to the demand of the society to ensure sustainable rural development, for instance by strengthening the employment in order to prevent the depopulation of problematic regions, by clarifying and rearranging the ownership titles to

land, by the development of multifunctional agriculture, diversification and other activities carried out in rural areas. This way, rural areas should get access to alternative sources of income. A multifaceted structure is sought that would be consistent with natural conditions both in terms of the form of businesses as well as the orientation of production. Adequate broad conditions for production and marketing of products are a prerequisite.

The Agriculture OP respects the principles of economic competition (it ensures equal opportunities for all types and legal forms of agricultural businesses) and the public procurement rules, the current approach to regional policy in the Czech Republic and the structure of public administration. It promotes food safety and quality, the creation of new jobs in rural areas, equality men and women in this area, and the preservation and improvement of the environment. Within the environmental impact assessment of the Agriculture OP and the communication plan, the necessary publicity for the Agriculture OP shall be provided.

3.4 OP Industry and Enterprise

The operational Program Industry and Enterprise is one of the operational Programs of the Community Support Framework (CSF) for the Czech Republic's NUTS II regions falling under Objective 1. Because the benchmark date for the Czech Republic's accession to the EU is 1 May 2004, i.e. halfway through the current Program period, the OPIE includes a fast-track Program period.

The aim of support within the framework of the OPIE is to continue developing a competitive and efficient productive and business potential, to contribute to increased economic performance, and to support the necessary structural changes in industry and business in order to achieve substantial progress in real convergence during the current programming period. In order to ensure that the set goals are reached, assistance focuses on the development of small and medium-sized enterprises, on the support of innovative activities in industry, and on the production-technology, economic, and organizational restructuring of enterprises, branches, and sectors. Issues to be tackled also include elimination of old environmental burdens, equal opportunities, and the information society. An integral feature in the quest to achieve set goals is an ongoing reduction in costs, achieved in the Czech Republic in particular by increasing the efficiency of energy use. The OP Industry and Enterprise is based on three priorities in the fast track Program period from 2004 to 2006.

Priority 1 - Business Environment Development: The measures of which focus on the construction, revitalization and development of business infrastructure, the improvement of environment for human resources development in business sector, development and improvement of informative and advisory services as well as infrastructure support for industrial research, development and innovations.

Priority 2 - Development of Enterprise Competitiveness: The measures of which focus on assistance to new entrepreneurs and new enterprises with development potential, support of innovation processes leading to the development of new products, technologies and services, support of efficient low-cost and environment friendly energy management in business sector.

Priority 3 - Technical Assistance: The measures of which focus on financing provision for the management, performance, monitoring and control of OPIE operations as well as on studies, pilot projects, information system, publicity. There will be coordinated application of funding

from the European Regional Development Fund (ERDF) and other financial instruments of the Czech Republic. There will be compliance with the Czech Republic's Industrial Policy and Regional Development Strategy.

3.5 OP Human Resources Development

The OP Human Resources Development caters directly for the third CSF priority axis “Human Resources Development”. The OP Human Resources Development strategy is fully consistent with the EU’s Employment Strategy, based on employability, entrepreneurship, adaptability and equal opportunities. The global objective of the Program is a high and stable level of employment based on a qualified and flexible workforce, the integration of socially excluded groups of population and competitiveness of enterprises while respecting the principles of sustainable development. Professional mobility will be stimulated in order to allow changes in the employment structure with attention for job opportunities in activities with growth potential and market demand. This global objective responds directly to the labor market and human resources development problems in the Czech Republic. Almost 22% of the available Structural Funds budget under the CSF will be allocated to this Operational Program. The Program has 5 priorities.

Priority 1 – Active Employment Policy: this priority is one of the two major priorities in the Program and supports the implementation of the second specific objective of the CSF, to ensure a fast integration of the unemployed in the labour market while supporting of employed persons at risk of unemployment. Tools are targeted on the specific needs of identified groups. The priority will contribute to the strengthening of the active employment policy for job seekers and job applicants, while at the same time the modernization of the public employment service is implemented.

Priority 2 – Social Integration and Equal Opportunities: this priority is targeted at groups and individuals at risk of social exclusion and it aims to enforce the principle of equal opportunities in the labor market. It will enhance the employability of socially excluded due to long-term unemployment and those at risk of social exclusion with clear preference for active preventive measures. Encouraging the development of individual skills, knowledge and motivation in removing barriers to access to education and employment has proved to be the most effective way of preventing social exclusion and reducing long-term unemployment.

Priority 3 – Life-long learning: this priority is the other major priority of this Operational Program. It is also a horizontal priority in that its implementation helps to achieve all the other objectives of the Program. Lifelong learning development covers the whole education sector. The priority will support the development of professional capacities of teachers and lecturers, including their initial education and in-service training. Target groups will be pupils and students in basic, secondary and higher professional education, teachers and other educational staff, NGOs and social partners. The Program will also promote further development of tertiary education, by upgrading the quality of higher education institutions curricula, their modular structure and greater vertical and horizontal mobility between studies. Building functional partnerships between higher education institutions and those outside the educational system (enterprises, organizations etc.) will become another centre of focus. Since R&D is closely linked to the tertiary sector, the priority will also support HRD activities in this area like e.g. the promotion of further education and development of expertise of research fellows and scientists.

Priority 4 – Adaptability and Entrepreneurship: an important factor influencing competitiveness is employee flexibility and adaptability to new conditions. The ability and readiness of both employers and employees to respond to changes in demand for goods and services are preconditions for a successful economy, and thus a sufficient number of jobs. Enhanced co-operation among businesses is considered to be a key factor for the application of an on-going innovation and adaptability process at every workplace. There is a general lack of flexibility and variety in forms of employment in the Czech Republic. The priority will focus on development of specialised knowledge, skills and competencies of both employers and employees in connection with current structural changes through the delivery of adequate vocational training Programs, including training in information technologies, sustainable development and the promotion of health and safety at workplace.

Priority 5 – Technical Assistance.

4. Regional Development Agencies

Regional development agencies have been proved as an efficient tool for institutional support of the regional development in EU member countries. In the last 15 years they have been also grounded in the central and east European countries, such as Poland, Hungary or Czech Republic.

Regional development agencies in Czech Republic are used as the strong institutional tool for the regional policy of states and regions (regional authorities), especially in the field of support economical development and growth within the regions, absorption capacity of the state and international aid (with the concentration on the SF) and coordination of the efficient partnership of the public and private sector. As the standard tasks for the regional development agencies are being considered:

- regional programming;
- consulting for municipalities and regional bodies in the field of regional development;
- services for enterprises (consulting, coordination);
- project management (documentation, monitoring, evaluation);
- educational services;
- international activities and partnerships.⁶

4.1 Czech Association of Development Agencies (ČARA)⁷

Czech Association of Development Agencies (ČARA) is a specialized professional association of Development Agencies covering with their services the new established Regions (NUTS III) of the Czech Republic. The main objective is to support the systematic economic, social and cultural development of the Czech NUTS III Regions. The ČARA follows the regional policy of the Czech Republic set in the Law No. 248/2000 which is conformable with the EU regional policy.

ČARA was registered as a special-interest corporation according to the Czech Civil Code on February 19th 1997. ČARA's intention is to back up the implementation of the regional policy by complying with the regional specifics. The main partners within the Czech Republic are the state administration at central and regional level, regional and municipal self-administrations and with organisations representing the commercial and NGO sector, which participate in the economic and social development. The main foreign partners are public and private institutions dealing with regional development and associations with similar activities as ČARA has.

ČARA's charge is to coordinate and strengthen the activities of their members and negotiate in their name in the range of the given mandate. Specific targets:

- drafting of legislative and system proposals focused on minimization of barriers concerning conceptual development of the NUTS II and III Regions;
- contribute to implementation of standard development methods used in the EU member-countries;
- creation of generally applicable systems and effective instruments for regional development;

⁶ translated from www.crr.cz

⁷ with the use of www.cara.cz

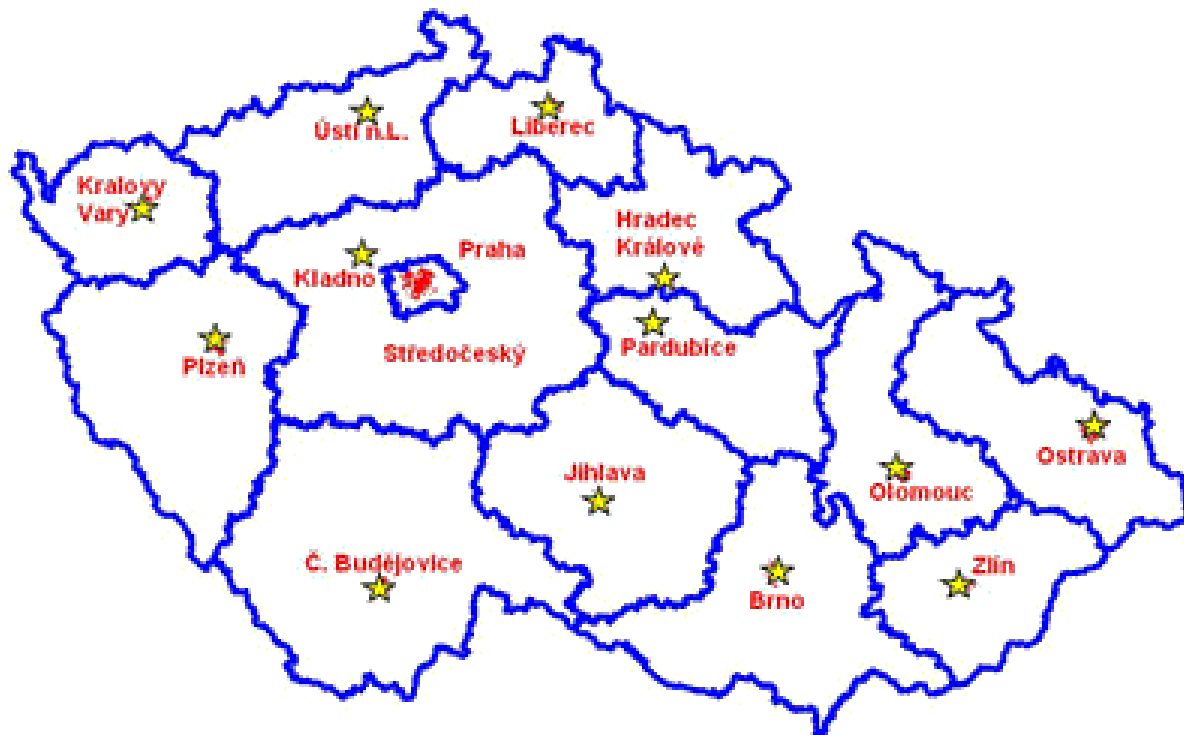
- obtaining support from national authorities and external institutions for implementation of development programs and projects in the regions;
- elaboration of concepts concerning cooperation and negotiation with public and private sectors, NGOs and foreign institutions with the same or similar activities;
- presentation of the Association and promotion of their members;
- creation of an information network among the members with an effective data, information and experience exchange;
- active cooperation with the European Association of Development Agencies EURADA based in Brussels.

ČARA stipulates high quality services performed by their members relating to:

- creation and operating of Regional Information Systems coordinated by the Centre of Regional Development of the Czech Republic;
- providing activities concerning regional programming – elaboration of analysis, development strategies, programs and plans;
- development, coordination and technical assistance in implementation of development policies, programs and projects;
- executive activities within development programs co-financed from different public budgets (e.g. state, regional or EU-funds);
- representation of Czech national development institutions;
- promotion of the Czech Republic and the Regions abroad.

13 regional development agencies within the Czech Republic are registered as members of ČARA. The representatives of the member-agencies constitute the general meeting, which is the highest authority of ČARA. The Board of ČARA as steering committee consists of 5 persons from individual member agencies.

Figure: ČARA's member's regional development agencies in CZE

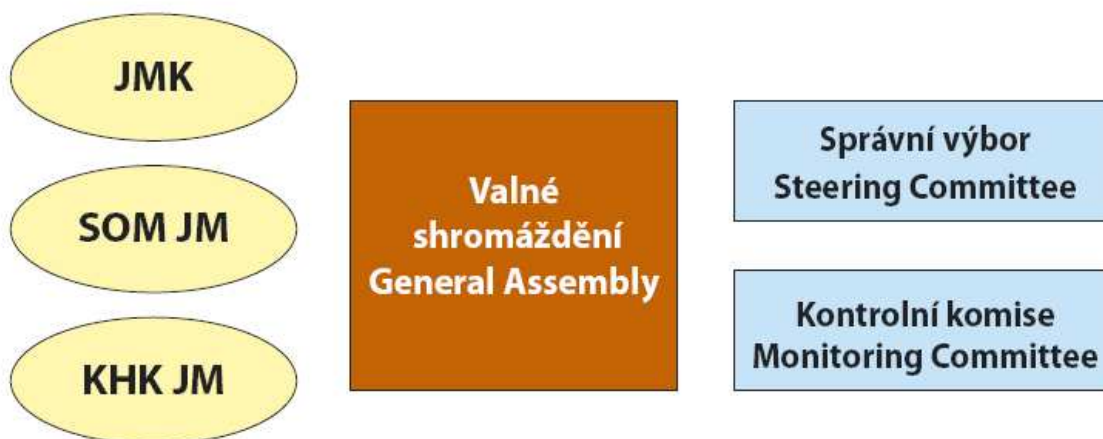


Source: www.cara.cz, 2006.

4.2 Regional Development Agency South Moravia⁸

Regional Development Agency South Moravia (RDA SM) is an association of legal entities. Its members are: The Southern Moravia Region (JMK), The Association of Southern Moravian Municipalities (SOM JM) and the Regional Chamber of Commerce of South Moravia. RDA operates on a non-profit basis; all profits are reinvested in activities and projects benefiting the region. RDA SM was established on 10th September 1997 as a body administering the Phare CBC program for the Fund of Small Projects as part of cross-border cooperation in the South Moravia – Lower Austria region.

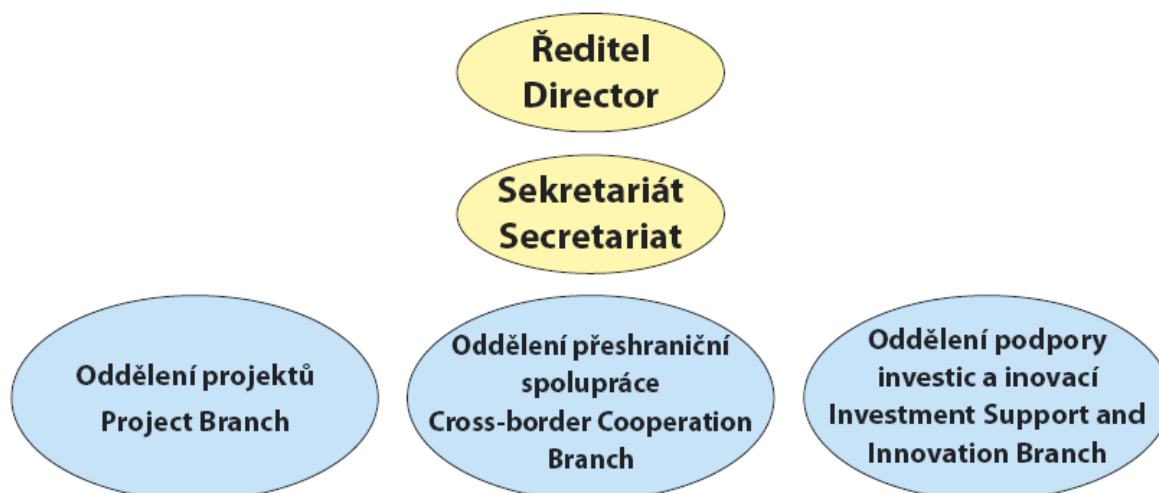
Figure: Administrative structure of RRA JM



Source: RRA JM, 2006.

The Regional Development Agency of South Moravia, employing a staff of 17 in 2005, was divided into three branches, the Project Branch, the Cross-border Cooperation Branch and the Investment Support and Innovation Branch.

Figure: Organizational structure of RRA JM



Source: RRA JM, 2006.

⁸ with the use of www.rrajm.cz

Over the time the scope of activities was extended to include assistance to foreign investors provided as a service for CzechInvest. In the context of the preparations for accession of the Czech Republic to the European Union the activities came to include consulting services and preparation of projects for pre-accession and structural funds focused on the region's municipalities. RDA became actively involved in implementing the Regional Innovation Strategy of South Moravia as well as in developing cluster initiatives. Currently RDA actively operates in the following areas:

- preparation of projects for Structural funds;
- FDI support in the region;
- selected information services – Bulletin of Cultural Events, Grant Calendar for Municipalities;
- RIS – Regional Information Service;
- administration of the Disposition Fund as part of the INTERREG III A Initiative;
- developing environment for the advancement of innovations;
- administration of the “Recycling and complete disposal of home refrigeration appliances in South Moravia” environmental protection project;
- development of cluster initiatives – Wine Science Cluster.

Primary activities of the Regional Development Agency of South Moravia consist of providing services requested by its members (The Southern Moravia Region (JMK), The Association of Southern Moravian Municipalities - SOM JM, and the Regional Chamber of Commerce of South Moravia). RDA provides services primarily to public administration bodies, most often to those in the South Moravian Region. A part of the agency's capacity is reserved for assisting all other organizations requesting advice in regional development, project management, direct investment support and industrial zones management, preparations of projects for European Structural Funds, or consulting in the issues of cluster initiatives and cross-border and international cooperation.

Services for municipalities:

- consulting and preparation of projects for structural funds (JROP, OPI, OPPI);
- selection of international partners for cross-border cooperation;
- consultation and project preparation for INTERREG III A;
- educational events covering regional development, structural policy and project management;
- general advising in grant issues;
- management of commercial real estate offers and industrial zones offers;
- advising in preparing industrial zones and commercial real estate;
- consulting services and preparation of documents for regional development strategies;
- elaboration of feasibility studies and cost-benefit analyses for prepared projects;
- publishing information on social and cultural events in the monthly Bulletin of South Moravian Cultural and Social Events.

Services for businesses:

- general consulting in the preparation of projects for structural funds;
- advising in firm networking, mapping of potential business enterprises for clusters;
- participation in the CzechInvest supplier program;
- assistance to major investors (site selection, organizing visits, assistance in establishing an enterprise);
- publishing offers of industrial real estate;
- information service on new foreign investments.

5. Czech territorial public administration system

5.1 Public administration system, system of territorial self-government

In the years 1948 till 1989 the Czech (or Czechoslovak) public administration system had been working and existing in the sense of communist and socialist principles. Since 1968 the Czechoslovak Republic was not unitary state. This system was replaced by the federation of Czechoslovak socialist Republic, the central public administration was on the federal and on the republic level. In the communist era the lower level of the state administration was represented by the regional, district and local national committees. Self-government authorities did not exist in the practice.

After the “velvet revolution” in 1989 the change of regime has come. This caused of course the change (reform) of public administration system as well (this reform was passed in the spirit of principles of decentralization and subsidiarity). And another important change has come. Since 1st January 1993 the Czechoslovak republic does not exist, instead of this there are two unitary states – the Czech Republic and the Slovak Republic.

As for the change of public administration system, the self-government was renewed (first of all on municipal level in 1990, and since 1st January 2001 the regional level of self-government came into factual existence, there are 14 regions) and the system of national committees was abolished. The state administration on lower than central level was exercised by the municipal level (“joint model of public administration” – territorial self-governing communities perform tasks in their independent authority and they also perform state administration in their devolved authority) and by the level of district authorities. The district level of the state administration was abolished from 1st January 2003. The number of 76 of these district authorities was replaced by 205 of “municipalities with enlarged sphere of activity”. And also the regional level of territorial self-governing communities is a component part of the “joint model of public administration”.

Besides these subjects other offices and state authorities (“deconcentrates”) had existed on the territorial level. These institutions were established by subjects of the state administration (ministries, other central authorities etc.) in order to fulfill their tasks on lower levels. This creation had often no strategy and made the system of public administration more chaotic.

Consequently, the contemporary system of territorial self-government consists of two levels – municipal and regional level. At present, there are 6248 municipalities and 14 regions. In the Czech Republic both levels act in the system of joint model of public administration. On the level of municipalities there are three types of municipalities according to the amount of entrusted performance of state administration (devolved authority):

- Basic sphere of devolved authority (each municipality, municipality I.), some of municipalities I. can also provide additional task in their devolved authority, so there are also
 - Municipalities with registry office,
 - Municipalities with building authority.
- Municipalities with entrusted Municipal Authority (388 municipalities, municipality II.).
- Municipalities with enlarged sphere of activity (205 municipalities, municipality III.).

5.2 Municipalities

Municipalities are basic territorial self-governing communities, i.e. public corporations with own property, which act on own behalf and which manage responsibilities on behalf of the national government.

As the table shows, the structure of municipalities suffer form high amount of small municipalities. The Czech Republic with the population of 10 220 577 inhabitants (data up to the 1st January 2005) has nearly 6.5 thousand municipalities, so the average municipality has about 1.6 thousand inhabitants. Nearly 90 % of all municipalities have less than 2 thousand inhabitants, on the other hand in these municipalities lives only approximately one quarter of the whole amount of the Czech Republic population.

Table: Size groups of municipalities, 1st January 2006

municipalities	No. of municipalities	Municipalities, %	No. of population	Population, %
to 199	1 614	25.83	197 865	1.93
200-499	2 016	32.27	655 165	6.39
500-999	1 302	20.84	910 087	8.88
1 000-1 999	671	10.74	929 167	9.06
2 000-4 999	376	6.02	1 139 318	11.11
5 000-9 999	138	2.21	939 382	9.16
10 000-19 999	68	1.09	954 239	9.31
20 000-49 999	41	0.66	1 197 676	11.68
50 000-99 999	17	0.27	1 206 595	11.77
over 100 000	5	0.08	2 121 585	20.70
total	6 248	100.00	10 251 079	100.00

Source of data: www.czso.cz. 2006.

A municipality has the right to self-government. It shall perform tasks which fall within the self-government of the municipality ("independent authority"). The independent authority of a municipality comprises the administration of matters which are in the interests of the municipality and its citizens. As it was mentioned above, if a law entrusts a municipality with performing state administration ("devolved authority"), the territory of the municipality shall be deemed to be an administrative district.

Citizens of the Municipality

A citizen of a municipality is any natural person who is a citizen of the Czech Republic, and is registered for permanent residence in the municipality. A citizen of a municipality who has reached the age of 18 shall have some rights, such as the right to elect and be elected to the Municipal Assembly, the right to vote in a local referendum, the right to express views on the matters under discussion at meetings of the Municipal Assembly, the right to express views on the draft municipal budget and on the municipality's annual financial statement for the past calendar year, the right to inspect the municipal budget and the municipality's annual financial statement for the past calendar year, the right to request that the Municipal Council or the Municipal Assembly discuss certain matters within their independent authority and the right to submit proposals, comments and suggestions to municipal bodies.

Any natural person who has reached the age of 18 and owns real property in the municipality shall also enjoy the rights with the exception of the right to elect and be elected to the Municipal Assembly and the right to vote in a local referendum.

The rights above shall also be enjoyed by any natural person who has reached the age of 18, is a citizen of a foreign country and has permanent residence registered in the municipality, if an international treaty by which the Czech Republic is bound and which has been promulgated so stipulates.

Municipal bodies

a) The Municipal Assembly

The municipal assembly is composed of members of the municipal assembly. The number of members varies from 5 to 55 in accordance with the number of population of the municipality. For example the municipality with 3 thousand to 10 thousand inhabitants can have 11 to 25 members of municipal assembly. The municipal assembly shall take decisions on matters which are included in the independent authority of the municipality. It shall take decisions on matters in the devolved authority of the municipality only if any law so stipulates. Some of the matters reserved for the municipal assembly, are as follows:

- approval of the development plan for the municipality's geographical area,
- approval of the municipality's budget and annual financial statement,
- establishing and abolishing subsidised organisations and organisational units of the municipality and approving their establishment deeds,
- decisions on declaring local referenda,
- election of the Mayor and Deputy Mayor and other members of the Municipal Council (councillors), and dismissing the same, stipulation of the number of members of the Municipal Council and the number of members of the Municipal Assembly given long-term leave from work, establishing and abolishing committees, election of the chairpersons and other members of such committees, and dismissing the same,
- establishing or abolishing a municipal police force,
- decisions on the municipality's co-operation with other municipalities and on the form of such co-operation.

b) The Municipal Council

The municipal council is the executive body of the municipality in the field of independent authority and is responsible to the municipal assembly for the exercise of such authority. The municipal council may take decisions in the field of devolved authority only if the law so stipulates. The municipal council consists of the mayor, the deputy mayor(s) and other members of the council. The number of members of the municipal council must be odd and is to be at least five and not more than eleven, but may not exceed one third of the number of members of the municipal assembly. A municipal council is not to be elected in a municipality in which the municipal assembly has less than 15 members.

c) The Mayor

The mayor shall represent the municipality in external relations. The municipal assembly shall elect the mayor and deputy mayor(s) from among its members. The mayor and deputy mayor must be citizens of the Czech Republic. The mayor and deputy mayor are responsible to the municipal assembly for the discharge of their office.

d) The Administrator of the Municipality

The administrator of the municipality is appointed by the Ministry of interior in specific cases, such as for example if the assembly of municipality was wind up. He fulfills tasks in the field of independent authority and in municipalities without the secretary, he also secures the performance of devolved authority.

e) The Municipal Authority

The municipal authority consists of the mayor, deputy mayor(s), the secretary of the municipal authority if this office has been established and employees of the municipality assigned to the municipal authority. The municipal authority is headed by the mayor. The municipal council may establish divisions and departments for individual areas of activity of the municipal authority. The municipal authority shall carry out the following tasks:

- in the field of independent authority:
 - tasks assigned to the municipal authority by the municipal assembly or municipal council,
 - assisting committees and commissions in their activities;
- in the field of devolved authority, performing state administration with the exception of matters which fall within the authority of the municipal assembly, municipal council, special bodies of the municipality and commissions.

f) The Secretary

In municipalities with enlarged sphere of authority and in municipalities with an authorised municipal authority, the office of secretary of the municipal authority is to be established. The secretary is an employee of the municipality. Other municipalities may establish the office of secretary of the municipal authority. The secretary is responsible for to the mayor for the performance of the work of the municipal authority in the fields of independent and devolved authority. In municipalities in which the office of secretary has not been established or in which no secretary has been appointed, the work of the secretary is to be performed by the mayor. The secretary shall perform tasks which ensue from resolutions of the municipal assembly and of the municipal council, and other tasks which ensue from the work of the secretary of the municipal authority, in accordance with instructions from the mayor, arrange tasks in the devolved authority of the municipality which ensue from separate laws, in accordance with separate legal regulations, perform the function of an employer and enter into and terminate employment relationships with employees of the municipality assigned to the municipal authority, direct and supervise organisational units of the municipality unless the municipal assembly stipulates otherwise, issue the municipal authority's filing rules, rules for removing files and working rules and others.

g) Bodies of the municipal assembly and municipal council

Committees - the municipal assembly may establish committees as its advisory and supervisory bodies. Committees shall submit their comments and proposals to the municipal assembly. The municipal assembly shall always establish a financial committee and a monitoring committee. If, according to the last census, at least 10 % of citizens living in the geographical area of a municipality consider themselves to be of nationalities other than Czech, the municipal assembly shall establish a minorities committee.

Commissions - the municipal council may establish commissions as its initiative and advisory bodies. Commissions are to submit their comments and proposals to the municipal council. A commission is also an executive body if it is entrusted with the exercise of devolved authority.

5.3 Regions

The 14 regions were established in 1997, first regional representatives were elected in November 2000, and the regional government work since January 1, 2001. Region is a public corporation, which acts in legal relations on own behalf and carries responsibility resulting from these relations. It cares for general development of its territory and needs of citizens, especially in the field of social care, environmental protection, transportation, education, culture and security.

Each region has the right to autonomy in the matters stipulated by law; its sphere of activities in such matters is the independent sphere of activities of the region (“independent authority”). The region shall implement the state administration in the matters stipulated by law; its sphere of activities in such matters is the transferred sphere of activities of the region (“devolved authority”).

Regional bodies

a) The Regional Assembly

The regional assembly consists of the members of the regional assembly. The number of members of the regional assembly is as follows, according to the population of the region:

- up to 600 000 inhabitants: 45 members,
- over 600 000 but not more than 900 000 inhabitants: 55 members,
- over 900 000 inhabitants: 65 members.

The regional assembly is to take decisions on matters which are included in the independent sphere of activities. The regional assembly shall take decisions on matters in the transferred sphere of activities only if the law so stipulates. The following examples of matters are reserved for the regional assembly:

- submitting Bills to the Chamber of Deputies in compliance with law,
- submitting proposals to the Constitutional Court for the repeal of legislation if it is believed that such legislation is contrary to the law,
- issuing regional legislation,
- co-ordination of the development of the geographical area of the region, approving development programmes for the geographical area of the region under separate Acts of Parliament, arranging their implementation and monitoring their fulfilment,
- electing representatives of the region to the regional councils of cohesion regions,
- stipulation of the extent of basic transport services in the region,
- approval of the regional budget and closing account,
- election and dismissal of the chairperson and deputy chairperson of the assembly (the "deputy chairperson") and other members of the assembly,
- establishing and abolishing committees and electing and dismissing their chairpersons and members, etc.

b) The Regional Council

The regional council is the executive body of the region in the independent sphere of activities. In performing its activities, the regional council is responsible to the assembly. The regional council may take decisions on matters in the transferred sphere of activities if the law so stipulates. The regional council consists of the chairperson, one or more deputy chairpersons and other members of the regional council. The number of members of the regional council is as follows, according to the population of the region: up to 600 000 inhabitants - 9 members, over 600 000 inhabitants - 11 members.

c) The Chairperson

The chairperson represents the region on its behalf. The chairperson and his/her deputy is to be elected by the assembly from among its members. The chairperson and his/her deputy must be citizens of the Czech Republic. The chairperson and his/her deputy are responsible to the assembly for the discharge of his/her office. The regional council may set tasks for the chairperson within the scope of its sphere of activities only.

d) The Regional Authority

The regional authority shall perform work in the independent sphere of activities assigned to the regional authority by the assembly and shall assist in the activities of committees and commissions. The regional authority consists of the director and employees of the region assigned to the regional authority (hereinafter referred to as "employees"). The regional authority is headed by the director. The regional authority is divided into departments, units, the director's secretariat and the chairperson's secretariat.

e) The director

The director is an employee of the region. The director is responsible to the chairperson for the fulfilment of tasks assigned to the regional authority in the independent and transferred spheres of activities. The director shall:

- perform tasks within the transferred sphere of activities according to a separate laws,
- perform the function of the employer's statutory body with respect to employees assigned to the regional authority, set the wages and salaries of employees of the regional authority in accordance with separate legislation, be the superior of all employees of the regional authority and direct and monitor their work through the heads of departments,
- issue organisational and working rules and rules for making and deleting records at the regional authority,
- be entitled to submit proposals to the council for the issue of decrees of the region,
- perform tasks by the given orders of the chairperson which ensue from resolutions of the assembly and the council, and other tasks connected with his working duties, etc.

f) Bodies of the Assembly and the Council

Committees - the assembly may establish committees as its initiative and advisory bodies. Committees shall submit their comments and proposals to the assembly. The assembly shall always establish a financial committee, a monitoring committee and a committee for education and employment. The region, on which territory live according to the last population census at least 5% of inhabitants who consider them not to be of a Czech nationality, established a committee for national minorities.

Commissions - The council shall establish commissions as its initiative and advisory bodies. Commissions submit their comments and proposals to the council.

5.4 Territorial public budgets and finance

With the renewal of territorial self-government in 1990 by the Establishment of municipalities, the municipal budgets became another important part of the budgetary system. And since 2001 with the renewal of regional level of territorial self-government, regional budgets also belong to the budgetary system.

The fulfillment of particular tasks that result from independent authority and devolved authority, requires financial resources. Territorial budget is an important instrument for fulfillment of these tasks at territorial level, prospectively complemented by off-budgetary funds. Those are generally special-purpose funds, about their usage decides elected local or regional assemblies.

Act No. 250/2000 Coll., on budgetary rules of territorial budgets presents, that the financial management of territorial self-government and of associations of municipalities is directed by its annual budget and by the budgetary outlook.

Budgetary outlook is helping instrument of territorial self-government, which serves for a medium-term financial planning of development of its economy. It is drawn up on ground of concluded contractual relations and adopted commitments, generally for 2 or 5 years following the year, for which is the annual budget drawing up. The budgetary outlook contains overall basic data about revenues and expenditures, generally about long-term commitments and claims, about financial resources and needs of goals realized in the long-term. The budgetary outlook should ensure in a long-term balanced financial management. The Act does not define the structure of the budgetary outlook. It only states, that it is drawing up in lesser rate of detail than annual budget.

Territorial budgets

Territorial budget is the depiction of financial management of municipalities and regions for the period of one calendar year. So it is a short-term management instrument. Territorial budget can be characterized as (1) decentralized money fund, (2) balance of revenues and expenditures, (3) financial plan, according to this plan the municipalities and regions manage during the budget period, and as (4) an instrument for realization of conception of municipal or regional policy on the level of territorial self-government, an instrument for financing of needs of local and regional public sector.

Basic types of financial operations included in budget, are (1) R – revenues, (2) E – expenditures, (3) F – financing.

The equation, which stands for budget management, is:

$$\mathbf{R - E = F}$$

When $R > E$, we talk about budget surplus, when $R < E$, we talk about budget deficit. The financing operations inform us about the way of usage of resources for the case of budget surplus, and for the case of budget deficit if inform about the way how the deficit the financing operations predicate about the way how the deficit is covered.

The budgetary composition ensures the uniform classification of operations of all of the public budgets and so it ensures the possibility of comparison of the items included in public budgets. It is arrange by Decree (of Ministry of Finance) No. 323/2002 Coll., on composition of the Budget; in actual wording. The composition of the budget is fixed on movements on bank accounts and applies only to budgetary management and money funds. It is not used for entrepreneurial activities (these activities are monitored apart from the budget and only the annual result of this activity displays in the budget. The budgetary composition does not apply also to foreign resources and to accounts of associated resources.

The budgetary composition uses four basic classifications of budgetary operations and so it gives us different views on financial management. It classifies the revenues and expenditures in these aspects:

- **classification by kind** – it demonstrates the economical character of the operation. This classification is for municipalities and regions obligatory. There are used 4 levels of detail, the highest level are classes. Classes are as follows: (1) tax revenues, (2) non-tax revenues, (3) capital revenues, (4) received transfers, (5) current expenditures, (6) capital expenditures, (8) financing.
- **classification by line** – this classification gives us an information about the purpose of the expenditures, about the field of realization of the revenues. It is also obligatory.
- **classification by accountability** – this classification makes allowances for the accountability and activity of the subject handling the finances. For municipalities and regions is this classification optional, it is obligatory only for the state budget.
- **consolidated classification** – this is also for municipalities and for regions obligatory. It is a three-level code, record unit. This classification provides information about the transfers within the public budgets. Thereafter it is possible to eliminate the transfers within the organizational unit for which is drawn up the statement of the performance of the budget.

The following sentences and tables are devoted to the budgets of Czech municipalities. In the following table you can see the overall data about Czech municipal budgets in the years 1994 to 2004. With the exceptions of the years 1998 and 1999, the municipal budgets were in deficit. The above mentioned exception was caused by extensive sales of stocks, those municipalities got in privatization.

Table: Municipal budgets (in bill. CZK)

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Revenues	92.8	106.3	114.1	128.4	137.3	168.6	161.6	182.7	206.0	241.6	246.2
Expenditures	95.5	110.3	122.9	133.7	135.5	149.1	162.9	194.0	212.2	246.2	255.9
Balance	-2.7	-4.0	-8.8	-5.3	1.8	19.5	-1.4	-11.2	-6.6	-4.6	-9.7

Source of data: www.info.mfcr.cz/aris.2006.

Next table shows the structure of municipal budgets. Nearly one half of municipal revenues are tax revenues. Transfers present the second most important source of municipal revenues. Concerning expenditures, current expenditures present about two thirds of expenditures, capital expenditures make up nearly one third of total municipal expenditures.

Table: Revenues and expenditures of municipal budgets (in mill. CZK)

	1997	1998	1999	2000	2001	2002	2003	2004
Tax revenues	65 825	72 099	75 678	83 584	88 830	99 546	107 492	116 113
Non-tax revenues	21 110	22 879	23 921	24 368	22 650	23 448	22 487	23 051
Capital revenues	9 624	13 167	36 684	16 313	10 517	11 468	11 869	11 040
Transfers	31 812	29 150	32 329	37 289	60 747	71 615	99 729	95 949
Total revenue	128 371	137 295	168 612	161 555	182 745	206 077	241 577	246 153
Current expenditures	86 257	87 920	98 670	107 960	129 873	144 971	176 461	179 829
Capital expenditures	47 435	47 565	50 470	54 956	64 145	67 268	69 699	76 072
Total expenditures	133 692	135 485	149 140	162 916	194 018	212 239	246 160	255 901
Balance	-5 321	1 810	19 472	-1 361	-11 273	-6 162	-4 583	-9 747

Source of data: www.info.mfcr.cz/aris.2006.

6. Investment Opportunities⁹

The Czech Republic has attracted a large amount of foreign direct investment (FDI) since 1990, making it one of the most successful transition country in terms of FDI per capita. The introduction of investment incentives in 1998 has stimulated a massive inflow of foreign direct investment into greenfield and brownfield projects.

Key advantages of the Czech Republic as an investment location include:

- Foreign direct investment in all sectors and from all countries is welcomed and there are no restrictions on the level of investment or ownership.
- The “knowledge pipeline” in the Czech Republic is of a higher quality than in most western European countries, boosted by a stronger enrolment pattern at secondary level and revealed in higher performances in mathematics tests at secondary level and a proportionately higher number of tertiary-level science and technology graduates.
- A skilled and disciplined Czech workforce is ready to help your company achieve higher productivity levels.
- The upgrade and expansion of telecommunication networks and IT is a national priority.

Real estate investment

In general, the Czech property market currently offers many good opportunities to invest, especially in the fields of office, industrial and residential as demand for high-quality real estate of all types is growing. CzechInvest now also provides special financial aid and consultancy for developers and real estate investors. CzechInvest is able to identify real estate opportunities mainly in industrial properties and facilities suitable for business support services or R&D.

The Czech Republic offers excellent conditions both for greenfield and brownfield investments. CzechInvest maintains its own national business properties database of over 250 suitable industrial sites and buildings around the country that have clear title, industrial zoning permission and a developed technical infrastructure. There are almost 90 municipal industrial zones that have been created through the programme of governmental support of industrial zone development in which CzechInvest plays a major role. Investors locating in municipal industrial zones will receive fully serviced land at favourable prices. Projects meeting the eligibility criteria can receive investment incentives including a tax break, job-creation grants, training grants and others. Moreover, it is possible to receive extra financial assistance for brownfield projects, mainly under the programme from EU Structural Funds.

Joint ventures, long-term cooperation and suppliers

Joint ventures and long-term cooperation between Czech and foreign firms are encouraged and supported in the Czech Republic. CzechInvest promotes the development of joint ventures between foreign & Czech firms through the use of its database of Czech suppliers. If approached by a foreign manufacturer wishing to set up a joint venture in the Czech Republic, CzechInvest will search its databases to see if a suitable potential Czech partner can be found and match the two potential partners.

For investors who are considering investing in the Czech Republic, CzechInvest can search for suitable partners or suppliers according to the investor’s requirements. Under

⁹ prepared with the use of www.czechinvest.cz

CzechInvest's aftercare programme we organise purchasing forums for multinational companies settled in Czech Republic.

CzechInvest is also implementing a Supplier Development Programme designed to boost the number of foreign investors that are increasing their use of Czech-based suppliers.

Privatisation

All state-owned companies fall under the control of the National Property Fund. There are still some strategic companies scheduled for privatisation. In most of these companies, the state owns a minority stake. These firms will only be sold via public tenders and public auctions.

Acquisition of private companies

There are some good opportunities to acquire either already privatised companies or new start-ups. CzechInvest regrets that it does not have the resources to play an active role in identifying local firms as potential acquisition targets.

Investment opportunities in specific sectors

Manufacturing: Investment into hi-tech manufacturing sectors offers excellent potential due to the Czech Republic's long and rich industrial heritage and is strongly supported through government support programmes including the investment incentives scheme. Support of hi-tech manufacturing investment is the core of CzechInvest's activities.

Utilities: The gas, electricity and water service sectors are still in the process of privatisation. All enquiries about producers and distributors in these sectors should be addressed directly to the Ministry of Industry & Trade.

Business support services and technology centres: These include customer contact centres, shared service centres, expert solution centres, software development, research & development centres, design centres and hi-tech repair centres. The Czech Republic aims to become the regional hub for these services and CzechInvest has made the attraction of foreign direct investment into business support services one of its priorities. Investment support for such services has recently been introduced, namely the Framework Programme to Support Strategic Services Projects and the Framework Programme to Support the Establishment and Expansion of Technology Centres.

Financial services: Privatisation of the banking sector is nearly completed but there are some very good investment opportunities in the financial services sector as demand for these services is increasing. Nevertheless, CzechInvest regrets that it does not have the resources to play an active role in aiding financial services investments. As in the case of acquisitions, we suggest you approach a Czech-based consultant who can help you directly.

Tourism and other services: There are many good investment opportunities in these sectors but CzechInvest does not have the resources to play an active role in these projects. As in the above case, we suggest you approach a Czech-based consultant or the Association for Foreign Investment.

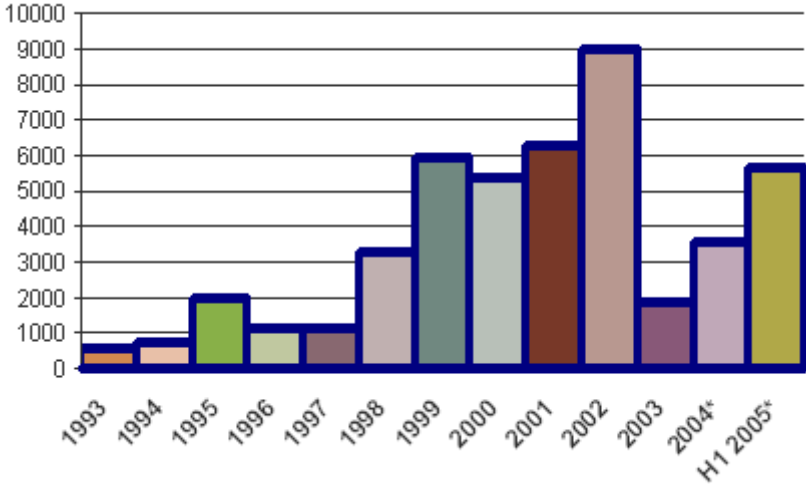
6.1 Inflow of FDI

The Czech Republic is one of the most successful transition economies in attracting foreign

direct investment. The introduction of investment incentives in 1998 has stimulated a massive inflow of FDI into both greenfield and brownfield projects and since 1993 more than EUR 46 billion in FDI has been recorded.

The privatisation of remaining government stakes in state-owned enterprises is expected to attract significant amounts of FDI and the major inflow of greenfield projects is expected to continue.

Inflow of FDI to the Czech Republic (Mil. EUR)

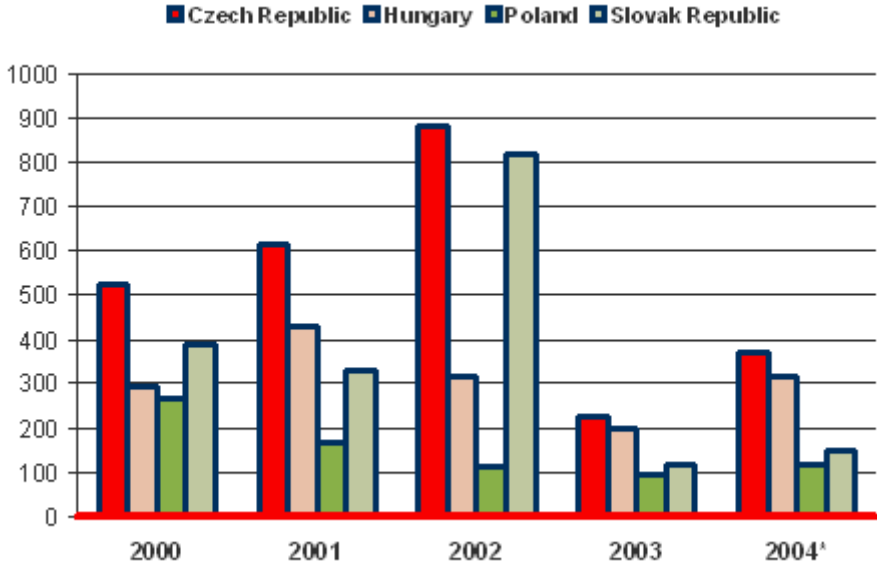


* preliminary

Source: Czech National Bank, September 2005

FDI inflow per capita in Central Europe

Since 2000 the Czech Republic has attracted high foreign direct investment per capita according to the Vienna Institute for International Economic Studies. This confirms the country’s high attractiveness for foreign investors.



(EUR); 2004* estimate

Source: Wiiw, Research Reports No. 314, March 2005, Wiiw, Countries in Transition 2004, Czechinvest2005

FDI inflow into the Czech Republic by country

Country	2003	2004*	H1 2005*	1993 – H1 2005*	
	mil. EUR	mil. EUR	mil. EUR	mil. EUR	%
Germany	144	700	512	12,678	27
Netherlands	-936	850	904	7,038	15
Austria	429	361	255	4,532	10
France	603	139	104	3,641	8
Spain	51	24	2,800	2,979	6
United States	136	227	48	2,855	6
Belgium	-224	29	71	2,082	4
Switzerland	121	115	-2	2,053	4
United Kingdom	563	86	40	1,832	4
Japan	291	212	68	847	2
Sweden	-44	121	8	607	1
Denmark	-11	9	-3	471	1
Italy	64	70	18	453	1
Canada	116	29	-15	283	1
Other	560	623	854	4,299	9
Total	1,863	3,596	5,662	46,649	100

* preliminary

Source: Czech National Bank, September 2005

FDI inflow into the Czech Republic by sector

Sector	2003	2004*	H1 2005*	1993 – H1 2005*	
	mil. EUR	mil. EUR	mil. EUR	mil. EUR	%
Manufacturing					
Machinery and equipment	1,463	644	282	6,235	41
Basic metals and metal products	584	378	176	2,246	15
Refined petroleum and chemicals	78	399	37	2,088	14
Food and tobacco	92	46	33	1,663	11
Non-metallic products	77	126	74	1,395	9
Other	24	134	99	1,521	10
Total	2,318	1,727	701	15,147	100
					.
Non-manufacturing					
Financial intermediation	790	414	418	8,466	27
Transport, storage, communications	-2,581	16	2,851	7,854	25
Trade, hotels and restaurants	579	597	88	5,548	18
Real estate, business activities	390	442	1,466	4,750	15
Electricity, gas, and water supply	221	215	36	2,514	8
Other	145	183	103	2,370	8
Total	-456	1,868	4,962	31,502	100

* preliminary

Source: Czech National Bank, September 2005

Statistical data on FDI

The only body collecting statistical data on the inflow of FDI into the Czech Republic is the Czech National Bank. CNB's reports and statistics on FDI are available at www.cnb.cz.

Foreign owned companies are transforming the Czech economy

- Employ 37 % of the workforce in Industry
- Produce 52 % of sales of Industry
- Generate 60 % of total Czech exports

Source: Survey of the Czech Economy 2004, Ministry of Industry and Trade, 2005

In the past CzechInvest commissioned several surveys to evaluate the investment climate and the satisfaction of foreign companies in the Czech Republic.

Main findings included:

- 90 % of companies reported that their profitability has exceeded or at least achieved the same level of other subsidiaries abroad
- 45 % of companies worked in uninterrupted, three-shift operation.

6.2 Investment Incentives

The Czech Republic offers to both new incoming and already established investors, irrespective of their ownership, investment incentives and business support through several schemes.

The most attractive incentives package is the National Investment Incentives Scheme offered by the government to investors in manufacturing facilities and to technology centres and business support services.

Companies not eligible for any of the above incentives can apply for other business support measures. These include support of new job creation, support for SMEs, grants from local labour offices, tax relief, access to EU funds and regional aid.

6.2.1 Manufacturing

The investment incentives Act No. 72/2000 Coll., as amended, is valid as of 1st May 2004 and offers both Czech and foreign investors who are introducing new production or expanding existing production the following incentives.

Offered incentives:

a) corporate tax relief

- **Full** tax relief for 10 years (newly established companies)
- **Partial** tax relief for 10 years (expanding companies)

b) job-creation grants

- 200,000 CZK per employee in the district "I"
- 100,000 CZK per employee in the district "II"

c) training and re-training grants

- 35% of the costs of the training in the regions where the unemployment rate is higher than the country's average (I, II, III)

6.2.2 Technology Centres and Business Support Services

The Framework Programme for support of Technology centres and Business Support Services has been valid since 17th February 2004.

Technology centres

Technology centres are innovation activities especially involved with periodic changes of products and technologies and are closely linked to production.

Business support services

Business support services are services with high added value and support employment of qualified experts in software development centres, expert solution centres, high-tech repair centres, shared services centres, centres of customer support (e.g. call – centres) and regional headquarters).

Forms of support

- **subsidy to business activity**
 - Up to **40%** (60% in the case of small and 50% in case of medium enterprises) of the eligible costs, which are:
 - Investment into tangible and intangible fixed assets purchased within the first 5 years **or**
 - Two-year salaries of employees employed within the first 3 years
- **subsidy for trading and re-training**
 - Subsidy up to 35% of the specific training costs and 60% of the general training costs. Maximum subsidy of 100,000 CZK or 150,000 CZK for one job position depending on the number of job positions created.

Eligibility criteria

Type of project	<ul style="list-style-type: none">• TECHNOLOGY CENTRES• SOFTWARE DEVELOPMENT CENTRES• EXPERT SOLUTION CENTRES• HEADQUARTERS	<ul style="list-style-type: none">• CALL CENTRES• HIGH-TECH REPAIR CENTRES• SHARED SERVICES CENTRES (EXCEPT HEADQUARTERS)
Minimum investment	15 mil. CZK	30 mil. CZK
Minimum number of newly created jobs	15	50
Amount recipient must finance with own resources	7.5 mil. CZK	15 mil. CZK
Linkage with production (relevant for Technol. Centres only)	The results of the Technology Centre should be materialized in production	

6.2.3 Support of New Job Creation

The Job Creation Support Programme For Regions Worst Affected By Unemployment has been valid since 2nd June 2004 and gives the opportunity to receive a financial support in the sector of manufacturing production a provision of specific services.

Offered types of support

Financial support for the creation of new jobs

- Up to 200,000 CZK per employee
 - Total amount of this subsidy must not exceed **40%** (60% in the case of small and 50% in case of medium enterprises) of the eligible costs which are two-year salaries of employees

Financial support for the training and re-training of employees

- Up to 35% of the costs of the training in the regions – maximum 30 thousand CZK per employee

Eligibility criteria

Type of project	<ul style="list-style-type: none"> • MANUFACTURING PRODUCTION • CUSTOMER SUPPORT CENTRES (eg. call centres) • SHARED SERVICE CENTRES
Minimum investment	10 mil. CZK
Minimum number of newly created jobs	10
Minimum coverage by own equity	5 mil. CZK

The designated regions fulfil the condition of having an unemployment rate that is at least 50% higher than the average for the CR as a whole, and an investment in these regions can thus be supported pursuant to this program upon fulfilment of other conditions.



Valid: July 1 – December 31, 2006

7 Business environment in the Czech Republic

7.1 Factors that influence business environment

The business environment is influenced especially by these factors:

Finance

Availability of capital for start and development of business, e.g. bank loans and venture capital.

Government policy

Government policy consists from:

- administrative within establishing and running enterprise,
- enforceability of law,
- tax system complexity and size of tax rates,
- business climate that is created by government.

Education, knowledge, skills

Education of population and ability to use knowledge in practise.

Technology transfer

Transfer of results of research into business sphere, e.g. clearness of intellectual property rights.

Business partners, services, law

Situation on the market

International market, national market, barriers with entering a market, purchasing power etc.

Physical infrastructure

Roads, railways, air and water transport, information and communication services, availability of real estates – building and offices for business, flats.

Entrepreneurial mentality

It is related to national traditions and culture.

Programmes for support

Amount of financial allocation, supported activities, availability, administrative.

7.2 Czech business environment

Strengths in the Czech Republic

- Tradition of industrial production
- Tradition of research and development
- Offer of new industrial zones and real estate for enterprises
- Geographical location and proximity of major markets
- Good transport infrastructure
- Existence of network of institutions promoting enterprises and innovation

Weaknesses in the Czech Republic

- Low enforceability of law, in particular in the relation between the creditor and the debtor
- Unsatisfactory regulation of bankruptcy
- Environmental legislation creating barriers to the development of entrepreneurship
- Non-transparent tax system creating conditions for tax evasion and pro-corruption environment
- Tax rate, unclear tax system and inconsistent interpretation of tax regulations braking economic development and reducing competitiveness
- Lacking offer of capital for projects, in particular of small enterprises, based on a higher degree of innovation and high profit potential, but connected with an above-average degree of risk
- Insufficient funds reserved for state programmes promoting entrepreneurship
- More difficult access of SMEs to loans persists. (The banking sector is placing more emphasis on reducing risks in loans they grant, which is reflected in loans for SMEs.)
- Inappropriate qualification structure of the workforce
- The other problems are low mobility of the workforce and the structure of unemployment.

Tax system and insurance

The current tax system was introduced in January 1993. The legislation is subject to frequent amendments and changes due to rapid developments in the economy. Taxpayers in the Czech Republic are subject to the taxes that are shown in the below table.

Table: Taxes in the Czech Republic

Tax	Tax rate
Corporate income tax	24 %. There are plans for a reduction of corporate income tax, however no timetable has been set for this.
Personal income tax	Progressive taxation with tax rates from 12% to 32%
Value added tax (VAT)	5% (food, healthcare services) or 19% (most goods and services)
Excise tax	Levied on petrol and petrol derivatives, alcohol (beer, wine and spirits) and tobacco
Road tax	CZK 1,200 - 4,200 (cars), CZK 1,800 - 50,400 (trucks)
Real estate tax	According to type, location and purpose of use of the real estate
Real estate transfer tax	3%
Inheritance tax & gift tax	From 1% (0.5% for inheritance tax) to 40% (20% for inheritance tax)

Source: CzechInvest

Social security and health insurance contributions

An employee's social security and health insurance contributions are calculated as 12.5% of gross salary. Employers must pay an additional 35% of all employees' gross salaries to the Czech social security and health insurance authorities.

Table: Taxes in the Czech Republic

Contributions	Employer (%)	Employee (%)
Health care insurance	9.0	4.5
Pensions	21.5	6.5
Unemployment	1.2	0.4
Sickness and other benefits	3.3	1.1
Total	35.0	12.5

Source: CzechInvest

7.3 Doing Business

The Doing Business is assessment of business environment annually published by the World Bank. The last is Doing Business in 2007. The Doing Business database provides objective measures of business regulations and their enforcement. The Doing Business indicators are comparable across 175 economies. They indicate the regulatory costs of business and can be used to analyze specific regulations that enhance or constrain investment, productivity, and growth.

Economies are ranked on their ease of doing business, from 1 – 175, with first place being the best. A high ranking on the ease of doing business index means the regulatory environment is conducive to the operation of business. This index averages the country's percentile rankings on 10 topics, made up of a variety of indicators, giving equal weight to each topic.

Topics of Doing Business

- Starting a Business
- Dealing with Licenses
- Employing Workers
- Registering Property
- Getting Credit
- Protecting Investors
- Paying Taxes
- Trading Across Borders
- Enforcing Contracts
- Closing a Business

Starting a Business

This topic identifies the bureaucratic and legal hurdles an entrepreneur must overcome to incorporate and register a new firm. It examines the procedures, time, and cost involved in launching a commercial or industrial firm with up to 50 employees and start-up capital of 10 times the economy's per-capita gross national income (GNI).

Main indicators:

- all procedures required to register a firm,
- average time spent during each procedure,
- official cost of each procedure, and

- the minimum capital required as a percentage of income per capita.

Dealing with Licenses

This topic tracks the procedures, time, and costs to build a warehouse, including obtaining necessary licenses and permits, completing required notifications and inspections, and obtaining utility connections.

Main indicators:

- all procedures to build a warehouse,
- average time spent during each procedure, and
- official cost of each procedure.

Employing Workers

This topic measures the flexibility of labour regulations. It examines the difficulty of hiring a new worker, rigidity of rules on expanding or contracting working hours, the non-salary costs of hiring a worker, and the difficulties and costs involved in dismissing a redundant worker.

Main indicators:

- difficulty of hiring a new worker (Difficulty of Hiring Index),
- restrictions on expanding or contracting the number of working hours (Rigidity of Hours Index),
- difficulty and expense of dismissing a redundant worker (Difficulty of Firing),
- an average of the three indices (Rigidity of Employment Index), and
- cost of a redundant worker, expressed in weeks of wages (Firing Costs).

Registering Property

This topic examines the steps, time, and cost involved in registering property, assuming a standardized case of an entrepreneur who wants to purchase land and a building in the largest business city—already registered and free of title dispute.

Main indicators:

- number of procedures legally required to register property,
- time spent in completing the procedures, and
- the costs, such as fees, transfer taxes, stamp duties, and any other payment to the property registry, notaries, public agencies or lawyers. The cost is expressed as a percentage of the property value, assuming a property value of 50 times income per capita.

Getting Credit

This topic explores two sets of issues—credit information registries and the effectiveness of collateral and bankruptcy laws in facilitating lending.

Main indicators:

- a Legal Rights Index, which measures the degree to which collateral and bankruptcy laws facilitate lending,
- a Credit Information Index, which measures rules affecting the scope, access, and quality of credit information,
- public credit registry coverage, and
- private credit bureau coverage.

Protecting Investors

This topic measures the strength of minority shareholder protections against misuse of corporate assets by directors for their personal gain.

Main indicators:

- transparency of transactions (Extent of Disclosure Index)
- liability for self-dealing (Extent of Director Liability Index)
- shareholders' ability to sue officers and directors for misconduct (Ease of Shareholder Suit Index)
- strength of Investor Protection Index (the average of the three index)

Paying Taxes

This topic addresses the taxes that a medium-size company must pay or withhold in a given year, as well as measures of administrative burden in paying taxes.

Main indicators:

- total number of tax payments per year,
- time it takes to prepare, file and pay (or withhold) the corporate income tax, the value added tax and social security contributions (in hours per year), and
- total amount of taxes payable by the business.

Trading Across Borders

This topic looks at the procedural requirements for exporting and importing a standardized cargo of goods. Every official procedure is counted -- from the contractual agreement between the 2 parties to the delivery of goods -- along with the time necessary for completion.

Main indicators:

- number of all documents required to export/import goods,
- time necessary to comply with all procedures required to export/import goods, and
- cost associated with all the procedures required to export/import goods

Enforcing Contracts

This topic looks at the efficiency of contract enforcement by following the evolution of a sale of goods dispute and tracking the time, cost, and number of procedures involved from the moment the plaintiff files the lawsuit until actual payment.

Main indicators:

- number of procedures from the moment the plaintiff files a lawsuit in court until the moment of payment,
- time in calendar days to resolve the dispute, and
- cost in court fees and attorney fees, where the use of attorneys is mandatory or common, expressed as a percentage of the debt value.

Closing a Business

This topic identifies weaknesses in existing bankruptcy law and the main procedural and administrative bottlenecks in the bankruptcy process.

Main indicators:

- average time to complete a procedure,
- cost of the bankruptcy proceedings, and

- the recovery rate, which calculates how many cents on the dollar claimants (creditors, tax authorities, and employees) recover from an insolvent firm.

Table: Results of the Czech Republic in Doing Business

Ease of...	2006 rank	2005 rank	Change in rank
Doing Business	52	50	-2
Starting a Business	74	85	+11
Dealing with Licenses	110	111	+1
Employing Workers	45	44	-1
Registering Property	58	55	-3
Getting Credit	21	19	-2
Protecting Investors	83	81	-2
Paying Taxes	110	104	-6
Trading Across Borders	41	39	-2
Enforcing Contracts	57	55	-2
Closing a Business	113	110	-3

Source: World Bank

Table: Doing Business in 2006 – selected countries [rank]

	CR	Slovakia	Poland	Hungary
Doing Business	52	36	75	66
Starting a Business	74	63	114	87
Dealing with Licenses	110	47	146	143
Employing Workers	45	72	49	90
Registering Property	58	5	86	103
Getting Credit	21	13	65	21
Protecting Investors	83	118	33	118
Paying Taxes	110	114	71	118
Trading Across Borders	41	88	102	76
Enforcing Contracts	57	59	112	12
Closing a Business	113	31	85	48

Source: World Bank

7.4 Investment incentives

Three types of investment incentives exist in the Czech Republic:

- manufacturing sector
- business support services and technology centres
- job creation support programme

Manufacturing sector

The Czech Republic offers both new and existing investors investment incentives and business support through several schemes. As of the end of December 2005, 239 firms had been awarded incentives.

The Czech government in April 1998 originally approved investment incentives for manufacturing. From the outset, it was designed as a scheme that applies equally to both foreign and domestic investors under the same conditions.

A new Act on Investment Incentives (Act No. 72/2000 Coll.), effective May 1, 2000, whose subsequent amendments came into force in May 2004, codifies, simplifies and extends the

original national incentives scheme. The Act was discussed with the European Commission and follows European rules on state aid.

Table: Incentives listed in the act on investment incentives

Tax incentive	Corporate tax relief for up to 10 years for new companies Partial tax relief for up to 10 years for existing companies
Job creation grants	Financial support to create new jobs
Training and retraining grants	Financial support to train and retrain new employees
Site support	Transfer of public land at a favourable price

Source: CzechInvest

The incentives are available singly or collectively and are designed to have maximum impact in the early stages of a project.

Tax incentive

The tax incentive has two forms. If a new company (legal entity) is established for the investment project, the new company is eligible for corporate tax relief for up to ten years. If the investment is made as an expansion or modernisation project within an existing Czech company (legal entity), the company is eligible for partial tax relief for up to 10 years. The tax relief is terminated when the company has exceeded the maximum level of eligible state aid.

Job creation and training and retraining grants

The size of the job creation grant depends on the unemployment rate in the district where the investment is made, and ranges from zero in areas with unemployment below the national average to a maximum of CZK 200,000 per employee in districts with unemployment more than 50% higher than the average. The same applies to training and retraining grants, which range from zero to a maximum of 35% of total training and retraining costs.

Site support

This incentive is available on a national basis subject to availability of suitable sites, and the site should be selected prior to submitting the application for investment incentives. The incentive is granted by the government to the municipality and/or the private developer in the form of subsidies for development of site infrastructure and the transfer of land from state ownership to the municipality at an advantageous price. From 1998 to 2003, the incentive resulted in the creation of 80 industrial zones where sites are readily available to investors.

Eligibility criteria for manufacturing

- The investment must be made into a manufacturing sector and at least 50% of the production line must consist of machinery listed on a government-approved list of high-tech machinery.
- The investment must be made into the launch of new production or into the expansion of existing production or modernisation.
- The investor must invest at least CZK 200 million (approx \$8 mil.) within three years. This limit is reduced in regions with high unemployment to CZK 150 million or CZK 100 million, depending on the unemployment rate.
- Half of the investment minimum (above) must be covered by the investor’s own equity.

- At least 40% of total investment must be made into machinery.
- The proposed production must meet all Czech environmental standards

Business support services and technology centres – incentives and eligibility criteria

In order to strengthen the Czech Republic's position as an information and technology hub in the Central European region, the Czech government also supports investment into development and innovation as well as service activities. As of the end of December 2005, 64 firms have received the Project support decision.

Based on Government Decree 1238 of December 10, 2003, the Framework Programme for Support of Technology Centres and Centres of Business Support Services, the following incentives are offered:

Subsidy for business activity

They are paid yearly up to 50% of eligible business expenses (either wage or capital expenditures on tangible and intangible assets).

They are paid during a period of maximum 10 years, up to the ceiling of state aid (calculated using either the employees' two-year average wages within the first 3 years or using expenditures on tangible and intangible assets within 5 years).

Subsidy for training and re-training

They are paid yearly at a level of 35% (30% in Prague) of special training costs and 60% (55% in Prague) of general training costs. Special training refers to training through which employees gain knowledge and skills that can be used only within the investor's project and cannot be easily transferred to other companies. General training refers to training by which employees gain general knowledge and skills that can be used also outside the investor's project.

They are paid during the period of maximum 3 years (or 5 years if the investor creates more than 100 new jobs).

Maximum level of training subsidy is CZK 100 000 per employee (or CZK 150 000 per employee if the investor creates more than 100 new jobs).

“Business Support Services” are selected activities of companies characterised by a high proportion of added value, a high proportion of qualified labour, a close relationship with information technologies, a distinctive international focus, in particular customer contact centres, shared services centres, including the regional headquarters of multinational companies, software development centres, expert solution centres for information and telecommunication technologies and high-tech repair centres.

“Technology centres”, or design centres, are centres of innovation activities that are closely related to manufacturing. The results of the centre's innovation activity are expected to be applied in regular production within 3 years from the Project Aid Decision. The typical innovation activity of the technology centre would include routine or periodic changes made to products, production series, manufacturing processes, existing services and other operations in progress, even if such changes may represent improvements. No part of the technological centre's activities may be intended for or depend on the arms industry in any way.

Table: Eligibility criteria

Type of project	<ul style="list-style-type: none"> ▪ Technology centres ▪ Software development centres ▪ Expert solution centres ▪ Headquarters 	<ul style="list-style-type: none"> ▪ Call centres ▪ High-tech repair centres ▪ Shared services centres (except headquarters)
Minimum investment	CZK 15 mil.	CZK 30 mil.
Minimum number of newly created jobs	15	50
Amount recipient must finance with own resources	CZK 7.5 mil.	CZK 15 mil.
Linkage with production (relevant for technology centres only)	The results of the technology centre should be materialized in production	

Source: CzechInvest

Job creation support programme for regions worst affected by unemployment

In order to support new job creation in regions worst affected by unemployment in the Czech Republic, the new Government Decree No. 566 was introduced on June 2, 2004, allowing financial support to individuals/companies that invest into manufacturing or specific services. As of the end of December 2005, 24 firms have received the Project support decision. The following incentives are offered under this programme:

Financial support for new job creation

Granted at the rate of CZK 200,000 per each newly created job up to 50% of total eligible costs actually incurred (total gross wages and salaries paid out over two years to employees in new jobs created by the project).

Financial support for employee training or retraining

Granted at the rate of 35% of eligible costs actually incurred for employee training or retraining, but to a maximum of CZK 30,000 per each newly created job.

Eligibility criteria

- The investment must be made into new production or the provision of specific services (customer support centres and shared service centres) or the expansion of existing production or the expansion of the provision of existing specific services.
- The project must be located in a region with an average unemployment rate exceeding 14%.
- The investor must invest at least CZK 10 million into tangible and intangible fixed assets (except leases).
- Half of the investment minimum, i.e. CZK 5 million, must be covered by the investor's own capital.
- At least 10 new jobs must be created.
- All above conditions must be fulfilled within two years of the date the support agreements are concluded.

8 Small and medium-sized enterprises

Small and medium-sized companies are very important for each state, especially for post communist states like the Czech Republic. These companies create a healthy business environment, have the ability to absorb a substantial number of workers released by large enterprises and are a stabilizing element of the economic system. And what more, they directly or indirectly influence large enterprises, mainly in respect (areas) of promoting effectiveness and innovation, and they promote competition within the economy. The European Union regards this sector as the backbone of European economy and driving force for innovation, employment and social integration. Small and medium-sized enterprises (SMEs) are an important component of the Czech Republic's economy. They account for 61.79% of employment and 53.43% of total value added (see table 1 and table 2). SME development is generally considered to be a principal factor of economic development, irrespective of how economically advanced a country is.

Having a competitive sector of small and medium-sized enterprises is a prerequisite for the full-scale integration of the Czech economy into the European Economic Area. The SME sector is also important in overcoming social tension brought about by the globalization tendencies connected with the rapid transfer of certain industrial programmes to countries with lower wage costs and with a high intensity of global competition.

Table 1: The number of economically active SMEs

2005	The Number of Enterprises			The share of the number of SMEs in the total number of enterprises in the CR (%)
	juristic persons 0-249 employees	physical persons 0-249 employees	SMEs in total	
Industry	25 959	133 884	159 843	99,42
Construction	6 581	96 869	103 450	99,93
Trade	43 280	190 048	233 328	99,94
Entertainment	5 067	43 631	48 698	99,96
Transport	5 880	40 556	46 436	99,79
Finance	1 019	14 684	15 703	99,82
Services	52 957	289 761	342 718	99,95
Agriculture	2 492	41 044	43 536	99,92
Total	143 235	850 477	993 712	99,85

Source: Ministry of Industry and Trade

Of all enterprises, SMEs are most sensitive to changes in the business environment. They are the first to be affected by excessive red tape, they are the first to do better, provided the administrative burden and obstacles in business are removed. Conditions under which small and medium-sized enterprises do their business activities are very important for their existence and development. The economic environment can influence the demand for their products or services and may cause their success or failure.

Table 2: The Number of Employees in Small and Medium-sized Enterprises

2005	The number of employees (thousand)			The share of the number of employees in the total number of enterprises in the CR (%)
	juristic persons 0-249 employees	physical persons 0-249 employees	SMEs in total	
Industry	553	108	661	49,96
Construction	126	50	176	78,92
Trade	281	112	393	77,06
Entertainment	48	56	104	88,89
Transport	71	30	101	34,95
Finance	12	1	13	20,00
Services	284	79	363	78,74
Agriculture	107	16	123	86,62
Total	1 482	452	1 934	61,79

Source: Ministry of Industry and Trade

The economic and social contribution of small and medium-sized enterprises can be described as the ability to:

- alleviate the negative impact of structural changes
- function as subcontractors for large corporations
- create conditions for development and introduction of new technologies
- fill marginal areas of the market which are not interesting for large corporations
- help faster development of regions, small towns and rural communities

SMEs play a decisive role in the creation of new jobs and generally as a factor of social stability and economic development. In summary, development of SMEs is generally regarded as the main factor of economic development, irrespective of the economic standard of a country.

But on the other side, small and medium-sized enterprises are **negatively affected** especially by:

- their lower economic power in comparison with large corporations
- difficult access to capital which is necessary for their development activities
- limited access to professional education, information and consulting services
- unfair competition from large corporations and dumping prices of imported products
- weak position in competitions for public contracts
- poor payment habits causing secondary insolvency
- high administrative requirements

Table: The comparison of performance and value added per one employee in SMEs with performance and value added per one employee in large enterprises in 2005

2005	Performance per one employee in SME (CZK)	Performance per one employee in large enterprises (CZK)	Value added per one employee in SMEs (CZK)	Value added per one employee in large enterprises (CZK)
Industry	1 765 461	3 073 884	455 846	774 962
Construction	1 801 483	3 883 426	395 051	638 979
Trade	1 326 997	942 675	591 796	424 350
Entertainment	832 019	866 000	273 356	347 538
Transport	2 437 307	1 414 394	667 842	648 340
Finance	3 276 154	2 970 481	1 507 385	2 263 692
Services	1 734 763	873 551	723 397	441 194
Agriculture	1 027 805	1 022 421	294 902	360 789
Total	1 622 010	2 394 973	526 247	741 569

Source: Ministry of Industry and Trade

The share of total SME investments (tangible assets, intangible assets, including land) in total investments in the Czech Republic was 52.88% in 2005, in absolute terms investments increased by CZK 32,252 million overall, i.e. by 14.22%. Growth was registered in all major sectors except trade and transport.

Table: Investment of small and medium-sized enterprises

2005	Investment (including land) (CZK million)			The share of investment in SMEs in investment in the CR in total (%)
	juristic persons 0-249 employees	physical persons 0-249 employees	SMEs in total	
Industry	63 113	6 891	70 004	32,65
Construction	7 906	1 511	9 417	64,76
Trade	33 865	5 506	39 371	72,26
Entertainment	5 236	2 676	7 912	93,68
Transport	13 250	5 909	19 159	30,24
Finance	5 280	419	5 699	37,04
Services	78 664	10 913	89 577	90,45
Agriculture	15 638	2 345	17 983	88,29
Total	222 952	36 170	259 122	52,88

Source: Ministry of Industry and Trade

Table: The share of SMEs in chosen macroeconomic indicators (in %)

Indicator	Year								
	1997	1998	1999	2000	2001	2002	2003	2004	2005
Number of businesses	99,77	99,78	99,80	99,81	99,81	99,79	99,81	99,85	99,85
Number of employees	59,82	56,35	59,12	59,47	59,73	60,94	62,21	61,50	61,79
Performance	52,91	51,73	53,34	52,85	51,44	52,02	52,01	52,15	52,27
Value added	57,36	51,35	53,03	52,60	51,33	52,69	52,06	52,90	53,43
Labour cost	-	-	54,69	54,67	55,72	55,50	56,18	55,67	56,01
Investment	-	-	41,66	40,56	37,81	44,52	49,55	50,50	52,88
Exports	36,40	36,25	36,54	36,15	35,74	34,16	34,0	34,3	39,7
Imports	48,00	48,84	50,74	49,43	47,12	50,33	49,8	52,5	54,4
GDP	-	-	34,78	31,74	31,12	32,24	35,15	34,86	34,72

Source: Ministry of Industry and Trade

Definition of SMEs

Small and medium-sized enterprise:

- a) has fewer than 250 employees
- b) the assets of this company are not more than 43 mil. EUR or the annual net turnover is lower than 50 mil. EUR

Small company:

- a) has fewer than 50 employees
- b) the assets are lower than 10 mil. EUR and the annual net turnover is lower than 10 mil. EUR

Micro (very small) enterprise, is small company which:

- a) has fewer than 10 employees
- b) the assets are lower than 2 mil. EUR and the annual net turnover is lower than 2 mil. EUR

8.1 Support of SMEs

The support policy is focused on reduction of disadvantages for SMEs in business environment and creation of suitable legislative and economic conditions for business activities. The purpose is to support the forming of new and development of existing small and medium-sized enterprises.

The global objective of SME support is to enhance the competitiveness of businesses, maintain the attractiveness of the Czech Republic, its regions and towns for investors, promote innovation, stimulate demand for research and development results, foster a spirit of entrepreneurship and encourage the growth of the knowledge-based economy by means of capacities for the implementation of new technologies and innovated products, including new information and communication technologies.

Support for small and medium-sized enterprises is regulated by Act No 47/2002 Coll., on support for small and medium-sized enterprises. This Act harmonizes the definition of SMEs with that of the European Union for this sector and with other regulations .

Forms and purpose of the support

Support may be provided as

- returnable loan,
- grant,
- financial donation,
- guarantee, or
- credit with a reduced interest rate.

The support may be provided for example for investment projects, the improvement of the professional skills, economic and technical consulting, the acquisition of information about business activities, research and development projects, the creation of new jobs, the establishment of contacts and cooperation with foreign partners, improvement the quality of the production, etc.

Types of support

In the Czech Republic there are two main types of financing the support. The first type of support is financed from state budget funds and the second type is financed from structural funds.

Types of commerce support

In the Czech Republic we have two main types of financing the support. The first type of support is financed from state budget funds and the second type is financed from European funds, especially from structural funds.

The rules for support of small and medium-sized enterprises are defined in several acts. The most important is the Act of Support to Small and Medium-Sized Enterprises, No. 47/2002 Coll. The act is consistent with European law.

If company wants to obtain money from structural funds it has to keep the conditions which are given by European Commission in its recommendations and regulations.

Programmes financed only from state budget.

Ministry of industry and trade create several programs for small and medium-sized enterprises. Most of these programs are realized by Czech Moravian Guarantee and Development Bank. For the period 2007-2013 these programmes were created:

- MARKET – this program is only for enterprises from Prague (because they cannot get support from structural funds) and they can get loan for investments and other activities.
- CERTIFICATION - this program is for small as well as medium-sized enterprises and its objective is to improve the competitiveness of small and medium-sized entrepreneurs on the domestic and foreign markets. The company can get the subsidy for obtaining some certificate, for example ISO certificate.
- DESIGN – this is program for SME which want to improve the design of their products, they can obtain subsidy
- ALLIANCE - The objective of the programme is to increase the competitiveness of SMEs on foreign markets by the following means: the support of the international marketing activities of an alliance; promoting the idea of reinforcing the cooperation of small and medium-sized enterprises abroad. (Alliance = group of 3-25 SMEs)
- DEVELOPMENT - programme for the support of SMEs which actively participate in the Seventh Framework Programme for Research and Technological Development of

EU - the objective of the programme is to support the participation of small and medium-sized enterprises (SMEs) in the management of research and development projects in the scope of the 7FP, focusing on an increase in their competitiveness.

Programmes cofinanced from structural funds

Operational Programme Enterprise and Innovation (OPEI) is the fundamental programming document of the Ministry of Industry and Trade for the drawdown of the financial means from the Structural Funds in 2007—2013. This operational programme, on whose basis the support to the enterprises from Structural Funds will be provided, complies with the basic principles of the Lisbon Strategy, which is primarily oriented at the increase of the economic growth and employment while respecting the principles of sustainable development.

The global objective of the Operational Programme Enterprise and Innovation is by the end of the programming period to increase the competitiveness of the Czech economy and bring the innovational performance of the sector of industry and services closer to the level of leading industrial European countries.

OPEI is aimed at increasing the competitiveness of the industry and enterprise, keeping the attractiveness of the Czech Republic, its regions and cities for investors, supporting innovations, speeding up the implementation of the R&D results into the production sector namely due to the stimulation of the demand for the R&D results and commercialisation of the results, supporting the entrepreneurial spirit and economic growth based on knowledge, increasing the use of new technologies, innovative products and ICT. Operational programme has seven priority axes and each of them has several measures. The priority axes are:

- Establishment of firms – program Start
- Development of firms – programmes Progress, Guarantee, Development, ICT and strategy services, ICT in businesses
- Effective energy – program Eco-energy
- Innovations – programmes Innovation, Potential
- Environment for enterprise and innovations – programmes Cooperation, Prosperity, Training Centres, Real estate
- Services for the development of enterprise – programmes Marketing, Consultancy
- Technical assistance – no programmes, money for implementing of Operational Programme Enterprise and Innovations

If company wants to receive support from this operational programme, it has to create good project or business plan, then find out if some priority axe is suitable for this project and if so, the firm can ask for subsidy, loan or guarantee.

- PROGRESS - the aim of this subprogram is to support project development of SME's with short history.
- START - the aim of this subprogram is to support starting business entities in the realization of their business plan.
- GUARANTEE - the aim of this subprogram is to support SME's by soft loans used to increase investments and competitiveness.
- DEVELOPMENT - the aim of this subprogram is to increase the competitiveness of SME's supporting advanced technology. On 1 March 2007, the MIT announced the time - limited call for applications for this subprogram.
- ICT and STRATEGIC SERVICES - the aim of this subprogram is to support the competitiveness in the ICT sector and other chosen strategic services.

- ICT in BUSINESSES - the aim of this subprogram is to increase the competitiveness of SME through higher utilization of ICT in the field of development of information systems to the final consumer.
- ECO-ENERGY - the aim of the subprogram is to stimulate the activities of enterprises in the area of renewable and alternative energy sources and in reducing the consumption of energy during production.
- INNOVATION - the aim of the subprogram is to stimulate and increase the innovative activities of enterprises in the area of production and services..
- POTENTIAL - the aim of the subprogram is to enhance the research capacities of enterprises (especially SME's) and strengthen the cooperation between enterprises and R&D institutions.
- COOPERATION -the subprogram supports the establishment and further development of co-operational corporation forms - clusters, poles of excellence, technological platforms and others.
- PROSPERITY - the subprogram supports establishing and further development of infrastructure for industrial research, technological development and innovations aimed at realization of new technologies and competitive products and services.
- TRAINING CENTRES - the aim of the subprogram is to provide resources for infrastructure for development of human resources in businesses and institutions offering services for businesses in the field of further education.
- REAL ESTATES - the subprogram provides support for projects, which aim si to improve the infrastructure for enterprise.
- ADVISORY SERVICES (Consultancy) - the aim of this subprogram is to improve quality and accessibility of advisory, informational and educational services for SME's.
- MARKETING - the aim of this subprogram is to support educational, informational and consultancy services in international trade area. On 1 March 2007, the MIT announced the time-limited call for applications for this subprogram.

8.2 Institutions

Ministry of Industry and Trade

It is the central body of the government administration involved in:

- The national industry policy, trade policy, foreign-economic policy, integrated raw materials policy, the use of mineral resources, energy, gas and heat production, mining, crude oil, natural gas, solid fuels, nuclear materials, ores and non-ores treatment and conversion.
- Metallurgy, machinery, electrical engineering and electronics, the chemical industry, crude oil processing, the rubber and plastic materials industry, the glass and ceramics industry, the textile and clothing industry, the leather and print industry, the paper, cellulose and wood-working industry, building materials production, building industry production, medical production, junk and metal waste.
- Domestic trade and the protection of consumers interests, foreign trade and supporting exports.
- Small and medium-sized companies matters with the exception of regional business support and trading matters.
- Technical standardization, metrology and state quality control
- Industrial research, engineering and technology development

CzechInvest

CzechInvest was established in 1992 by the Ministry of Industry and Trade, CzechInvest is the investment and business development agency of the Czech Republic whose services and development programmes contribute to attracting foreign investment and to developing Czech companies.

CzechInvest provides the following services:

- Comprehensive services for investors - full information assistance, handling of investment incentives, business property identification, location of Czech suppliers, aftercare services
- Business infrastructure development
- Access to structural funds

Czech-Moravian Guarantee and Development Bank

CMGDB is the only promotional bank in the Czech Republic entrusted with the administration of funds disbursed within the programmes of assistance launched by the Government to help the development of small and medium-sized entrepreneurship (SME) using financial resources from national or EU funds. The Bank's activities result from its long-term strategy oriented to contributing to the implementation of the economic policy of the Government of the Czech Republic and its regions.

The Bank shall be involved in the realization of state policy enabling easier access to finance for SMEs, as well as in the field of financing infrastructure-oriented projects (water sector schemes, transport infrastructure), municipal and housing development (panel-block houses reconstruction), or other spheres, which require support of public finance.

CzechTrade

The Czech Trade Promotion Agency/CzechTrade was established by the Ministry of Industry and Trade of the Czech Republic in May 1997. CzechTrade's main objective is to promote international trade and cooperation between Czech and foreign companies. CzechTrade's professional information, assistance and consulting services accompany Czech exporters to foreign markets, and the agency is a contact partner for firms entering the Czech market, seeking interesting and reliable business partners and suppliers.

9 Innovation policy

9.1 Definition of an innovation

According to definition contained in the European Commission document COM (2003) 112: *“Innovation is the renewal and enlargement of the range of products and services and the associated markets; the establishment of new methods of production, supply and distribution; the introduction of changes in management, work organisation, and the working conditions and skills of the workforce.”*

The Oslo manual (OECD, 1997) concentrates especially on technological innovation of products (and services) and processes (technological product and process - TPP - innovation). *“TPP innovation comprises implemented technologically new products and processes and significant technological improvements in products and processes. A TPP innovation has been implemented if it has been introduced on the market (product innovation) or used within a production process (process innovation). TPP innovation involves a series of scientific, technological, organisational, financial and commercial activities“*. The Oslo manual makes difference between TPP and other innovation (new or improved management, etc.). Therefore it eliminates from TPP innovation any organisational innovation (concerning organisational structures, management methods, corporate strategies) and other changes in products and processes (of aesthetic character, fashion changes, etc.).

As can be seen from the above definitions, there are different types of innovation and different ways how to innovate. Besides the innovation of technical nature (based mostly on research) there is also non-technological innovation as for example innovation in the area of organisation and management (new forms of work organisation, quality management, process management, etc.), market innovation, innovation of business model or presentation innovation (a complex term for innovation in design and marketing). The latter innovation types are monitored by EU and newly included into the evaluating materials (European Innovation Scoreboard). The principal source of innovation (and technological in particular) is the research and development, but the own creativity of entrepreneurs and skilled employees undoubtedly contributes as well, especially to those non-technological ones.

To the extent being reasonably obtainable **NIP respects the need for technological and non-technological innovation in the Czech economy, but in the same manner as innovation policies of the advanced countries it is mostly aimed at innovation of technical nature, where the measures of the state fostering the innovation activity of enterprises are feasible.**

9.2 Generations of innovation policy in advanced countries

The innovation policy has come through several stages in the advanced countries; we may speak about generations of innovation policy.

- “First generation” innovation policy drew the attention to implementation of research and development results in innovation and how to encourage this process; this being a linear concept of innovation, with single, rather non-coordinated measures in support. Often the innovation policy was only a superstructure or direct part of the research and development policy.
- “Second generation” innovation policy highlights the system concept of a complex innovation support. While the research and development results remain to be understood as a prime source of innovation, at the same time it recognises the growing influence of other areas on innovation and the necessity to take support measures in all

these areas. In this concept the innovation policy takes the character of a “horizontal (cross-sectional) activity” and becomes an independent part of the overall policy that is to be coordinated with other (already traditional, standard) policies (research, educational, industrial, etc.).

- “Third generation” innovation policy means not only deepening of mutual interaction and coordination of individual policies in terms of innovation support, but particularly that innovation is approached as a central cross-sectional issue within all policies (research, educational, economic, tax, financial, industrial, regional, etc.), where each policy dedicates a key place within its goals and measures to the ways how to influence innovation activities and foster innovation and creation of a pro-innovative environment aimed at maintaining and increasing the competitiveness (the innovation policy as a nodal point of all policies). This way the innovation policy will be implemented through other policies and by all governmental agencies. The European Commission underlines the need of this “third generation” innovation policy, however at present most EU countries are still struggling with insufficient interdepartmental coordination in areas of innovation support and growth of innovation activities.

With regards to possibilities, experiences and condition of the state apparatus of the Czech Republic, NIP now takes the form of the “second generation” innovation policy; great attention will have to be dedicated to the improvement of coordination that belongs among the weak points of the Czech public administration. The function of the “third generation” innovation policy will be fulfilled in the Czech Republic by the Economic Growth Strategy being developed in a parallel process, linked to NIP.

9.3 Vision of the national innovation policy

NIP establishes conditions for attaining such state of affairs, in which enterprises and other organisations in the Czech Republic actively innovate their products, technologies and services, as well as methods of organisation and management and ensure a steady growth of labour productivity and competitiveness on international markets, while maintaining high levels of employment.

To this end the state:

- establishes favourable framework legal and institutional conditions;
- eliminates barriers to innovation activities, in a flexible manner;
- takes active part in creation of new EU tools of the research, development and innovation support and new EU legal regulations providing for the research, development and innovation support and incorporates these regulations into the Czech legislation in a quick and adequate manner; and
- promotes selected activities of innovation processes by both direct and indirect tools in compliance with the EU legal regulations, with the assistance of the public funds of CR and EU budget funds.

This vision will be implemented through four strategic objectives:

1. Strengthen research and development as a source of innovation
2. Establish well-functioning public private partnerships
3. Guarantee human resources for innovation
4. Make the performance of the state administration in research, development and innovation more effective

Each **objective** has **tasks** defined necessary for its achievement, **tools** for executing the respective tasks and for each tool there are **measures** necessary for its implementation, **Coordinators and Managers**, **term** of implementation, **indicators of implementation (success)** and **method of evaluation**. The NIP structure is illustrated on the Figure 1 below. This mutual vertical and horizontal cohesion of NIP is one of its main features, an advantage ensuring its synergical action.

Measures which were implemented during the NIP preparation phase are retained with regard to the context (similarly as e.g. in the EU documents) and marked as *measures already implemented*.

The fulfilment of all objectives, tasks, tools and measures of NIP will be evaluated in 2007 and NIP updated accordingly. Each year, NIP will be evaluated within the Analysis of the existing state of research and development in the Czech Republic and a comparison with the situation abroad being presented to the Czech Government. Unless expressly mentioned otherwise below, the method of evaluation will be based upon these two documents.

10 Labour market and employment policy, unemployment in Czech regions

The aggregate Labor Market Graph (b) in Figure shows the aggregate labor market. This graph basically is our familiar labor market diagram “writ large.” The labor demand curve D_{L0} in the figure can be thought of as the aggregate marginal revenue product curve for the economy. This curve is found by multiplying the aggregate marginal product of labor by the price level, in this case P_0 . Observe that the curve tells us the profit-maximizing level of employment associated with each wage rate. Alternatively, the aggregate labor supply curve S_{L0} indicates the amount of labor people collectively are willing to offer at each money wage rate, given the price level. We assume that in the short run, workers expect the existing price level to remain. We observe that the equilibrium wage rate is W_0 and the equilibrium level of employment is E_n . This level of employment is the natural level of employment-or “full employment”- and is just sufficient to produce the Q_n level of real national output shown in graph (a). As noted earlier, most economists feel that the natural rate of unemployment associated with E_n and Q_n falls within the 5.0-5.5 percent range.

Why is this natural rate of unemployment so high? Why has the actual rate of unemployment in the United States greatly exceeded the natural rate in some years? To answer these questions we must next consider the three major types of unemployment and their cause. Throughout the discussion which follows, bear in mind that the boundaries between unemployment categories are not absolute and that the extent of one type of unemployment may be a function of the amount of one or both of the other types.

10.1 Unemployment¹⁰

10.1.1 Frictional unemployment

Even when aggregate demand is sufficiently great to employ all of the labor force and when those who are unemployed possess skills which match those required by firms having job openings, the nation’s unemployment rate will remain positive. As implied in our stock-flow mode (Figure 19-2), people continuously (1) quit present jobs to shop for new ones, (2) look for new jobs after losing previous ones, (3) enter the labor force to seek work for the first time, (4) reenter the labor force after periods of absence, and (5) move from one job to take another within the next 30 days. Likewise, employers continuously (1) search for replacements for workers who quit or retire, (2) discharge some employees in hopes of finding better ones, and (3) seek new workers to fill jobs created by expansion of their firms. Thus, unlike “auction” markets such as stock and wheat exchanges, the overall labor market never sully “clears.” At any moment there is considerable *frictional unemployment*; that is, not all active job searchers will have yet found or accepted employment and not all employers will have yet filled their job vacancies.

Search Unemployment Two major characteristics of the labor market contribute to the need for presently unemployed people to search for the best job offer, and for firms to search for employees to fill existing job vacancies. First, as we indicated in our earlier discussion of the wage structure workers and jobs are highly heterogeneous. The personalities, levels of motivation, innate capabilities, and places of residence of individuals differ greatly even though they may possess similar general levels of education, training, and experience. Jobs also are often unique; employers pay differing wages, offer varying opportunities for advancement, and provide a variety of working conditions, even for like types of workers.

¹⁰ McConnell, C. R. - Brue, S. L.: Contemporary Labor Economics. New York : McGraw-Hill, 1992.

Second, market information about such differences in individuals and jobs is imperfect and takes time to obtain. Therefore, job seekers – many of whom currently are not working elsewhere – and prospective employers discover that it is in their respective interests to search for information about each other as a way to improve the terms of the transaction. People who are not presently employed and who are actively seeking work or “job shopping” are officially unemployed. And because there are continuous flows to and from the labor force and between jobs, the stock of frictionally unemployed persons is simultaneously being diminished and replenished (Figure 19-2)

10.1.2 Structural unemployment

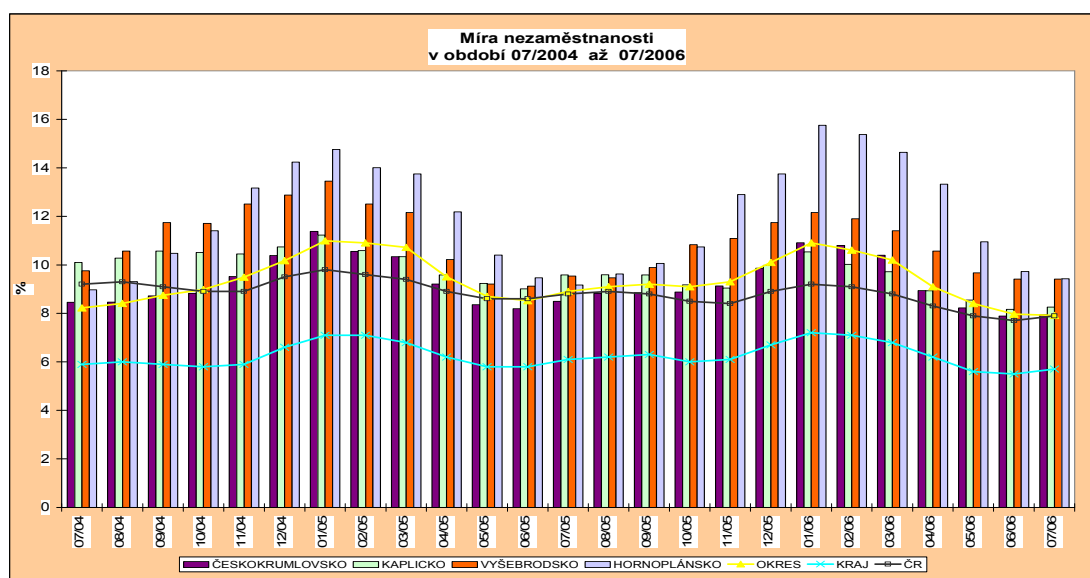
Another type of unemployment which is part of a nation’s natural rate of unemployment is **structural unemployment**. This unemployment shares many of the same features as frictional unemployment but is differentiated by being long-lived. It therefore can involve considerable costs to those unemployed and substantial loss of forgone output to society.

Structural unemployment is caused by changes in the composition of labor supply and demand; it is a “square pegs, round holes” phenomenon. This unemployment generally has one or both of the following dimensions. First, it may result from a mismatch between the skills needed for available jobs and the skills possessed by those seeking work. Second, structural unemployment may occur because of a geographic mismatch between locations of job openings and seekers.

10.1.3 Demand-deficient unemployment

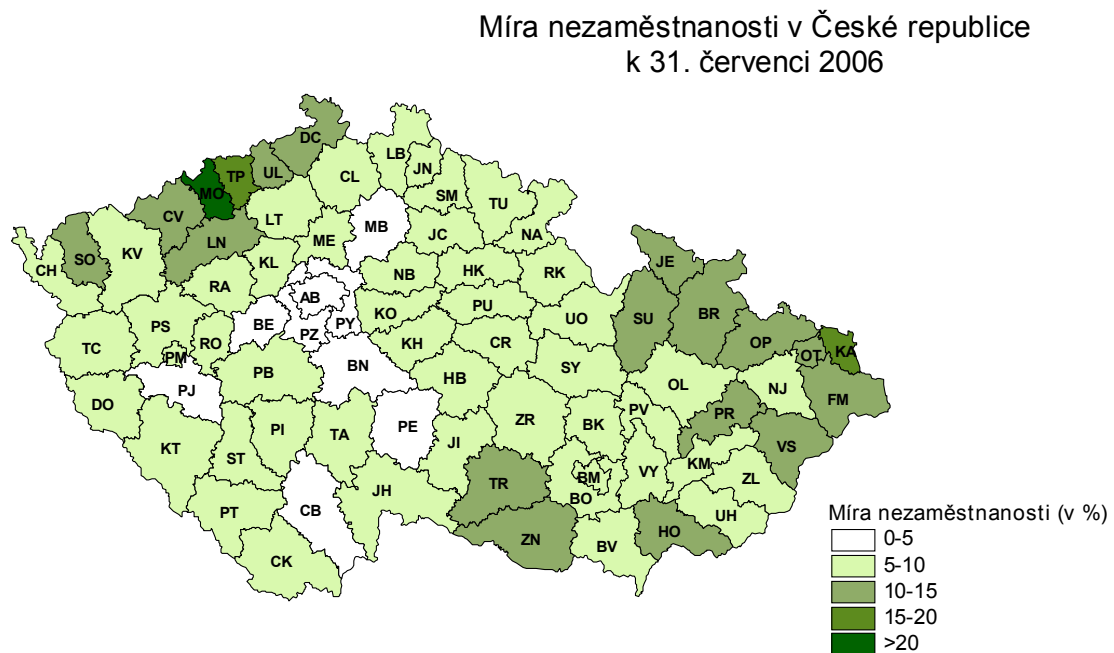
In many years the unemployment rate greatly exceeds the 5.0-5.5 percent natural rate. For example, unemployment was 8.3 percent in 1975 and 9.5 percent in 1982. In the depth of the Great Depression – 1933 - 24.9 percent of the labor force was unemployed. These high unemployment rates are by-products of recessions and depressions and result from deficiencies in aggregate demand which force firms to lay off and discharge workers. The evidence strongly suggests that declines in aggregate demand-rather than, say, differences between expected and actual inflation rates-are the *primary* cause of cyclical unemployment.

Figure: Seasonal unemployment (case)



Source: http://portal.mpsv.cz/sz/local/ck_info/miranez/int0706.doc

Figure: Rate of unemployment in CR on the NUTS4 level (31.7.2006)



Source: http://portal.mpsv.cz/sz/local/ck_info/miranez/int0706.doc

10.1.4 Government policy and programs to reduce unemployment

Frictional unemployment

Job information and matching: government programs which increase the availability of information concerning job vacancies and skills of those seeking work and help match job applicants and employers. Examples: U.S. Job Service (state employment agencies).

Structural unemployment

1. Educational subsidies: government programs and expenditures which reduce the investment costs of obtaining human capital and thereby enhance people's ability to obtain jobs that are less likely to become obsolete as new technology emerges. Examples: Pell Grants and Guaranteed Student Loans for college students; subsidies under the Vocational Educational Act; funding of primary and secondary schools, community colleges, and state universities.
2. Equal employment opportunity laws: laws making it illegal to discriminate in hiring and promotion on the basis of race or gender, thus removing an institutional barrier which creates structural unemployment. Examples: Title VII of Civil Rights Act of 1964; Executive Order 11246.
3. Job training and retraining: programs designed to provide skills and work experience for those structurally unemployed. Examples: Manpower Development and Training Act (MDTA), occupational training at skill centers; MDTA on-the-job training programs; The Job Corps; Comprehensive Employment and Training Act (CETA) programs aimed at youth, Native Americans, displaced homemakers, etc.; Job Training Partnership Act.
4. Public service employment (PSE): direct government hiring and on-the-job training of the long-term structurally unemployed. Examples: CETA, Title II as amended in 1978.

5. Directed wage subsidies or employment tax credits: direct payments or tax credits to firms which hire members of specific disadvantaged groups which experience high rates of structural unemployment. Example: Targeted Employment Tax Credit program of 1979; AFDC-WIN program.
6. Layoff warning: requirement that firms anticipating plant closures or major layoffs provide advance notice, thus enabling workers to immediately search for new jobs or enroll in retraining programs. Example: Worker Adjustment and Retraining Notification (WARN) Act of 1988.

Demand-deficient unemployment

1. Fiscal policy: deliberate manipulations of expenditures and taxes by government for the purposes of increasing aggregate demand and thereby increasing national output and employment. Examples: tax cuts in 1964, 1970 and 1974.
2. Monetary policy: deliberate actions taken by the Federal Reserve to increase the nation's supply of money to reduce interest rates and increase aggregate demand for products and services. Examples: monetary expansions in 1974-1975 and 1982.
3. Supply-side policies: deliberate actions taken by the government to increase labor supply, savings, and investment and to reduce the costs of goods and services so that the aggregate supply curve shifts rightward. Examples: Reagan administration 1981 tax cuts, Individual Retirement Accounts (IRAs) deregulation.
4. Public service employment: direct government hiring of people unable to find jobs. Examples: Works Progress Administration (WPA) in the 1930s; Comprehensive Employment and Training Act (CETA); Title VII, Public Service Employment (PSE) in the 1970s.
5. Wage subsidies or employment tax credits: direct payments or tax credits to firms which expand their employment. Example: The New Jobs Tax Credit program of 1977

10.2 Active employment (labour market) policy¹¹

Measures and instruments

Active employment policy is a set of measures aimed at assuring the highest possible level of employment. Active employment policy is by the Ministry and by job centres; according to the situation in the job market, their cooperate in its pursuance with other organizations.

Instruments for implementing active employment policy are:

- retraining,
- investment incentives,
- work of public benefit,
- jobs of social importance,
- bridging allowance,
- allowance for transporting workers,
- allowance for on-the-job training,
- allowance for changing to new business programme.

The measures of active employment policy include:

- advisory activities carried on by job centres in order to ascertain personal data and qualifications of natural persons for choice of profession, for mediating suitable

¹¹ <http://portal.mpsv.cz/eures/en/employmentact-435-2004.pdf>

- employment, for vocational training for handicapped persons and selection of suitable instruments of active employment policy,
- support for employment of handicapped persons,
 - targeted programmes to deal with employment.

A job centre may under an agreement provide advice through specialized institutions, such as pedagogical and psychological advice centres and diagnostics institutions, and defray the costs of these activities.

The agreement between a job centre and a specialized institution to carry out an advisory activity must be in writing and must contain:

- particulars of the parties to the agreement,
- content and scope of the advisory activity,
- place and method of the advisory activity,
- date of the advisory activity,
- costs of the advisory activity, date and method of their payment,
- undertaking of the specialized institution to repay funds provided or their portion if it does not meet the agreed conditions, or if through its fault they were paid to it without justification or in an amount higher than was justified, and date and conditions of their repayment,
- provision on termination of the agreement.

Characteristics of advisory activities and forms of advice and types of costs paid by the job centre are laid down by the Ministry in the implementing regulation.

According to the needs of the job market job centres can test new instruments and measures of active employment policy. Conditions of such tests and costs of new instruments and measures of active employment policy are approved by the Ministry.

Active employment policy is financed from the state budget and the management of these funds is governed by a special regulation. These funds can be also used to contribute to programmes or measures of regional and national character and projects of foreign entities helping to increase employment and to test new instruments and measures of active employment policy.

Contributions to active employment policy may not be paid to an employer for the same purpose. No contributions can be paid to state organizations and state-assisted organizations.

Retraining

Retraining means obtaining a new qualification or extending an existing qualification by a job seeker. When determining the content and scope of retraining one starts from the existing qualifications, state of health, skills and experience of natural persons who are to be retrained by acquiring new theoretical knowledge and practical skills within the framework of further professional education.

Retraining may be carried on only by accredited institutions and educational or health care facilities under an accredited educational programme. Accredited institutions, educational or health care facilities with accredited educational programmes are educational facilities according to special regulations or a facility or an employer's department intended for training accredited by the Ministry of Education, Youth and Sports according to conditions laid down

in the implementing regulation issued by the Ministry of Education, Youth and Sports by agreement with the Ministry, and health care facilities according to conditions laid down by the Ministry of Health according to a special regulation (“retraining facilities”).

A retraining facility which retrains job seekers under an agreement with a job centre may be paid by the job centre the costs of the retraining.

The agreement between a job centre and a retraining facility on retraining job seekers must be in writing and must contain:

- particulars of the parties to the agreement,
- work for which job seekers will be retrained,
- basic qualifications necessary for inclusion in retraining,
- scope of theoretical and practical preparation,
- place and method of retraining,
- time of starting and completing retraining, method of testing the acquired knowledge and skills,
- costs of retraining, time and method of their payment,
- undertaking of the retraining facility to take out insurance cover for liability to damage to health caused in retraining,
- undertaking of the accredited facility to repay funds provided or their portion if it does not meet the agreed conditions, or if through its fault they were paid to it without justification or in an amount higher than was justified, and date and conditions of their repayment,
- a provision on termination of the agreement.

Retraining job seekers

Retraining takes place on the basis of an agreement between a job centre and a job seeker if his success in the job market requires this. The job centre pays the costs of the participant in retraining and may pay him an allowance to defray necessary costs related to retraining. Retraining is organized by the job centre competent according to the job seeker’s place of residence.

The agreement on retraining according to paragraph 1 must be in writing and must contain:

- particulars of the parties to the agreement,
- work for which the retraining is carried out,
- method, time and place of retraining,
- conditions for payment of the allowance to pay demonstrable necessary costs of retraining,
- method of testing the acquired knowledge and skills,
- the job seeker’s undertaking to pay the costs of retraining if he does not finish without a serious reason or refuses to take a suitable job corresponding to the newly acquired qualification and types of costs which the job centre will be obliged to defray,
- a provision on termination of the agreement.

Act No 96/2004 Coll., on conditions of acquiring and recognizing qualifications for non-medical health care professions and activities related to provision of public care, amending certain related Acts. The job centre is obliged to differentiate in the between the conditions for payment of the allowance:

- conditions whose breach will be penalized with a fine for breach of budgetary discipline according to a special regulation,

- other conditions whose breach will be penalized with a fine for breach of budgetary discipline according to a special regulation.

Breach of the conditions for payment of the allowance to pay demonstrable necessary costs of retraining or breach of the obligation to return it is an breach of budgetary discipline.

Forms of retraining, types of costs of retraining and related costs defrayed by job centres are laid down by the Ministry by agreement with the Ministry of Education, Youth and Sports in the implementing regulation.

Retraining workers

Retraining may be done on the basis of an agreement with a job centre for an employer in the interests of increasing his workers' qualifications. An employer retraining his workers or a retraining facility doing this for an employer may be defrayed in full or in part the costs of retraining workers and the related costs. Retraining of workers is done on the basis of an agreement between a job centre and an employer and agreement between an employer and a worker. If retraining is done for an employer by as retraining facility, the agreement is concluded between the job centre, the employer and the retraining facility.

The agreement on retraining workers between a job centre and an employer or retraining facility must be in writing and must contain:

- particulars of the parties to the agreement,
- the work for which the workers will be retrained,
- basic qualifications of the workers necessary for inclusion in retraining,
- scope of the theoretical and practical preparation,
- place and method of the retraining,
- time of starting and completing the retraining, method of testing the acquired knowledge and skills,
- costs of the retraining, time and method of their payment,
- undertaking of the employer or retraining facility to repay the funds provided or their portion if it does not meet the agreed conditions, or if through his fault they were paid to him without justification or in an amount higher than was justified, and date and conditions of their repayment,
- a provision on termination of the agreement.

The agreement on retraining between an employer and a worker must be in writing and must contain:

- particulars of the parties to the agreement,
- the work for which the worker will be retrained,
- scope of the theoretical and practical preparation,
- time of starting and completing the retraining, method of testing the acquired knowledge and skills.

Retraining according to paragraph 1 takes place in working hours and is an obstacle to work on the side of the worker; the worker is entitled for this time to wage compensation in the amount of the average earnings. Retraining takes place outside working hours only if it is indispensable in view of the method of its organization.

It is not retraining according to paragraph 1 if a worker participates in theoretical and practical preparation which the employer is obliged provide to the worker according to the applicable

regulations and which the worker is obliged to attend in connection with his job, or a worker undergoes it in his own interest without needing to change his existing qualification in terms of the work he does for the employer. In this case the procedure follows the applicable provisions of labour law regulating the participation of workers in training and vocational training.

Forms of retraining, types of costs of retraining and related costs defrayed by job centres are laid down by the Ministry by agreement with the Ministry of Education, Youth and Sports in the implementing regulation.

Investment incentives

Investment incentives are an instrument of active employment policy, which supports financially employers to whom a decision has been issued on allocation of an investment incentive according to a special regulation:

- creation of new jobs,
- retraining or training new workers.

Training means for the purposes of investment incentives theoretical and practical training, acquiring knowledge and skills for placement of workers who meet the employer's requirements. Training may be organized by employers.

Financial support for creation of new jobs may be provided to an employer who creates new jobs in a region where the average unemployment rate for the two completed half-years preceding the date when the employer's plan to obtain an incentive is submitted equal at least the average unemployment rate in the Czech Republic. The total number of new jobs includes jobs created after the day when the intent to obtain an investment incentive is submitted.

Financial support for retraining or training workers may be provided to an employer in part defrayal of costs that will be actually expended on retraining or training new workers. The condition of minimum unemployment rate in the region applies to financial support for retraining or training workers. The total number of retrained or trained workers includes workers retrained or trained after the day when the plan to obtain an investment incentive is submitted.

Financial support for creation of new jobs and financial support for retraining or training new workers is provided by the Ministry.

The agreement on the provision of financial support for creation of new jobs must contain:

- particulars of the parties to the agreement,
- number and professional structure of the jobs to be created,
- date by which vacancies will be filled by an agreed number of workers.

Decree of the Ministry of Education No 140/1968 Coll., on work relief and financial support for working students, as amended by Act No 188/1988 Coll. and Decree No 197/1994 Coll. 55) Act No 72/2000 Coll., on investment incentives, amending certain Acts, as amended.

- types of costs for which financial support can be used,
- amount and date when financial support will be provided,
- method of checking whether the agreed conditions are being satisfied,
- method and date of accounting for financial support,
- undertaking of the employer to repay the financial support or its portion if he does not meet the agreed conditions, or if through his fault it was paid to him without

- justification or in an amount higher than was justified, and date and conditions of their repayment,
- a provision on termination of the agreement.

The agreement on provision of financial support for retraining or training new workers contains:

- particulars of the parties to the agreement,
- number of workers to be included in retraining or training,
- content of retraining or training, its method and duration,
- expected amount of costs of retraining or training,
- date by which an agreed number of workers will be retrained or trained,
- types of costs for which financial support can be used,
- amount and date when financial support will be provided,
- method of checking whether the agreed conditions are being satisfied,
- method and date of accounting for financial support,
- undertaking of the employer to repay the financial support or its portion if he does not meet the agreed conditions, or if through his fault it was paid to him without justification or in an amount higher than was justified, and date and conditions of their repayment,
- a provision on termination of the agreement.

Financial support for creation of new jobs and for retraining or training new workers are for a specific purpose and may not be used for a purpose other than that given in the agreement.

Failure to fulfil the conditions set out in the agreement or non-return of the financial support by a fixed date is a breach of budgetary discipline and it is penalized with a fine for breach of budgetary discipline according to a special regulation.

The term 'region' means the territory of the district in which the investment project is located or catchment area. The catchment area includes, apart from the district in which the investment project is located, districts from which commuting by public transport to the community where the investment project is located does not take more than one hour.

The term 'average rate of unemployment' means for the purposes of obtaining financial support in the catchment area only applies to an employer who creates more than 1,000 new jobs, if the average rate of unemployment in the catchment area is higher than in the district where the investment project is located.

The amount of financial support for one newly created job and the amount of financial support for retraining or training workers depending on the situation in the job market, expressed as unemployment rate or other indicators, and the form of providing financial support are decreed by the Government.

It is not possible to provide a further financial support to an employer to whom financial support has been provided according to paragraph 1 for the duration of agreements with the Ministry from active employment policy funds for the same purpose as that for which financial support has been provided.

11 Tourism

11.1 History of Tourism

Tourism as science is a very young discipline, on the other hand, the tradition of travelling is as old as civilization itself, in deed. At the beginning the purposes or the motivators of travelling were slightly different.

11.1.1 Early Ages

Prehistoric civilizations *travelled to survive* (gathering food, avoiding danger, and moving to more favourable climates). As humankind's skills and technologies increased, there was a decreased need in the nomadic existence, resulting in yet another travel motivator: the trade and barter of goods. As ancient world empires grew in Africa, Asia, and the Middle East, the infrastructure necessary for travel such as land routes and waterways was created and vehicles for travel were developed. The beginnings of official government travel were a direct result of rulers who sent their emissaries to observe the progress of wars throughout sprawling empires or to collect taxes from the citizenry.

The early Greeks advanced travel and tourism developments in two particular areas. First, through the development of a coin currency, replacing the need for travellers to carry goods to barter at their final destination for other goods and services. Secondly, the Greek language spread throughout the Mediterranean area, making it easier to communicate as one travelled. They also enjoyed travelling to religious festivals, and events like the Olympic Games held every four years at Olympia.

At the height of the Roman Empire, the ruling patrician class enjoyed their leisure during the periods of relative peace. Sightseeing was also popular with the wealthy Romans, and many visited Greece. A ten-volume travel guide was published in 170 A.D. by the Greek, Pausanias, entitled *A Guide to Greece*.

Asian civilizations also have a history of leisure travel to resorts, with known examples of second homes or seasonal retreats in China as well as in Japan. Chinese nobility and their guests retreated to the summer pavilions and villas in scenic areas.

11.1.2 Middle Ages

During the Middle Ages from about the 5th to 14th century A.D. the Christian Church was the primary impetus for travel with the spreading of monasteries and the Christian religion. Monks and priests encouraged the public to go on pilgrimages, and by the 14th century, pilgrimages were an organized mass phenomena served by a growing network of charitable hospices with growing ranks of participants from most social classes. Christians went to Jerusalem and Rome, and even though the pilgrimages had a religious basis, they were also seen as social and recreational journeys.

In the latter part of the 13th century, Marco Polo explored the land routes from Europe to Asia. Polo's book on his travels was the West's main source of information about life in the East during the period.

By the 15th century there is a record of an actual package tour which originated in Venice to the Holy Land. For the price of the package, the tourist received passage, meals, accommodations, donkey rides, and the bribe money necessary to avoid red tape. (Early versions of today's convenience fast food stands popped up along heavily trafficked pilgrim travel ways.

11.1.3 The Renaissance

Travellers between the 14th and 17th centuries used to their travel motivator the desire to broaden one's experience and knowledge. In England, Queen Elizabeth I approved a form of travel to groom future diplomats, and the universities such as Oxford and Cambridge in England and Salamanca in Spain provided travel fellowship. England also issued a traveller's license which was good for two many horses, and servants (usually three) the traveller could take. Tourists also were issued passports, but surrendered them at exit posts, and picked up new ones for each country they visited. Little cash was carried, instead they used a line of credit which worked like the modern day traveller's cheques. The Elizabethan traveller usually went to Italy, by way of Paris and Frankfurt.

The loosely organized Elizabethan tour later became more highly structured into what became known as the Grand Tour. The organized Grand Tour had its start in the mid-1600's, and its popularity ran through the mid-1800's. The desire to gain new *knowledge and experiences* were still the prime motivators of travel for participants of the Grand Tour; and the Grand Tour was seen as the capstone to educational and cultural attainment of the upper classes. Typically, cons of well-to-do families travelled to specific countries to visit historical sites and ruins as well as to study art, architecture and history. There was even a tour guidebook for the Grand Tour travellers, the 1778 bestseller by Thomas Nugent.

11.1.4 The Industrial Revolution

The Industrial Revolution, which lasted from about 1750 to 1850 created the base for *mass tourism* as we know it today. The period brought profound economic and social changes as workers moved away from basic agriculture in rural areas into the manufacturing plants and urban way of life familiar to many people today. The Industrial Revolution also introduced new machinery powered by steam for trains and ships. (*means of transport*) Social changes brought on by changes in occupations led to the expansion of a new middle class, an increase in *leisure time*, and for many, a *demand for recreational travel activities* leading to a decline in popularity of the elitist Grand Tour. In these days, in 1841, Thomas Cook established one of the first travel agencies in the world that offered organized guided trips and tours including transport.

Initially, recreation tourist trips were generally only day trips because most people still had only limited discretionary income and a five-day work week was not commonplace. Toward the end of the 19th century, workers began to get *annual vacations*. In order to escape congested and polluted urban areas, many turned to spas and seaside resorts for their holidays which set the tone more or less for the modern leisure tourist.

Some destinations, until then visited primarily by the wealthy, were expanded, while others were newly established to capture this growing middle class market. To these destinations, the middle class represented a huge market compared with the small number of the earlier wealthy and aristocratic visitors. What the new tourists lacked in individual spending power, they more than compensated in terms of the total volume of arrivals.

11.1.5 Modern Tourism

It was the combination of desire, mobility, accessibility, and affordability that made mass travel possible. With the 20th century came new technologies such as aviation, computers, robots, and satellite communications, which have transformed the way that people live, work, and play. Modern technology is credited with the development of mass tourism for a number of reasons: it increased leisure time, provided additional discretionary income, enhanced telecommunications, and created more efficient modes of transportation.

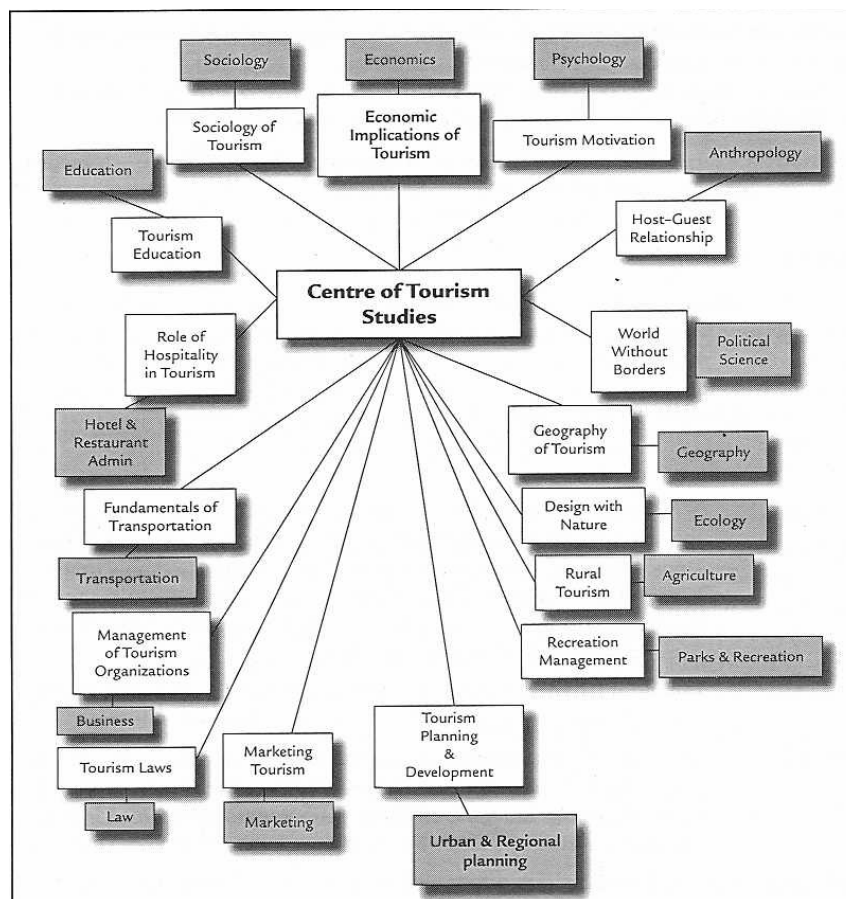
No longer, the activity reserved only for the privileged few tourism is now engaged in by millions of people who enjoy new places, seek a change in their environment, and look for meaningful experiences.

To sum it up, travelling is an activity that is based on moving from one place (destination) to another, whereas, tourism is a complex activity. More precisely, tourism is not only about travelling but about providing services. Generally, tourism is a socio-economic phenomenon with time-and-space features.

11.2 Tourism system

Since tourism is a complex phenomenon that covers variety of human activities, there are several points of view on the tourism field of study. Therefore multidisciplinary approach must be practice in connection with tourism. The following figure shows how many fields of study participate on the complex view of tourism.

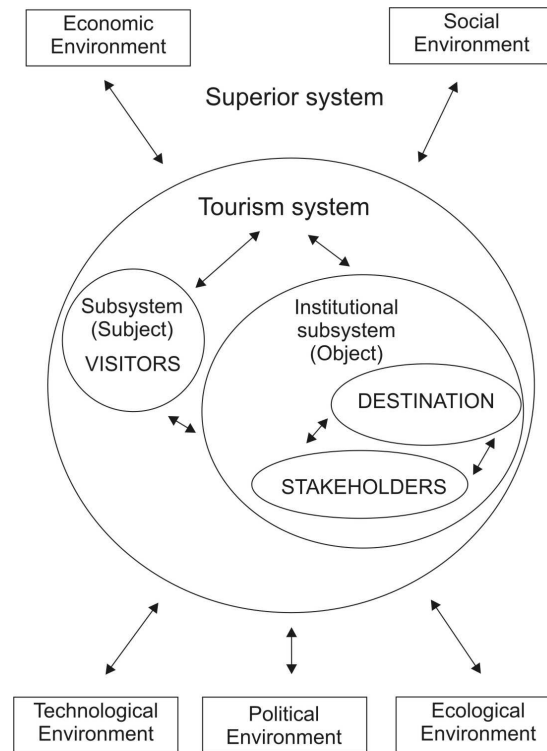
Figure: Multidisciplinary character of tourism



Source: Mišková, Z., 2005

For the purpose of this course, the cardinal specifics and characteristics of tourism will be presented through the system concept. This concept, called Tourism system, identifies the main elements of tourism and their mutual relations. Moreover, the system concept indicates the external environment (superior system) that fulfills the whole System of Tourism and depicts the connection between tourism system and superior system. This represents the fact that tourism is both affected by and has effects on the superior system, see the mutual interaction between the tourism system and the superior system.

Figure: The scheme of Tourism system



Source: Vystoupil, J., Šauer, M., Holešinská, A., Metelková, P., 2006

11.2.1 Tourism system

The inner system of Tourism consists of two subsystems. The first one represents the subject of tourism which involves visitors¹². The second subsystem, also called institutional system, stands for the object of tourism. The object of tourism covers a destination and stakeholders who are all participants on tourism for example small businesses, government agencies including tourist organizations, and host community.

11.2.2 Superior system

The superior system is made up of 5 environments (economic, social, political, technological and ecological) that have effect on tourism system. This relation can cause the external tourism impacts. On the other hand, the superior system can be either influenced by the tourism system itself and in this case the internal tourism impacts emerge. The relation between these two systems is described in following subchapter.

11.3 Tourism impacts

11.3.1 External tourism impacts

Travellers' choices change depending on circumstances under the influence of external factors, such as relative growth in real incomes, price differences between countries, and international political conditions.

The above mentioned impacts show how tourism influences its environment, on the other hand tourism is very sensitive to some aspects which means that tourism could be influenced either in a positive or in a negative way, e.g. *Natural disasters* (floods, tornados, tsunami, etc) or *Political problems* (totalitarianism, wars, terrorist attacks, etc.).

¹² Visitors are divided into two categories: tourists and excursionists. The former are visitors who stay overnight in a certain destination and the further are excursionists who leave the destination the same day they arrive.

11.3.2 Internal tourism impacts

Economic impacts

While conditions vary from region to region, tourism has been seen as an important form of economic development. It has also been promoted as a somewhat benign agent of economic and social change, a promulgator of peace through interaction and dialogue, and a service-based industry capable of creating employment and income (GDP). (Tourism **creates jobs, contributes GDP, brings capital/investments, increases export**).

Spending by tourists stimulates an economy by creating work in tourism related businesses such as accommodation, catering, retailing and transport. That new employment in turn causes an increase in economic activity. This phenomena is known as a **multiplier**. The multiplier means that in given circumstances investment stimulates not just the employment directly resulting, but also creates further stages of growth as more employment is stimulated by the extra spending power in the economy. The size of the multiplier depends on the proportion of additional income which people spend to buy goods or services for consumption rather than retain as savings. Spending creates a demand for goods and services which can be satisfied only by production and consequently increased employment is also required. (**direct and indirect employment**).

However, this employment may occur outside the locality or country if specialized goods are imported, or if the population prefers to spend its new wealth on overseas holidays. Income spent outside the region under consideration is referred to as **leakage**.

Social and Cultural Impacts

Social impacts, as a rule, refer to changes in the lives of people who live in destination communities, and are associated more with direct contact between residents and tourists.

Cultural impacts refer to changes in the arts, artefacts, customs, rituals and architecture of a people, and are longer term changes which result more from tourism development. Because most tourism consequences involve changes to both daily life and culture, the term socio-cultural impacts is used to refer to changes to residents' everyday experiences as well as to their values, way of life, and intellectual and artistic products.

Using culture as a tourist attraction helps to increased support for traditional cultures and displays of ethnic identity, and moreover, revitalise traditional arts, festivals and language.

The direct contact between residents and tourists breakdowns the negative stereotypes and increases social opportunities.

Changes in jobs and economic structure resulting in changes in social roles. New economic and social opportunities are established and this decrease social inequity. The aspect of developing tourist facilities tends to increase recreational opportunities.

Temporarily increased population from tourists and associated development are the support for medical, educational and other facilities which enhance quality of life.

Tourism on the other hand can be either negative. It produces pressure on changing traditional activities and arts to suit production for tourists. Intensive tourism causes disruption and crowding of traditional activities. Furthermore, residents can find their privacy to be invaded by tourists. Negative stereotypes enhance and everything starts to be commercialized.

Culturally, it can tend to the loss of language. The access to places and recreational activities is lost and increases in population leads to problems with crowding, congestion and crime.

Tourists can face several obstacles concerning socio-cultural understanding, e.g. Cultural shock or Cultural arrogance.

Environmental impacts

In tourism it is usual to distinguish between the *physical environment* (the land, air, water, vegetation, wildlife and the creations of people) and the *socio-cultural environment* (the people and the social, economic, cultural and political forces that influence their lives). The physical environment is an important tourism resource.

The most obvious negative environmental impacts have been those associated with loss of, or damage to, physical environments. (**Environmental Damage**)

Pollution is another major negative impact of tourism. Transportation is a major source of both air and noise pollution. It has been estimated that approximately 2 million tons of aviation fuel are burned each year producing 550 million tons of greenhouse gases and 3.5 million tons of the chemicals responsible for acid rain. Water pollution from sewage and the use of pesticides, herbicides and fertilizers in resort landscaping are also major problems for many tourist destinations.

Tropical islands that are prime tourist destination and possess fragile environments are particularly vulnerable to range of negative environmental impacts from tourism. (**Destination vulnerability**)

The pressure of increased numbers of people (living even temporarily in an area) on water, food and energy resources can be severe. It has been estimated that the average daily water consumption of tourists including the water needs of golf courses, hotel gardens and swimming pools, is ten times the level seen s necessary for survival. (**Effects of tourist density**)

Many **tourist activities** such as boating, diving, walking and skiing can have negative impacts on the physical environment. The pressure of numbers can result in the erosion of paths and the wearing away of historic buildings. Visitors can also introduce non/native species which disrupt existing ecosystems. The mere presence of visitors can be harmful in sensitive environments.

Tourism can also work towards the *restoration, conservation and protection* of physical environments. Tourism can provide the incentives and the income necessary to restore and rejuvenate historic buildings and precincts and to create and maintain national parks and other conservation areas. The non/consumptive use of wildlife for tourism can replace other more threatening practices.

Tourism can also be a force for the *development of better infrastructure* which can in turn improve environmental quality (e.g. the construction of waste water treatment plants).

Tourism's positive environmental impacts are summarized below:

- **Development of tourist attractions.** Conservation, restoration and protection of natural and built heritage can result from the perceived need to develop attractions for tourists and from the revenue provided by tourism.

- **Development of infrastructure.** Improvements to roads, water supply and treatment and waste management systems can result from increased revenue from tourism. Such improvements may decrease pollution and improve environmental quality.

11.4 Sustainable tourism

The concept of sustainability arose from the recognition that the **earth's limited resources** could not indefinitely support the population and industrial growth associated with existing approaches to development, and that existing development approaches were not working to reduce poverty or to increase standards of living across all countries.

In recent years, sustainable development has been put forward as a new approach to the way communities think about standards of living, social equity, and the maintenance of resources.

The three main principles of sustainability are:

- *Ecological sustainability* ensures that development is compatible with the maintenance of essential ecological processes, biological diversity and biological resources.
- *Social and cultural sustainability* ensures that development increases people's control over their lives, is compatible with the culture and values of people affected by it, and maintains and strengthens community identity.
- *Economic sustainability* ensures that development is economically efficient and that resources are managed so that they can support future generations.

The main goals of sustainable tourism are:

- to improve the quality of life of host communities;
- to preserve intergenerational and intragenerational equity;
- to protect the quality of the environment by maintaining biological diversity and ecological systems;
- to ensure the cultural integrity and social cohesion of communities;
- to provide a high quality experience for visitors.

According to WTO sustainable tourism is defined: "Sustainable tourism development meets the needs of present tourists and host regions while protecting and enhancing opportunities for the future. It is envisaged as leading to management of all resources in such a way that economic, social and aesthetic needs can be fulfilled while maintaining cultural integrity, essential ecological processes, biological diversity and life support systems."

Definitions of sustainable tourism emphasize three important features: *Quality, Continuity* and *Balance*.

Sustainable tourism provides a *quality experience for visitors*, while improving the *quality of life of the host community* and protecting the quality of the environment.

Sustainable tourism ensures the *continuity of the natural resources* upon which it is based, and the *continuity of the culture of the host community* with satisfying experiences for visitors. Finally, sustainable tourism *balances the needs of the tourism industry*, supporters of the environment, and the local community. Sustainable tourism emphasizes the mutual goals and cooperation among visitors, host community, and destination in contrast to more traditional approaches to tourism, which emphasize their diverse and conflicting needs.

11.5 Measuring tourism

11.5.1 Structure of the Tourism Industry

The travel and tourism industry is a group of economic activities which combined makes it the world's largest industry. Now it constitutes a higher proportion of the value of world exports than all sectors other than petroleum products, and motor vehicles/parts/accessories.

Tourism consists of many different types of companies and organizations. In a particular destination, the services these companies offer combine to provide each tourist with a single touristic experience.

While the types of companies that comprise the tourism industry vary widely, they can be grouped and classified by sub-industries or sectors. For statistical purposes, only major categories within classifications are separately certified. The main sectors, and some of the types of companies in each sector, are:

- Accommodation – hotels, motels, resorts, B&B establishments,
- Catering (Food Service) – restaurants, institutional food service contractors,
- Passenger Transportation – airlines, ground tour operators, car rental firms, cruise lines, etc.
- Distributors – travel agents, tour operators (wholesalers),
- Tourist Activities – attractions, gaming, recreation, entertainment, shopping establishments, etc.
- Tourism Organizations – National Tourism Administrations (NTAs), local government tourist offices, tourism trade associations.

In light of this structure, measuring the economic contribution of tourism to a community or region is complicated by a number of factors within and outside the destination. These factors include the wide range of impacts associated with tourism economic activity, the diverse number of participants in the activity, the complex interrelationships between various sectors, and the ignoring of small subcategories in the statistical counting.

11.5.2 Measuring Tourism Contribution

There are several methods how to measure tourism contribution, e.g. supply-demand and price elasticities; direct, indirect and induced benefits; multiplier model of tourism revenue turnover; input-output analysis; cost-benefit analysis and statistical methods (Tourism Satellite Accounts).

Identifying Tourism Activity

Tourism is a complex industry, encompassing private and public sectors – transportation, accommodations, retail, food and beverage, and many other small and medium-sized enterprises. Because of this, it has been difficult to statistically distinguish tourism activity from other economic activity and to measure its contribution to the overall economy. The International Standard Classification of Economic Activities, and other similar classification methods which provide categories of economic activity that nations use in compiling their statistics, traditionally have not included tourism. *These difficulties are often cited as the reason why tourism's importance to economic growth is consistently underestimated, especially by policymakers.*

The WTO formed a draft Standard International Classification of Tourism Activities (SICTA) that provides a foundation for better analysis of the supply aspect of tourism and better understanding of the demand aspect.

Despite this advance in statistical methods, difficulties remain in measuring the tourism industry. A large part of the problem centres around the traditional method of *defining an industry*, which is from a supply or production perspective. Most tourism-related businesses do not devote all of their production to tourism. Restaurants and retail stores, for example, generally rely on sales revenue generated by both visitors and non-visitors for their business. Therefore, a consumption or demand approach was established (used). The underlying premise of this approach is that tourist activity is best defined by a demand characteristic. This approach *enables governments to more accurately identify and measure their tourism industries* by using tourism satellite accounts.

Tourism Satellite Account

Tourism Satellite Account (TSA) provides comprehensive information on a field of economic activities, and is generally tied to the economic accounts of a nation or region. The tourism satellite account is a relatively new practice adopted by some countries. The account uses concise definitions of tourism and attempts to provide a clear and real measure of tourism-related economic activities. Both direct and indirect tourism activities are accounted for in areas such as demand, supply, employment, and taxes. This capability is helpful in determining the complex spending patterns of visitors and the goods and services that cater to their needs. A system of national accounts (SNA) has been supported by the United Nations to improve the quality of government statistics.

The advantages of the tourism satellite account can be summarized as follows:

- TSA identify the amount of the benefit enjoyed by various sectors of the economy and the employment, income, taxes, and other benefits that flow from these sectors.
- TSA provide a comprehensive picture of the size and scale of tourism in the country, thereby helping governments and businesses assess the value of tourism to the economy.

The structure of TSA consists of 10 tables that mainly cover tourism demand, tourism supply and then tourism employment, tourism capital investment etc. The scheme of the balance between tourism demand and supply can be simplified into this form:

Tourism Demand

- *Tourism Consumption*

- Personal tourism
- Business travel
- Government Expenditures (individual)
- Visitor exports

- *Government Expenditures*

(collective, e.g. promotion, administration etc.)

- *Capital Investment*

- *Exports* (non-visitor)

Tourism Supply

- *Tourism Industry*

(industries with direct impact on tourism, e.g. hospitality)

- Direct tourism industry GDP (taxes)
- (Direct) Imports

- *Tourism economy*

(industries with indirect impact on tourism, e.g. building industry)

- Indirect tourism industry GDP (taxes)
- (Indirect) Imports

Many countries have not accepted this approach and they still used their rather simple standard classification of economic activities.

Economic data

Tourism is generally seen as a significant economic contributor to a nation's gross national product (GNP) since international visitors are a valuable source of foreign currency. One source of economic data on the economic significance of tourism for a country is its **balance of payments**, which is a record of the international transactions of a country. The main indicators, such as Tourism receipts and expenditure, and other share indicators (Share of tourism receipts on GDP, Share of tourism receipts on exports, Share of tourism receipts on service receipts, etc.) are used to identify the tourism contribution.

Forms and Categories of Tourism

Concerning the economic data, we should talk about forms of tourism. Generally, it is distinguished between international and domestic tourism. Whereas **domestic tourism** *involves residents of the given area travelling (as visitors) only within that area*, **international tourism** occurs when the traveller crosses a country's border.

Not every traveller is a visitor, however. The traveller is a visitor only if the trip takes him or her outside the usual environment, e.g., workers who cross borders for employment are not considered visitors – business purpose yes, but not every day commuting to work. The interest in international tourism has always been strong, primarily for economic reasons, as this form of tourism plays an important role in trade and monetary flows among nations.

To be more specific, the international tourism consists of inbound and outbound tourism. Statistically, very important form of tourism is **inbound tourism** (sometimes called arrivals) that *involves non-residents travelling as visitors in the given area (country)*. On the other hand, **outbound tourism** (sometimes called departures) involves residents travelling as visitors in other country – not the given one.

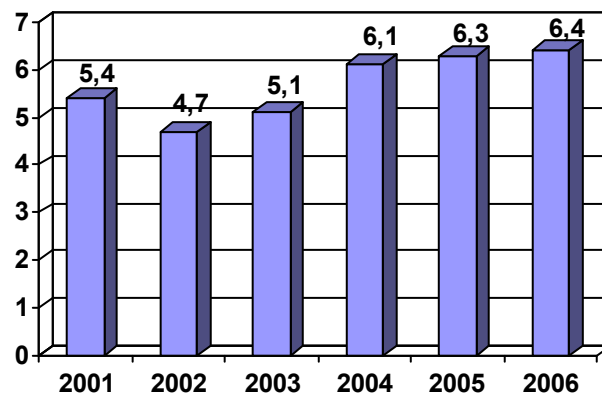
Domestic tourism has been overshadowed by the interest in international tourism, for it was thought initially to have little or no international impact, and statistics on the subject were felt to be a country's own business. It has become clear, however, that international and domestic tourism do relate to each other. Travellers' choices change depending on circumstances, and domestic tourism can be substituted for international tourism (outbound tourism) and vice versa under the influence of external factors, such as relative growth in real incomes, price differences between countries, and international political conditions. Over the past few decades, in many Western countries domestic holidays were largely replaced by outbound holidays, influenced by the rise in living standards and discretionary incomes, while developing countries have seen sharp increase in domestic tourism.

Categories of tourism are followed:

- Internal tourism – comprise domestic and inbound tourism;
- National tourism – comprise domestic tourism and outbound tourism (All citizens who decided to travel either within their country or abroad.);
- International tourism – inbound and outbound tourism (All travellers who cross borders.).

The following figure shows the inbound tourism. The statistics are based on arrivals of non-resident tourists in all types of tourism accommodation in the Czech Republic in the period of 2001-2005.

Figure: Inbound tourism (in mil) 2001-2006 in the Czech Republic



Source: Czech Statistic Office

12 Tourism management and marketing

12.1 Tourism policy

12.1.1 Tourism policy and planning

Tourism relies on a high degree of communication and cooperation among all involved participants with respect to the complex network of laws, regulation and policies.

Even the most attractive destination will not be successful unless its host country is not forged to some action, such as providing services, giving permissions etc. These activities call out for suitable tourism policy.

Policy is usually created by and emanates from a public body or organization. Such public policy is a major concern of government activity. Generally, policy can be defined as a course of action adopted by an agency, such as a government body. Public policy is, therefore, what governments decide to do or not to do.

Public policy, by definition is in the public domain, while the policies of individual organizations are often protected because of commercial concerns and may not be so easily discerned. In relation to public policy, it is important to recognize that it is not created in a vacuum, but is greatly influenced by the social, economic and environmental context in which it is created, as well as the governmental structures and nature of the political regime. Therefore, it is important to realize that policy results from political structures, values systems, institutional frameworks, the distribution of power and the decision making process.

It is said that decision-making process is one of the key elements of the process of planning. And planning and policy are closely related terms. While planning is a course of action, policy is the implementation of the planned course of action. Through this process the ways of thinking, ways of valuing and ways of acting are actively constructed by participants.

Experts indicate that tourism policy and planning can help to shape and control physical patterns of development, conserve scarce resources, provide a framework for active promotion and marketing of destinations and can be a mechanism to integrate tourism with other sectors. Thus, tourism planning has a number of key objectives, such as:

- The creation of a mechanism for the structured provision of tourist facilities over quite large geographic areas. (see following subchapter)
- The coordination of the fragmented nature of tourism (particularly in relation to accommodation, transport, marketing and human resources).
- Certain interventions to conserve resources and maximize benefits to the local community in an attempt to achieve sustainability (usually through a tourism development and management plan).
- The redistribution of tourism benefits (the development of new tourism sites or the economic realignment of places that tourists have begun to leave).

The government involvement

In this context, the question about government involvement in tourism arises. There are several reasons for government involvement in tourism:

- Promoting economic development
- Facilitating and supporting industries
- Raising revenues
- Creating a stable business environment
- Pursuing other policy goals
- Providing public goods and services

12.1.2 The organization structure of tourism

From the spatial point of view, the organization structure of tourism can be divided into three (four) levels: international level, national level, regional/ (local) level.

International level

Most common types of organizations operating at the international level are intergovernmental (international political) organizations. These organizations address a range of non-economic issues, including political disputes. The most well-known of these is the United Nations (UN), which serves as a forum for the international community. The world's largest and most influential government tourism organization is the **World Tourism Organization** (WTO), which is a sub-agency of the United Nations.

Further known international organizations are **World Travel & Tourism Council** (WTTC) and **European Travel Commission** (ETC). WTTC is the forum for global business leaders comprising the presidents, chairs and CEOs of 100 of the world's foremost companies. It is the only body representing the private sector in all parts of the Travel & Tourism industry worldwide. **The European Travel Commission** is a non-profit making organisation with its headquarters in Brussels. Its members are the 37 National Tourism Organisations (NTOs) of Europe, whose role is to market and promote tourism to Europe in general, and to their individual countries in particular.

National level

At the national level there is **national tourism administration** (NTA) that provides a means to avoid fragmentation of tourism-related policy and practice. In general, NTA consists of ministerial- or departmental- level bodies that pursue national tourism policies and goals. Beyond this broad definition, it is difficult to generalize about NTA as there are many different structures and roles among them. The practical example of the national tourism administration structure is seen below.

Figure: National tourism administration structure

Country	Ministry	Executive body	National Tourism Organization
Australia	Ministry of Tourism, Communication & the Arts	Department of Tourism	Australian Tourist Commission
Canada	Ministry of Industry & Science		Canadian Tourism Commission
France	Ministere de l'Equipement, des Transports et du Tourisme	Direction du Tourisme	Maison de la France
India	Ministry of Civil Aviation & Tourism	Department of Tourism; India Tourism Development Corporation	
Jamaica	Ministry of Tourism		Jamaica Tourist Board
Kenya	Ministry of Tourism & Wildlife	Tourism Department	
Czech Republic	Ministry for Regional Development		CzechTourism

Source: WTO

The competent ministries and their departments play the major role in national tourism administration. Their primary function is to make policy addressing the issues that are central to any effort to develop and sustain tourism industry (e.g. using economic incentive programmes). As has been said, tourism policy requires planning process that would consider all aspects and impacts of tourism industry. Another function is to provide essential elements of the development process that the private sector often cannot due to limited financial sources. Further functions are regulation and control that are done together with other ministries or institutions. Among the rest of the functions belong providing education and training; protecting consumer and national (nature and cultural) heritage; and at the last monitoring tourism actions.

Beside ministries and departments there are **national tourism organizations** that are separate bodies, sometimes called quasi-public tourism authorities or corporations. They have power and influence on the tourism decision-making process. Their main activities in field of tourism are marketing, promotion and monitoring at national level.

Regional level

Regional level is mainly connected with **destination companies/organizations**. At that level it is necessary to notice that instead of policy the management is practised. However, the planning process is still important for further tourism development.

12.2 Tourism management

The destination company/organization can be defined as an association of stakeholders whose mission is to provide the coordination of the sustainable tourism development in their region and increase its competitiveness as a destination in target markets.

To achieve this mission is essential to establish/practise destination management.

12.2.1 Destination management

The general definition of destination management is following: "Destination management is a set of techniques, tools and actions used to *cooperate* in planning, organizing, communicating, decision-making and *coordinate* tourism in a given destination.

To fulfil this cooperation and coordination there are four key cooperative functions: planning function, supply function, marketing function and interest promoting function. The content of these functions is derived from specifics of tourism product.

Planning function

Planning function is based on the fact that tourism product consists of several different products and services. Therefore the destination management should consider the cooperation between involved organizations and influence on tourism goals defining. The major goal of planning is to provide selecting strategy that involves competitive analysis. Final step of this function is the implementation of the strategy.

Supply function

The major purpose for applying the supply function lays in the fact that the public services (goods) are parts of the tourism product. In this case the destination management involves providing public products and services, coordinating the supply in the destination and producing packages, creating new products and quality checking.

Marketing function

The integral part of the destination management is the marketing function. This function varies because of the immateriality of the tourism product. This characteristic must be considered when making marketing strategy, choosing the efficient marketing mix and taking care of the destination image and brand (logo, motto etc.). Another activity that is part of this function is providing information system.

Interest promoting function

The fourth specific about tourism product are positive or negative externalities that are connected with providing or consumption of the tourism product. To eliminate these induced costs/revenues, the destination company should coordinate the interests of all participants (stakeholders and those who can have effects on tourism) in the destination. Therefore the destination management must consider the residents' sensitiveness to tourism, the coordination of interests within tourism and representing tourist interests to public and (government) authorities.

12.3 Tourism marketing

As was mentioned above, the marketing is one of the four main cooperative functions of destination management. Generally said, tourism marketing is one of the management's tools that can be practised to reach the strategic goals/targets of any destination companies/organizations.

According to this, the definition of tourism marketing is that it is a process of accomplishment company's targets based on ensuring needs of the target market and satisfying these needs in a better way than competitors.

Concerning the approach to tourism marketing, there are certain specifics that must be taken into the consideration and which are linked with the tourism product as a service. First of all, the tourism product as a service is *intangible* because it cannot be seen, tasted, felt, heard, or smelled before it is purchased. However, customer who buys the tourism product seems to be empty-handed, the consumption of the service creates memorable experiences that the customer keeps. The second specific characteristic of tourism product is that a service is

inseparable which means that the product is produced and consumed in the same place and in a certain time. Service inseparability also means that both the service provider and the customer must be present for the transaction to occur. Thirdly, the tourism product as a service is *variable* because each customer's (visitor) taste is different. The quality of services depends on who provides them and when and where they are provided. When the product which customers receive is different and does not meet their expectations on the next visit, they often do not return. For example in the hospitality industry, variability or lack of consistency in the product is a major cause of customer disappointment. Therefore it is nearly impossible to standardize the product. The last characteristic is that the product is *perishable* because it cannot be stored for later sale or use.

12.3.1 Tourism marketing concept

The essential condition for the realization of the tourism product at the market is the **tourism marketing concept**. This concept combines a strategic approach with marketing that is orientated towards a customer (its needs and wishes). The tourism marketing concept consists of several steps that lead towards the final goal/target (satisfying customer's needs and wishes).

First step is to analyze the internal and external environment, e.g. tourism prerequisites, competitive market etc. Another step is *marketing segmentation* that can be of 4 categories: demographic segmentation (gender, age etc.), geographic segmentation (geographic characteristics), psychographic segmentation (lifestyle, motives), behavioural segmentation (knowledge, attitude etc.).

Further step of the concept, based on the marketing segmentation, is choosing of appropriate *marketing strategy* that is developed to meet the needs of the particular target market. Hand in hand with the marketing strategy the suitable combination of 5Ps (Product, Place, Promotion, Price and People) is done. This step is called *marketing mix*. The final step is the introduction of *marketing plan* that covers all previous steps (characterize tourism product) and identifies its time framework.

12.3.2 Marketing activities

National tourism organization

Generally this type of organization at the national level is responsible for:

- Marketing and promotion of the nation, ensuring its tourism competitiveness and market share of visitors among other destinations within its region;
- Encouraging private sector support and cooperation in promotional activities and participation in shaping national tourism policies and practices;
- Representing its country in trade and consumer shows and expositions;
- Producing and distributing brochures, videos and other marketing materials;
- Promoting and producing special events;
- Performing or contracting for market research and analysis;
- Maintaining overseas tourism information offices;
- Providing central information and reservation system.

Destination company/organization

On the other hand, destination companies are focus on the regional level. However their functions or activities in the field of marketing are similar:

- Marketing and promotion of the destination (image, brand, logo), ensuring its tourism competitiveness and market share of visitors among other destinations within its region;
- Encouraging cooperation between all participants (private and public);
- Representing its destination in trade and customer shows and expositions;
- Producing and distributing brochures, videos and other marketing materials;
- Promoting and producing special events;
- Performing or contracting for market research and analysis;
- Maintaining tourism information offices and regional information and reservation system.

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