

# Small and medium-sized enterprises

. In this lesson you should learn what the SME are, how they are supported and which institutions support them.

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

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

The main shortcomings in the current business environment are:

- low enforceability of law, in particular in the relation between the creditor and the debtor,
- unsatisfactory regulation of bankruptcy,
- unsatisfactory regulation of corporate registration, resulting in disproportionate long waiting for registration,
- 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 on the European scale,
- 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.)

- a serious problem is an inappropriate qualification structure of the workforce.
- the other problems are low mobility of the workforce and the structure of unemployment.

For the above reasons, the support policy is focused on reduction of these disadvantages 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.

### **Definition of SME**

Very important question is “What is small and medium-sized enterprises”. The answer is very easy.

1. A minor, small or medium-sized enterprise shall be considered any enterprise which:

- a) employs fewer than 250 employees,
- b) its assets, stated in the balance sheet, do not exceed the equivalent in Czech crowns of EUR 43 million, or its net turnover during the last complete accounting period does not exceed the equivalent in Czech crowns of EUR 50 million.

2. A small enterprise shall be considered any enterprise which:

- a) employs fewer than 50 employees,
- b) its assets, stated in the balance sheet, or its net turnover during the last complete accounting period do not exceed the equivalent in Czech crowns of EUR 10 million.

3. A minor enterprise shall be considered any enterprise which:

- a) employs fewer than 10 employees,
- b) its assets, stated in the balance sheet, or its net turnover during the last complete accounting period do not exceed the equivalent in Czech crowns of EUR 2 million.

Targets of support policy – see powerpoint

Indirect support helps to create a favourable environment for SMEs by simplifying administration and alleviating possible adverse impact of new legislation on SMEs, facilitating access to information, training and consulting. Indirect forms of support include the creation of industrial zones, for which subsidies and loans were used and the development of information services for businesses.

Direct financial support was represented by instruments facilitating access of SMEs to funding to realize their investment plans or reducing costs of SMEs in areas defined in the support programmes approved by the Government.

The rules for providing support to small and medium-sized enterprises from the state budget in support of their performance and competitiveness and to remove the disadvantages stemming from their low economic strength have been laid down since 2003 in Act No 47/2002 Coll., on support for small and medium-sized enterprises.

### **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.

### **Programme support from Structural Funds of the EU**

Operating Programme Industry and Enterprise (OPIE), whose objective is to maintain and further develop a competitive and effectively producing industrial potential, to contribute effectively to increasing the economic performance of the production base and support necessary structural changes in industry, so that the Czech Republic ceases to be as a whole by the end of the next programming period a less developed region of the EU.

Assistance is concentrated on the development of small and medium-sized enterprises, support for innovation activities in industry, production, technical, economic and organizational restructuring of enterprises, sectors and branches and permanent reduction in costs, in the conditions of the Czech Republic in particular by increasing the effectiveness of the use of energy.

OPIE programmes offer comprehensive support for small and medium-sized enterprises, using EU Structural Funds, and they focus on support for:

- building and development of industrial research and development and its linkage with the tertiary sphere,
- real estate for business,
- training centres for specialized education,
- development of the production base of small and medium-sized enterprises,
- use of non-traditional sources of energy by small and medium-sized enterprises.

OPIE has three priorities:

Priority 1 – Development of the business environment should become top priority for OPIE, with measures for the development of new and modernization of existing industrial localities and development of business centres, infrastructure in the area of research and development, transfers of technologies, energy infrastructure and modernization of the institutional structure

for promotion of entrepreneurship. These priorities apply to the programmes Prosperity, Reality, Training Centres and Clusters.

Priority 2 – Development of the competitiveness of enterprises will concentrate on direct investment support of firms and consulting services, development of the competitiveness of enterprises, with special attention paid to small and medium-sized enterprises. These priorities apply to the programmes Start, Credit, Development, Marketing, Innovation, Energy Savings and Renewable Sources of Energy.

Priority 3 – Technical assistance comprises all supporting activities at the level of the Steering Body and at the regional level with the objective of increasing the effectiveness of the support, improve the quality of the interventions and effectiveness of the use of Community funds, i.e. effective management of OPIE, its promotion, and evaluation of the programme and the projects.

Brief information about the focus of the OPIE programmes:

- PROSPERITY - support for the infrastructure of industrial development, in particular scientific and technological parks, business incubators and centres for transfers of technologies;
- REALITY - support for projects for preparation, development and regeneration of industrial zones and business real estate;
- TRAINING CENTRES - support for projects for reconstruction and modernization of existing corporate training facilities, projects for construction and equipment for new sectoral training facilities serving for education of more enterprises;
- CLUSTERS - support for projects for establishment and development of sectoral associations, the so-called clusters, at the regional and supra-regional level;
- MARKETING - support for raising the competitiveness Czech firms in foreign markets in the form of support in obtaining marketing information, promotional materials, participation in trade fairs or exhibitions abroad;
- START - support for implementation of business plans (acquisition of tangible and intangible assets, financing stocks) of individuals and firms engaging in business for the first time or after a period of inactivity;
- CREDIT - support for development projects of small enterprises with a shorter history (acquisition of tangible and intangible assets, financing stocks);
- DEVELOPMENT - support for the development of the competitiveness SMEs in the growth phase, support for raising technological standards and improving processes, for example by the introduction of certification and international standards;
- INNOVATION - support for projects for increasing the technical and utility values of products and services, or increasing effectiveness of production processes and services,

or introduction of advanced management methods, making major changes in the organizational structure or strategic orientation of a business or other non-technical innovations;

- ENERGY SAVINGS - support for projects leading to reductions in energy demands in industrial enterprises by reducing energy demands in processes related to production, transformation and distribution of energy, new technologies for processing energy raw materials, introduction of combined production of electricity and heat (cogeneration);
- RENEWABLE SOURCES OF ENERGY - support for projects for production of electricity and heat from renewable sources of energy, such as projects for construction, restoration or reconstruction of facilities using renewable sources of energy, projects for cogeneration of electricity and heat using renewable sources of energy.

The implementation agency for OPIE is the organization of the MIT CzechInvest. A network of regional offices has been set up in the Czech Republic for consulting and information support for enterprises in the preparation of projects. The implementation agencies are CzechInvest, CzechTrade, Czech Energy Agency, and Czech and Moravian Guarantee and Development Bank.

Operating Programme for the Development of Human Resources (OP DHR) is a key document for realization of support from the European Social Fund (ESF) in the development of human resources in the Czech Republic in 2004-6. The global objective of OP DHR is to attain a high and stable level of employment based on a qualified and flexible workforce, integration of socially excluded population groups and competitiveness of enterprises, while respecting the principles of sustainable development.

OP DHR has four priorities:

Priority 1 – Active Employment Policy

Priority 2 – Social integration and equal opportunities

Priority 3 – Development of life-long learning

Priority 4 – Adaptability and entrepreneurship

The objective of Priorities 1, 2 and 3 is to resolve problems of groups at risk in the employment market and support for science and research. These priorities are mainly intended for non-profit organizations.

Priority 4 – Adaptability and entrepreneurship concentrates on promoting the competitiveness of enterprises and organizations in economic sectors with growth potential. It is fulfilled by Measure 4.1 Enhancing the adaptability of employers and workers to changes in economic and technological conditions, support for competitiveness and Measure 4.2 Specific Education.

- STANDARD DEVELOPMENT OF HUMAN RESOURCES (from Measure 4.1)

This Programme will be announced at the end of 2005 and will follow up on a pilot programme carried out within the framework of PHARE 2002. The objective of the programme is to increase the competitiveness and performance of enterprises by the introduction of proven management systems and to develop human resources. The idea of the whole support system is that enterprises undergo an input analysis, followed by consulting and training and a final assessment, to obtain a certificate of a predefined high standard of management and development of human resources. This standard will be based on best practices of European enterprises.

- PROFESSION (from Measure 4.2)

The objective of this programme is to support professional growth of workers and enterprises in professions that require specialized skills and know-how. The programme is designed to support professional education of middle managers and other professions, such as technical professions, production management, marketing, and trade and customer services.

The programme will also focus on workers responsible for development and management of human resources. Training courses may be held related to the introduction of new technologies and environmentally-friendly procedures.

Joint Regional Operating Programme (JROP) support activities which come under Czech law within the competence of municipalities or regions.

Five priorities have been determined on the basis of the objectives of JROP and the main strategic directions, their fulfilment and selection of key problems requiring support from public funds:

- Regional promotion of entrepreneurship brought about by the Measure Promotion of entrepreneurship in selected regions.
- Regional development of the infrastructure
- Development of human resources and social integration in the regions
- Development of tourism
- Technical assistance.

### **Support programmes financed from the state budget**

Support programmes financed from the state budget are implemented in accordance with the medium-term budget outlook. This support is provided through the programmes MSP GUARANTEE, MARKET, DESIGN, CONSULTING, PROGRESS, ALIANCE AND REPRESENTATION and for the period 2005-6.

Programme of Guarantees for Small and Medium-Sized Enterprises – ZÁRUKA (Guarantee) - this program is for small and medium-sized enterprises and the company can obtain subsidized guarantee for bank loans, for capital investment and for bids in public commercial competition, ČMZRB.

Multipurpose Programme of Support for Small and Medium-Sized Enterprises – TRH (Market)

The objective of the programme is:

- to promote the acquisition of ISO certification by small and medium-sized enterprises, thus improving their competitiveness,
- to support the investment-based projects of startup and small undertakings in the City of Prague,

Programme of Support for Dynamically Developing Small and Medium-Sized Enterprises – PROGRES - The objective of this programme is to provide support in the form of subordinated loans reinforcing the capital base of an enterprise for a period of up to five years to enable the realization of larger-scale business development projects of small and medium-sized enterprises in selected branches of the Czech economy which may have difficulty in finding external credit facilities due to their lower original capital base or have less opportunity of securing a loan.

Programme for the Support of Consulting and Training Services for Small and Medium-Sized Enterprises – PORADENSTVÍ (Consulting)

The objective of the PORADENSTVÍ [‘consulting’] programme is to enable persons preparing to enter into business and small and medium-sized enterprises in the Czech Republic to receive subsidized general training and consulting services from external consultants.

Programme of Support for the Design Activity of Small and Medium-Sized Enterprises - DESIGN

The programme helps to improve the competitiveness of small and medium-sized enterprises through top design, which increases the competitive capacity of industrial production, cultivates the working environment, has a positive effect on the environment, contributes to an increase in the material culture of society, and ultimately helps in shaping lifestyle.

Subsidy for:

- product design
- interior design and architectural design
- graphic design, design Internet presentation, multimedia
- design publicity

Programme for the Creation of Alliances and their Presentation Abroad - ALIANCE

The objective of the programme is to increase the competitiveness of small and medium-sized enterprises on foreign markets

Programme in support of establishment of foreign branches of Small and Medium-sized Enterprises REPRESENTATION

The programme objective is to obtain information about foreign markets through foreign representations (branches) of Small and Medium-sized Enterprises outside EU Member States.

The following supported activities are involved:

- a) establishment of a representation in non-EU Member State,
- b) activity of the representation.

If you would like to get more information about support of SME, you can find it on internet, for example:

[www.mpo.cz](http://www.mpo.cz)

[www.cmzrb.cz](http://www.cmzrb.cz)

[www.czechinvest.org](http://www.czechinvest.org)

[www.czechtrade.cz](http://www.czechtrade.cz)

[www.designcentrum.cz](http://www.designcentrum.cz)

[www.strukturalni-fondy.cz](http://www.strukturalni-fondy.cz)

[www.businessinfo.cz](http://www.businessinfo.cz)