Title
Strengthening Competitiveness

Sub-Programme
Economic and Social Cohesion

Geographical Location
Ministry of Industry and Trade

Objectives
There are three general objectives:

- **the provision of detailed analysis and concrete policy recommendations regarding the restructuring of the steel industry** as the basis for Government decision, elaborating investment needs and schemes (in compliance with the principles of state aid), environmental standards to be attained, re-training instruments and social programmes for areas affected by necessary modernisation and conversion or closure of redundant steel capacity;

- **to improve the competitiveness of the Czech economy, through higher quality standards.** This will be done by facilitating contacts between foreign investors present in the Czech Republic, and potential suppliers based in the country. Foreign investors would normally prefer to source their supplies locally for cost reasons, but often import from abroad in order to ensure sufficient quality. The project will help foreign investors to explain their requirements to potential local suppliers, and help the local suppliers meet those standards. Companies which are able to rise to the challenge will have not only a secure market in the Czech Republic, but normally also a product which will meet global standards for export

- **to improve the business environment for SMEs:** this will include (a) the development of a national discussion group, similar to the Business Environment Simplification Taskforce, with the task of producing detailed recommendations for government consideration, plus (b) improving delivery of business support services, by ensuring the achievement of verified minimum national standards concerning the range, quality and effectiveness of support services offered as well as a quantified demonstration of the enhanced performance and coherence of the national network of SME support services (23 Regional Business Advisory and Information Centres and 5 Business Innovation Centres); and co-financing of these services

Institutional Framework
The project Restructuring of the Steel Industry will be managed by the Ministry of Industry and Trade (MIT) in co-ordination with the Ministry for Regional Development via Working Group for Economic and Social Cohesion (WG ESC). They will also co-operate with specialised consultancy companies, foreign experts and particular metallurgical companies.

As for the Supplier Linkage & Upgrading Programme, the Ministry of Industry and Trade has proposed CzechInvest to manage the programme in co-ordination with the Ministry for Regional Development.
Development via CzechInvest representative in the WG ESC. They will also co-operate with the National Training Fund (NTF), CzechTrade and EXDEV.

The SME/Business Support Policy Project will be managed by the Ministry of Industry and Trade in co-ordination with the Ministry for Regional Development via the WG ESC and in co-operation with all other relevant organizations. The Ministry of Industry and Trade will entrust the Business Development Agency with the role of an intermediary for support implementation and monitoring and with the function of National discussion group secretariat.

Description

This 3.35 MEUR Project consists of 3 Sub-Projects: (1) Restructuring of the Steel Industry; (2) Supplier Linkage and Upgrading Programme; (3) SME/Business Support Policy

1. Restructuring of the Steel Industry

This 1.35 MEUR sub-Project (Phare contribution 0.85 MEUR) will provide a detailed analysis of the major problems currently facing the companies that constitute the Czech Steel industry and make concrete policy recommendations regarding the restructuring and modernisation of the sector. It will identify modernisation and investment needs that will enhance the sector’s competitiveness in the global steel products market whilst ensuring that the process will not conflict with EU rules and requirements (e.g. environmental standards, state-aids).

The analysis and recommendations will not only serve as the basis for action by the Companies that constitute the Czech Steel industry but also serve as the basis for Czech Government decision-making as regards (1) the completion of the sector’s privatisation and (2) the laying down of principles regarding state-aid to the steel industry including, for instance, a possible request to prolong the 5-year exemption, allowed to the Czech Republic in Protocol 2 (art 4) of the Europe Agreement. We expect that upon completion of the restructuring program the Czech steel industry will no longer require state aids. Furthermore, the project will contribute to a MIT/Czech Statistical Office survey of steel consumption in selected sectors.

The restructuring plan will, in its final recommendations, provide the Companies with a road map to follow, in order to improve their competitiveness and will prepare a step-by-step programme, in the case that the closure of the factory will be the most economic result of the viability study. It will provide the Czech Government with an analysis which will make full use of the Phare-financed study that preceded the 1992 partial privatisation of the sector in the days of the Czechoslovak Federation. Both the Government and the Companies will be involved in the co-financing of the project. The companies involved will in this way demonstrate their commitment to implement the restructuring once approved. It is expected that the Government will proceed with the finalisation of the industry privatisation on the basis of the Sub-Project’s recommendations.

The Sub-Project (1) will be effected in 3 distinct stages:

⇒ **Stage One** (implemented by the steel companies): information gathering and analysis of factors determining the relationships between the Companies in the sector, their respective business and viability plans and their problems vis-à-vis domestic and global steel products markets. The results will be the basis for stage two and three resulting in a detailed plan to restructure the Czech Steel Industry,

• **Stage Two** (in co-operation between the Czech Government and the steel companies): information gathering and analysis of all aspects and interrelation between Government
policy and the Steel industry e.g. state aid and in particular the degree of state-assisted investment required to implement the restructuring plan drawn up at this stage, regional aid, re-training, and the promotion of the SME development, etc.

The objectives of stage two will be:

1. Description of the current situation of the Czech steel industry.
2. Submission to the government of outlines of a restructuring programme

- **Stage Three** (Phare financed): This stage will result in a proposal for a detailed restructuring programme, based on individual business and viability plans for those Czech steel works which possibly would need state aid.

Of particular importance are financial and commercial plans, cost estimations and proposals for cost reductions, the match of production capacity to market demand and to the achievable market share, forecast for economic indicators and financial performance of the companies, investment programs and an appropriate timing of actions. – All information collected and processed in this context will be strictly confidential. - Analysis will base on viability criteria as applied in the restructuring of the EU steel industry. If business/viability plans should lead to the conclusion that the closure of an enterprise would be the most economic approach, a step-by-step scenario for a strategy of a plant closure will be developed.

If the analysis shows that state aids would be necessary to restructure individual steel plants into viable steel enterprises, a thorough analysis concerning state aids will follow. The amount of state aid supposed to be necessary for the restructuring of the steel industry, for the whole sector and by company, will be specified and evaluated. A clear picture of both the type and the amount of state aid involved and its intensity should be provided in order to assess its possible impact on competitors. On the basis of these individual business/viability plans, the results from state aid analysis and the Czech restructuring study, which will be finalised in the first half of this year, a proposal for an overall restructuring programme will be drafted. This document will present a detailed restructuring scenario and offer a policy action plan.

In view of preparing the accession of the Czech Republic to the EU special emphasis will be put on the European dimension of steel sector restructuring. Measures proposed for a restructuring programme will be checked, to which extend they are in line with EU rules and instruments. If necessary, alternative measures corresponding to EU requirements will be proposed.

Stage 3 will also result in a general estimate of the costs of the restructuring programme as well as possible sources of financing.

**Phare support** for the Sub-Project is expected to be delivered primarily though not solely through EU experts (specialists in restructuring in the steel industry; financing measures; research and technology; marketing; EU state-aid and environment rules; structural funds and associated policies; programmes for social development, re-training and promotion of SMEs and business in general).

**The timing** that is proposed for the completion of this Sub-Project is as follows:

- Stage One: Q1 - 1999
- Stage Two: Q2 - 1999
- Stage Three: Q3 - 1999.

**Co-financing aspects** (0.5 MEUR from the Czech side + 0.85 MEUR from Phare)

⇒ Stage One: estimated cost of this part of the Sub-Project, which will be the basis for the work done in the following two parts, is 9 million CZK which will be covered by the Steel Companies themselves

⇒ Stage Two is estimated at 9 million CZK which will be covered by the Czech Government
⇒ Stage Three is estimated at 0.85 MEUR, covered by Phare support. Due to changes in stage two, importance and quantity of work done within this stage will increase.

**Mode of carrying out the Sub-Project (1):**

**Stage One** (to be financed entirely by the Steel Companies) should be executed by local consultants selected as a result of local tendering procedures.

**Stages Two** should be executed by EU/local consultants selected as a result of regular Czech tendering procedures (0.25 MEUR financed by the Czech Government). These consultants will use the results of the information gathering and analysis of all aspects and interrelation between the Government policy and the Steel Industry as the basis for their contribution to the Sub-Project and will request from the Steel Companies themselves further specific information as required. Participation of foreign consultants selected by the Czech side is presupposed.

On completion of Stage Two (by the end of Q2 – 1999) a draft programme for the restructuring of the Czech Steel sector will be presented. This programme will include analysis and recommendations for investment needs and options, plus proposals to convert and/or close production capacity whilst ensuring adequate measures for economic and social development.

**Stage Three** should be executed by EU/local consultants selected as the result of regular Phare tendering procedures. A Phare Steering Committee representing the Czech administration, the European Commission and the consultant will be set up. The consultant will use the draft programme carried out in Stage Two. On completion of Stage Three (by the end of Q3/1999), a detailed programme for the restructuring of the Czech Steel sector, which is based on individual viability plans, will be presented.

Discussions between the Czech Government and EU representatives will take place after the presentation of this draft programme to the Czech Government (final product of Stage Three). To ensure consistency of the approach throughout the project, a methodology group consisting of consultants involved in Stages One, Two and Three will be set up as soon as the consultants are selected.

The Steering Committee will be established consisting of representatives of the Czech Ministry of Industry and Trade, the Steel Companies, local authorities in the affected regions. The Steering Committee will have to consider all the Sub-Project reports. The Steering Committee will be chaired by the Deputy Minister of Industry and Trade. Sub-Project reports will also be submitted to WG ESC.

**Supplier Linkage and Upgrading Programme**

This 1.5 MEUR Sub-Project, will support the upgrade of operational standards, and thereby the competitiveness, of Czech suppliers. This will be achieved through a combination of:

- the collection and two-way distribution, including via Internet, of information on Czech-based component manufacturers & services and foreign manufacturers in the Czech Republic,
- facilitating the matching of small-scale foreign investors present in the Czech Republic with potential Czech-based suppliers, and
- the upgrading of selected Czech suppliers which have the potential to reach global standards.

The Czech government will fund the operational costs of the new unit inside CzechInvest, the national foreign investment promotion agency and a proportion of consultancy costs incurred by supplier firms. FDI manufacturers will play a crucial role in identifying gaps in the supply matrix in the Czech Republic, helping to identify potential suppliers on the basis of the information.
collected by the project, explaining their requirements to potential Czech-based suppliers, and in the proposed annual bench-marking exercise of participating firms.

Wherever possible, upgrading of local companies will be achieved through co-operation between the foreign investors and the selected partners, in their mutual interest and without cost to this programme. In many cases the role of the project team will be limited to brokering the contacts at a minimal cost to the programme. In certain cases, however, according to pre-defined selection criteria and where the value of such help can be demonstrated in advance, upgrading of selected suppliers will be facilitated through detailed consultancy support in areas such as utilisation of technology, management, financing, marketing and so on.

The Sub-Project will be modelled on the successful experience of EU Member States that have created similar supplier development mechanisms, notably Ireland which has run a successful linkage programme since 1985 which is fully integrated into Ireland’s Structural Funds programme.

The Czech linkage programme will be designed by FIAS (the Foreign Investment Advisory Service, an arm of the World Bank). FIAS’s inputs, for the initial design and adaptation of mechanisms to the Czech business environment, will be financed by the Czech side and ‘in-kind’ by FIAS, on a 50:50 basis.

Czech Government co-financing will be provided to cover the remaining costs of FIAS, plus local costs of an additional 3-4 staff and running costs for a new department within CzechInvest, Internet costs (0,6 MEUR in total) and a proportion of the consultancy costs (0,85 MEUR) for suppliers in the upgrading programme.

Phare support for this Sub-Project will be delivered through EU expertise (specialists in the implementation and assessment of similar sourcing/supplier programmes in the EU, including issues of staff training, plus consultancy support to individual enterprises), plus support for the development of the required database software and for data collection.

In the case of provision of consultancy services, partial co-financing will also be provided by the selected suppliers. It is planned that companies should contribute a minimum of 20% of the total consultancy costs. This minimum would normally apply only to companies from least favoured areas or sectors. The programme management team, once appointed, will set detailed operational and contribution guidelines, that will be reviewed periodically and which take account of the regional government, industrial and labour policy as well as the economic impact of support to specific suppliers and the overall supplier situation. The maximum contribution that could be requested is 50% of the assistance costs. This co-financing contribution may be provided partly by the foreign investor concerned. It is anticipated that many of these consultancy support services will be delivered by local consultants to a plan devised & monitored by foreign consultants.

The Sub-Project (2) will consist of four core components:

2.1. General design of the mechanism

(This component will be carried out in co-operation between CzechInvest and FIAS starting in the last quarter of 1998, through to the first quarter 1999)

Based on ToR prepared by CzechInvest, FIAS will advise the Czech side and design the mechanism, establish a series of quantitative goals against which to assess progress and the broad outline of information requirements on Czech-based manufacturers plus the general criteria for selection and methodology for support to the individual enterprises.
In addition to advice from FIAS, advice will be sought from organisations in the Member States which have successfully implemented similar programmes in the past. If appropriate, long- or short-term advice will be provided through the twinning mechanism. In addition, or alternatively, an EU expert-team will be selected through tender. The advisers will assist with the practical implementation of the Sub-Project, in three parallel phases.

2.2 Development of database on Czech-based manufacturers

(This component will be started in the second quarter of 1999, with the first database ready by the fourth quarter of 1999. The database will then be regularly up-dated by CzechInvest.)

Based on FIAS’s recommendation of basic information needs, CzechInvest will organise the gathering and consolidation of information on potential suppliers. A range of databases already exists providing partial information: e.g. in CzechInvest, CzechTrade, Confederation of Industry, Regional Advisory and Information Centres. Full use will be made of all existing public sector & commercial databases and a coherent solution will be arrived at that does not duplicate any of the work already done.

It is envisaged that this consolidation and co-operation exercise will become a model for inter-agency collaboration in the area of business support services in the Czech Republic. This information will be actively distributed by CzechInvest to its existing FDI client base (over 800 manufacturing firms) and future in-coming investors and will also be accessible via the CzechInvest web-site.

2.3 Brokerage of contact between foreign investors and potential suppliers

(This component will be started in the fourth quarter of 1999 and will run through to early 2001, with an assessment of results in the third quarter of 2001)

A group of key foreign investors will be identified ensuring a representative spread of the selected enterprises, focusing on those sectors of the economy where there is strong and consistent FDI interest for improved local sourcing: e.g. the automotive, electronics & food processing industries. These foreign investors will define in detail their unsatisfied requirements for local supplies and identify suppliers which they are unable to use for specific reasons. On the basis of this information, and the information contained in the database, suitable Czech-based firms will be put in touch with the foreign investors in order to allow the companies to explore how the local suppliers may meet the investor’s requirements. Optimum use will also be made of the knowledge and expertise of existing business support institutions including the Economic Chamber, Confederation of Industry, RAICs, BICs and so on.

Many foreign manufacturers in the Czech Republic are small-scale producers with fewer than 100 employees and relatively low revenues. The programme will focus on facilitating meetings between small-scale foreign manufacturers and Czech suppliers in order to promote the increased use of Czech components and services.

In order to maximise the impact of this programme suppliers that offer components and services utilisable by the widest number of manufacturers (e.g. packaging firms) will be sponsored to tour the Czech Republic meeting foreign manufacturers who have indicated to the programme that they have a supplier problem in this specific area. Specialised seminars by foreign commentators and managers directed at Czech firms in specific industry sub-groups may also be arranged.

2.4 Up-grading of Selected Czech Suppliers
(This component will be started in the fourth quarter of 1999 and will run through to early 2001, with an assessment of results in the third quarter of 2001)

It is envisaged to finance out of Phare for this component not more than the combined total Phare contribution for the other components of the programme (programme support TA, database and data creation, contact brokerage).

If requested by the FDI firm and the local supplier, and if seen as absolutely necessary by the project team, selected firms may receive intensive, tailored consultancy services, covering the full range of operations: e.g. utilisation of technology, management, financing, marketing, personnel and so on. It is planned that the beneficiaries will be required to contribute at least 20% of the costs of such assistance. This minimum would normally apply only to companies from least favoured geographical areas or sectors. The programme management team once appointed, will set detailed operational and contribution guidelines that will be reviewed periodically and which take account of the government regional, industrial and labour policy as well as the economic impact of support to specific suppliers and the overall supplier situation. The maximum contribution that could be requested is 50% of costs of assistance. EU & Czech government funding allocated under this programme. The FDI firms will assist in establishing benchmarks to measure progress of the partner suppliers in meeting their requirements. This progress will be regularly reviewed and be a condition of continuing funding towards upgrading suppliers’ capabilities.

An information campaign will accompany the programme, in order to encourage foreign & Czech companies to participate in the scheme, and to promote awareness of the importance of quality standards for competitiveness within the EU. A steering committee will be established with representatives of the Ministry of Industry and Trade, the Confederation of Industry, the Economic Chamber, the Business Development Association, representatives of foreign investors from CzechInvest’s Foreign Investors Forum (and possibly the EU-Czech Business Forum), any other appropriate business representatives, and representatives of the European Commission.

The steering committee will meet at least twice a year, and will be chaired by the Minister of Industry and Trade or his deputy. CzechInvest will prepare reports on progress to the steering committee, and these reports will also be submitted to Government European Integration Working Group for Economic and Social Cohesion which has responsibility for preparation of Structural Funds.

CzechInvest is also keen to liaise with the Business Development Agency, which has responsibility for delivering services to SMEs, to ensure that the proposed programme links with local activities under the Community Programme on SMEs. It is anticipated that the programme would be the first step towards measures likely to be financed later by the Structural Funds. A detailed assessment of the mechanism will be carried out in the third quarter of 2001 in order to evaluate its success and plan its potential development in the future.

3. SME/Business Support Policy

SMEs are more than 99.8% of the 17.9 million enterprises in the EU, employ 66% of the private sector workforce and generate 52.6% of total turnover. That is why the SME sector is the sector receiving particular attention in all countries with developed market economies.

The situation in the Czech SME sector can be illustrated by following figures referring to the situation at the end of 1996. SME share of total number of employment was 60.6%, share of the Czech economy outputs was 57.7% and share of value added creation was 60.6%.
In accordance with the experience from countries with highly developed market economies the SME sector needs to be paid particular attention and support. Most of all this is related to creation of healthy business environment, its continuous monitoring and improvement. In addition to that the SMEs need particular assistance in several fields as for example the information and business advise, access to finance, etc.

The support to the sector in the period 1992-1997 was based on the Law No. 299/ 92 Coll. “State Support to Small and Medium Sized Enterprises”. The support financed by the state budget was delivered through several channels, with the main stream through the Czech Moravian Guarantee and Development Bank. The direct support of Phare was channelled through the Business Development Agency which received more than 24 MECU and indirectly through other programmes such as export development, foreign direct investment promotion, National Training Fund, etc. The activities of BDA were focused on provision of advisory and information services through the network of RAICs, support to innovative firms through network of BICs, better access of SMEs to finance through several financial schemes (small loans, guarantees, venture capital, Technos). Specific research studies as SME Observatory, Effect of EU membership on SMEs, information needs of the sector were carried out recently in order to get more complex overview about the situation in the sector.

The impact of RAICs and BICs support can be characterised by following facts. In the time period 1995 -1997, they provided 14,829 introductory consultations for entrepreneurs, 7,031 expert advisory services, helped to complete 1,506 business plans, contributed to creation of 4,651 job opportunities, and 1,065 newly established businesses.

The main sources for the support of SMEs in the medium term include the continuous support of the state budget, Phare programme support including activities listed in this proposal and activities being implemented within the pilot structural fund type projects managed by the Ministry for Regional Development, some facilities of the 3rd Multiannual EU Programme for SMEs which will be opened for the participation of the Czech Republic and the participation of Czech SMEs in 5th EU Framework Programme for Research and Development the opening of which is also being discussed.

The 1.0 MEUR Sub-Project which is proposed to be implemented within 1999 Phare budget will be focused on two following components:

- improvement of the business environment through the creation of an effective dialogue between business sector and the Government based on the sector analyses and its continuous monitoring.
- continuous support to SMEs via the provision of information and business advisory services (via the network of 23 Regional Advisory and Information Centres (RAICs) and 5 Business and Innovation Centres (BICs)).

Phare support for this Sub-Project will be provided taking full account of the recommendations of the EC’s external monitoring and assessment consultancy (OMAS Consortium, 19 May 1998), in particular the need to ensure relevant quality standards of services provided by the RAICs and BICs network, to improve the awareness of Czech companies about services available and to improve monitoring of the network performance.

Sub-Project (3) activities

3.1. Support to RAICs and BICs

The main goal of this component is to further strengthen the network of RAICs and BICs, ensuring that they develop their effectiveness and improve promotion their services to SMEs. Services offered by RAICs presently include: general business consultations plus advice and
support with the preparation of business plans, training, and arranging credit applications to banks. Services offered by BICs include: leasing working-space, pooled office support services, lease of computer facilities and advice in specific fields as for example legal aspects of enterprising.

The assistance to the RAICs and BICs will in principle follow the structure established with the possibility to amend the scope of supported activities as well as the level of Phare contribution to particular activity based on concrete needs of the sector, results of network monitoring as well as on conclusions and recommendations of studies carried out in the past.

The Ministry of Industry and Trade will entrust the Business Development Agency (BDA) with the role of an intermediary between itself and RAICs and BICs, responsible for implementation of support in this field and for monitoring of network performance. The BDA will report on regular basis to the Ministry summarising the achievements and proposing steps to be taken in order to improve further the efficiency of the system.

The Government of the Czech Republic, namely the Ministry of Industry and Trade, will share the costs of the support of the RAICs and BICs by financing 50% of costs related to the implementation of this sub-project component.

The Ministry will be responsible for providing consolidated reports on the activities of RAICs and BICs on a six-months basis to the Commission. Reports will be submitted also to Working Group ESC chaired by the Ministry for Regional Development.

3.2 National discussion group

The objective of this sub-project will be to contribute to the improvement of business environment by establishment of an effective platform for the continuous dialogue between representatives of businesses and the Government.

The necessary part of such process will be the continuous analyses of particular sector aspects and specific fields as well as the monitoring of the sector. It is expected that a discussion group will be created from representatives of different ministries, associations, banking sector, other relevant bodies and selected SMEs. The group will held regular meetings in order to discuss the situation in the sector and to formulate recommendations to be communicated to the Government.

The composition of the group will be decided by a committee of the Ministry, Economic Chamber, Confederation of Industry and Business Development Association. The role of the secretariat of the group will be performed by the Business Development Agency which will also arrange contact and discussion with Member States’ experts in the field, in order to enable fruitful exchanges of experience.

The contribution of Phare programme will mainly cover the transfer of international experience from this field (through the contact of the group with the EC, particularly gaining experience from the work of Business Environment Simplification Task Force and other relevant expertise), the costs necessary for additional research in specific fields requested by the Group and the purchase of relevant information as for example the “Enterprises in Europe” and the “European SME Observatory”.

In order to improve the knowledge of SMEs, the project may need some particular inputs to be done in the field of SMEs statistics. Therefore it will be possible to cover also some additional research in this field in order to complement data produced by official sources such as the Czech Statistical Office. Any additional need in this field will be first discussed with relevant authorities in order to avoid any duplication of EU funding.
The secretariat of the discussion group will maintain regular contacts with the section of the Ministry for Regional Development responsible for preparation of the Czech Republic for structural funds. Copies of all relevant reports (including analyses) will be sent to the chairman of the Working Group ESC.

### Budget

<table>
<thead>
<tr>
<th>Sub-Project</th>
<th>Inst. Build. (IB)</th>
<th>Invest. (I)</th>
<th>Total Phare</th>
<th>Recipient</th>
<th>IFI</th>
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<td>0.85 MEUR</td>
<td>0.5 MEUR</td>
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<td>Supplier Linkage &amp; Upgrading</td>
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<td>1.5</td>
<td>1.5 **</td>
<td>0.2 MEUR</td>
<td>***</td>
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<td>SME/Business Support Policy</td>
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<td><strong>6.55 MEUR</strong></td>
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*IB = Institution Building, I = Investment, IFI = International Financial Institution
* = Steel companies and the iron metallurgy industrial association
** = Czech Government, plus a planned 20% contribution for consultancy services from selected firms. The maximum contribution from selected firms will be set at 50%
*** = FIAS contribution ‘in-kind’

### Implementation Arrangements

Responsibility for the administration related to the procedural aspects of procurement, contracting and accountancy will rest upon the CFCU, except for project 99-B-01-02 where the implementation will be entrusted to CzechInvest as Implementing Agency.

For the purpose of sub-project 03, the Ministry of Industry and Trade will entrust the BDA with the role of an intermediary for support implementation and monitoring of RAICs and BICs performance, and with the function of National discussion group secretariat.

Responsibility for the administration related to the preparation, technical control and implementation will rest with the Ministry of Industry and Trade for project 99-B-01-01 and project 99-B-01-03.

### Implementation Schedule

- Start of tendering: 3Q/99
- Start of project activity: 3Q/99
- Completion: 4Q/99

### Equal Opportunity

Equal opportunity principles and practices in ensuring equitable gender participation in the Project will be guaranteed.

### Conditionality and Sequencing

Phare financing will be conditional on the provision of the co-financing specified above, and on the appointment and meeting of the steering committees and national discussion group mentioned above.
Annexes to Project Fiche

1. Logframe Matrix
2. Detailed Cost Breakdown for Sub-Projects
3. Detailed Implementation Chart
4. Contracting and Disbursement Schedule for the Project
5. Relation of Project with Previous Phare Activities and On-Going Projects Financed from Other Sources
## Annex 1-1

<table>
<thead>
<tr>
<th>Economic and Social Cohesion</th>
<th>Programme name and number:</th>
<th>Date of drafting: 02/1999</th>
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### Strengthening Competitiveness

<table>
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<tr>
<th>Project number</th>
<th>CZ 9902.01</th>
<th>Sub Project (1)</th>
<th>Programme of the support for the Czech steel industry restructuring</th>
<th>Total Budget</th>
<th>0.85 MEUR</th>
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#### Immediate Objectives

<table>
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<tr>
<th>The increase of the competitiveness of the steel industry of the CR through restructuring</th>
<th>Modernisation plans of particular steel companies</th>
<th>Companies individual data - statistical bulletins and year-books</th>
<th>Programme acceptance by particular steel companies</th>
</tr>
</thead>
</table>

#### Results of Project

<table>
<thead>
<tr>
<th>Support to restructuring actions</th>
<th>Implementation of individual restructuring measures</th>
<th>Statistical investigations of the Czech Statistical Office, situation reports of the Ministry of and Trade, sector analyses</th>
<th>Acquisition of necessary financial sources for the realisation</th>
</tr>
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</table>

#### Outputs of Sub-Projects

<table>
<thead>
<tr>
<th>Detail programme for the restructuring of the Czech Steel sector</th>
<th>Programme of Restructuring with detail recommendation for actions</th>
<th>Statistical investigations of the Czech Statistical Office, situation reports of the Ministry of and Trade, sector analyses</th>
<th>Non agreement with all parties involves in this sub/project</th>
</tr>
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</table>
### Economic and Social Cohesion

**Strengthening Competitiveness**

<table>
<thead>
<tr>
<th>Programme Number</th>
<th>Sub-project (2)</th>
<th>Supplier Upgrade &amp; Linkage Programme (SULP)</th>
<th>Total Budget of Project</th>
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<td>CZ-9902.01</td>
<td>SULP</td>
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<tr>
<th>Immediate Objectives</th>
<th>Indicators of Achievement</th>
<th>Sources of Information</th>
<th>Assumptions and Risks</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. To increase awareness among foreign companies of the capabilities of Czech suppliers.</td>
<td>Record of distribution of information to foreign manufacturers in the Czech Republic.</td>
<td>CzechInvest Annual FDI Survey.</td>
<td>1. Availability of Foreign Expert TA during project/programme lifetime.</td>
</tr>
<tr>
<td>2. To increase the use of domestically-produced inputs by foreign manufacturers in the Czech Republic.</td>
<td>Increasing % of domestically-produced inputs by foreign manufacturers in the Czech Republic.</td>
<td>Company data researched by CzechInvest.</td>
<td>2. Czech government financial commitment during minimum 5 year programme period.</td>
</tr>
<tr>
<td>3. To increase the number of Czech suppliers capable of competing for international &amp; global supply contracts for MNCs.</td>
<td>Decreasing % of foreign manufacturers in the Czech Republic reporting sourcing less than half their inputs locally.</td>
<td>Annual benchmarking exercises performed in each company undergoing the upgrading process</td>
<td>3. Commitments from leading MNCs in the Czech Republic to work with the SULP programme.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Results of Projects</th>
<th>Indicators of Achievement</th>
<th>Sources of Information</th>
<th>Assumptions and Risks</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Increased use of domestically-produced inputs by foreign manufacturers in the Czech Republic.</td>
<td># of foreign manufacturers in the Czech Republic sourcing &gt;50% local content rising by several percentage points.</td>
<td>CzechInvest Annual FDI Survey.</td>
<td>1. CzechInvest continues annual survey process &amp; building internal research capability.</td>
</tr>
<tr>
<td>2. Increased number of Czech suppliers capable of competing for global supply contracts for MNCs.</td>
<td># of foreign manufacturers in the Czech Republic sourcing components locally for use incorporation in OEM products rising by several percentage points.</td>
<td>Company data researched by CzechInvest under SULP.</td>
<td>2. SULP programme properly designed &amp; implemented.</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>3. No catastrophic changes in the value of the Czech currency.</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>4. No major changes in trading conditions in the leading FDI nations, notably Germany.</td>
</tr>
<tr>
<td>Outputs of Sub-projects</td>
<td>Indicators of Achievement</td>
<td>Sources of Information</td>
<td>Assumptions and Risks</td>
</tr>
<tr>
<td>------------------------</td>
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</tr>
<tr>
<td>1. List of 200-1000 Czech manufacturers that can be considered as potential suppliers to foreign manufacturers operating in the Czech Republic.</td>
<td>1.1. Publication of data profiles from supplier companies (modelled on Irish Backward Linkage programme). 1.2. High usage rate for the searchable database on the CzechInvest website. 1.3. Positive reactions from foreign manufacturers operating in the Czech Republic about their perception of domestic suppliers. 2.1. Awards of new contracts from (a) foreign manufacturers operating in the Czech Republic and (b) outside the country, ie. export orders. 1. 2.2. Increased performance of selected suppliers using a range of indicators, eg. employment numbers, revenue per employee, faults per million items, etc.</td>
<td>1.1. CzechInvest research (supplementing data from commercial databases). 1.2. Feedback from users of the website. 2.1. Data researched from foreign manufacturers operating in the Czech Republic about their perception of domestic suppliers &amp; use of them. 2.2. Feedback from the monitoring process of the programme performed by CzechInvest.</td>
<td>1. CzechInvest continues to build internal research capability &amp; finds right staff to run SULP. 2.1. Effective control of the SULP programme by a single agency: CzechInvest. 2.2. Sufficient government funding to ensure programme is properly implemented, specifically in the use of foreign consultants and the training of Czech consultants to continue the programme after the year 2000. 2.3. Cooperation from all other parts of the government and external bodies to work with the programme despite not controlling its day-to-day operations. Willingness of all Czech government agencies to work with CzechInvest as the lead agency on this project.</td>
</tr>
<tr>
<td>Economic and Social Cohesion</td>
<td>Date of Drafting</td>
<td>2/1999</td>
<td></td>
</tr>
<tr>
<td>----------------------------</td>
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<tr>
<td><strong>Strengthening Competitiveness</strong></td>
<td>Cont. exp. Date:</td>
<td>31/12/2000</td>
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</tr>
<tr>
<td></td>
<td>Disb. expiry date:</td>
<td>31/12/2001</td>
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<td>Project number</td>
<td>sub/project (3)</td>
<td>SME/Business Support Policy</td>
<td>Total Budget</td>
</tr>
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<td>CZ 9902.01</td>
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<tr>
<td><strong>Immediate Objectives</strong></td>
<td><strong>Indicators of Achievement</strong></td>
<td><strong>Sources of Information</strong></td>
<td><strong>Assumptions and Risks</strong></td>
</tr>
<tr>
<td>To ensure a consistent quality of service provision from all the RAICs and BICs in the network and improve monitoring of their performance.</td>
<td>A particular subsiding the services provided to new entrepreneurs and small businesses. A finished composition of the national discussion group approved by all of the participating bodies.</td>
<td>Statistical bulletins and year-books, data collected by enterprises utilizing information services. Information collected by RAICs and BICs.</td>
<td>Profesionally trained RAICs and BICs personnel. A common strategy in SME support and development. No serious risks assumed.</td>
</tr>
<tr>
<td>To establish regular monitoring of the SME environment in the Czech Republic</td>
<td></td>
<td></td>
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</tr>
<tr>
<td><strong>Results of Project</strong></td>
<td><strong>Indicators of Achievement</strong></td>
<td><strong>Sources of Information</strong></td>
<td><strong>Assumptions and Risks</strong></td>
</tr>
<tr>
<td>A completed strong and effective national network of RAICs and BICs being able to provide services to SMEs of the highest quality. An established national discussion group enabling regular and systematic consultation between government and all the other bodies involves in SME support and development</td>
<td>RAICs and BICs net covering the whole territory of the Czech Republic. Regularly prepared recommendation for the government for concrete action to improve the business environment for SMEs.</td>
<td>Statistical bulletins and year-books, data collected by enterprises utilizing information services. Information collected by RAICs and BICs.</td>
<td>Accustoming of entrepreneurial public to RAICs and BICs services as a regular auxiliary. A useful partnership of all the bodies participating on SMEs support and development. No serious risks assumed.</td>
</tr>
</tbody>
</table>
## Annex 2

<table>
<thead>
<tr>
<th>Sub-Project</th>
<th>Institution Building (IB)</th>
<th>Investment (IN)</th>
<th>Total Phare (= IB + IN)</th>
<th>Recipient Co-financing</th>
<th>IFIs</th>
<th>TOTAL</th>
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<tr>
<td>Restructuring of the Steel Industry</td>
<td>0.85 MEUR</td>
<td>0.85 MEUR</td>
<td>0.5 MEUR *</td>
<td>1.35 MEUR</td>
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<td>Increasing Domestic Sourcing &amp; Up-grading Supplier Operational Standards</td>
<td>1.5</td>
<td>1.5</td>
<td>1.5</td>
<td>0.2 MEUR ***</td>
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<td>SME/Business Support Policy</td>
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<td>1.0 MEUR</td>
<td>1.0</td>
<td>2.0</td>
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<tr>
<td>TOTAL</td>
<td>3.35</td>
<td>3.35</td>
<td>3.00</td>
<td>0.2</td>
<td>6.55 MEUR</td>
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</table>

* = Steel companies and the iron metallurgy industrial association

** = Czech Government, plus a planned 20% contribution for consultancy services from selected firms. Maximum contribution from selected firms will be set at 50%.

*** = FIAS contribution ‘in-kind’
<table>
<thead>
<tr>
<th>Sub-Project</th>
<th>1Q 99</th>
<th>2Q 99</th>
<th>3Q 99</th>
<th>4Q 99</th>
<th>1Q 00</th>
<th>2Q 00</th>
<th>3Q 00</th>
<th>4Q 00</th>
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<th>2Q 01</th>
<th>3Q 01</th>
<th>4Q 01</th>
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<tr>
<td>Supplier Linkage &amp; Upgrading</td>
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<td>Programme</td>
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<tr>
<td>SME/Business Support Policy</td>
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### Cumulative Quarterly Contracting Schedule (MEUR)

<table>
<thead>
<tr>
<th>Project</th>
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<th>2Q 99</th>
<th>3Q 99</th>
<th>4Q 99</th>
<th>1Q 00</th>
<th>2Q 00</th>
<th>3Q 00</th>
<th>4Q 00</th>
<th>1Q 01</th>
<th>2Q 01</th>
<th>3Q 01</th>
<th>4Q 01</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strengthening Competitiveness</td>
<td>1.00</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>3.35</td>
</tr>
</tbody>
</table>

### Cumulative Quarterly Disbursement Schedule (MEUR)

<table>
<thead>
<tr>
<th>Project</th>
<th>1Q 99</th>
<th>2Q 99</th>
<th>3Q 99</th>
<th>4Q 99</th>
<th>1Q 00</th>
<th>2Q 00</th>
<th>3Q 00</th>
<th>4Q 00</th>
<th>1Q 01</th>
<th>2Q 01</th>
<th>3Q 01</th>
<th>4Q 01</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strengthening Competitiveness</td>
<td>0.25</td>
<td>0.55</td>
<td>1.00</td>
<td>1.50</td>
<td>2.15</td>
<td>2.65</td>
<td>3.00</td>
<td>3.15</td>
<td>3.35</td>
<td></td>
<td></td>
<td></td>
<td>3.35</td>
</tr>
</tbody>
</table>
Sub-project (1)
The Restructuring Programme for the Czech Metallurgical and Steel Industries

In 1991 - 1992, in the PHARE framework, a study „The Restructuring Programme for the Czechoslovak Metallurgical and Steel Industries“ was worked out by foreign experts from the consortium of SEMA Group and ROLAND BERGER companies. Due to the division of the Czechoslovak Federation in 1993, the study lost its value and also relevance due to the subsequent privatisation of the Czech metallurgy. In connection with the analysis of local consumption of steel products, statistical inquiry of the consumption according to selected industrial sectors will be performed simultaneously with the study organised by the Ministry of Industry and Trade in co-operation with the Czech Statistical Office. It will be possible to use the results of this inquiry for the subject study.

Sub-projekt (2)
Supplier Upgrade & Linkage Programme (SULP)
The SULP programme is a logical extension of previous EU-funded programmes and builds upon the skills, specifically in working with suppliers and performing research, that CzechInvest has built up under these projects as follows:

- Electronics Sourcing Database I (Phare) - 1997 - Detailed investigation of production capabilities of 60 Czech suppliers in the electronic industry. In-company research performed by Ernst & Young, project designed & monitored by CzechInvest Project Dept. Resulted in several supplier contracts and acquisitions of Czech firms by foreign manufacturers.
- Electronics sourcing Database II (Phare) - 1998 - Repeat of Phase I for further 45 firms to complete coverage of the most important suppliers in the electronic sector.
- 1st Annual FDI Survey (Phare) - 1997 - Identified and reached 621 FDI manufacturing firms with more then 50 employees. Follow-up research to 150+ respondents to generate policy-making data on skills shortages, supplier problems, absenteeism and R & D activities.
- 2nd Annual FDI Survey (Phare) - 1998 - Identified and reached 800 FDI manufacturing firms with more than 50 employees. Extended survey to control group of Czech companies.
- Electronic Sourcing Conference (EU) - 1997 - CEE-wide programme organised by European Association of Consumer Electronic Manufacturers. Selected 17 participants & organised study trip of Czech electronic suppliers to European headquarters of leading Multi-National Companies in the sector. Useful contacts which have lead to some supplier contracts.
- Sector Studies (Phare) - 1994-1997 - Automotive components, electronics, precision engineering, chemicals. Studies highlighting the key benefits of FDI in these target sectors. Demonstrated CzechInvest’s capability to organise internal and external research.
- City Certification Programme/CEDAP (Phare) - 1996 - Two phase programme to train & certificate investment liaison officers in major Czech cities. Required CI to work with a wide range of bodies in each city including mayors, city authorities, chambers of commerce,
National Land Fund & Ministry of Finance. 10 cities are currently certified with a full rollout in the major districts scheduled for 1999.

**Sub-project (3)**

**SME - Regional Advisory and Information Centres**

In the time period 1992-1997, support of advisory and information services for small and medium-sized entrepreneurs has been running systematically in accordance with the § 8 and § 10 of the Law No. 299/92 Coll. „State Support to Small and Medium-sized Enterprises“ merely in a framework of Phare programme. In 1998, the state budget means have been added to strengthen this very important activity.

Result of this support has been created by the Regional Advisory and Information Centres (RPIC) and Business and Innovation Centres (BIC) nets. Staff of these centres has been professionally trained by EU experts for providing broad scale of advisory and information services.

Till 1995 this support system was focused on development of these advisory firms. Then it was changed for direct support of entrepreneurs and regional authorities - users of advisory services provided.

The Phare funds have been used for partial payment of advisory services for entrepreneurs. It enables an economic accessibility on one side, and a direct quality control of provided services by entrepreneurs themselves. As free of charge services only introductory consultations for entrepreneurs in duration of max. 3 hours have been provided.

The importance of advisory services provided to entrepreneurs through the RPICs and BICs nets can be demonstrated by following data:

**Regional Advisory and Information Centres**

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Introductory consultations for entrepreneurs</td>
<td>2767</td>
<td>4106</td>
<td>6062</td>
</tr>
<tr>
<td>Expert advisory services</td>
<td>1687</td>
<td>2022</td>
<td>2568</td>
</tr>
<tr>
<td>Completed business plans</td>
<td>524</td>
<td>392</td>
<td>466</td>
</tr>
<tr>
<td>Newly created job opportunities</td>
<td>1354</td>
<td>1430</td>
<td>1341</td>
</tr>
<tr>
<td>Newly established businesses</td>
<td>387</td>
<td>285</td>
<td>275</td>
</tr>
</tbody>
</table>

**Business and Innovation Centres**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Introductory consultations for entrepreneurs</td>
<td>315</td>
<td>752</td>
<td>827</td>
</tr>
<tr>
<td>Expert advisory services</td>
<td>125</td>
<td>205</td>
<td>424</td>
</tr>
<tr>
<td>Completed business plans</td>
<td>29</td>
<td>27</td>
<td>68</td>
</tr>
<tr>
<td>Newly created job opportunities</td>
<td>114</td>
<td>141</td>
<td>271</td>
</tr>
<tr>
<td>Newly established businesses</td>
<td>45</td>
<td>24</td>
<td>49</td>
</tr>
</tbody>
</table>

The present **Regional Advisory and Information Centres** net is created by 23 workplaces. It covers about 80% of the Czech Republic area. RPICs are located in 63 districts.

The present **Business and Innovation Centres** net consists of 5 member bodies. Their professional orientation is comparable with those in EU countries. All BICs are full members of European Business and Innovation Centre (EBN) net Brussels. The basic BIC network is supplemented by their satellite workplaces in other towns.
A significant activity of BICs is the establishment and operation of incubators oriented to new SMEs in the field of innovation, technology transfer and practical utilisation of research and development. At present, there are 156 companies employing 845 persons in business incubators. Out of these, 108 innovative companies employing 626 persons.

Professional services include: patent protection, exploration of technical facts, name research, assessment of the patent status of a product, searching for validity of protective documents, filling applications for registering of inventions and other industrial property such as industrial design and trade-marks, submitting of applications and representation in procedural questions to relevant institutions, observation of times prescribed by law maturity terms for administration charges and other fees and charges, drafts of licence contracts legal experts authorised by the courts, organisations and individuals, evaluation of intellectual property, etc.

In accordance with the recommendation included in OMAS report the Czech Ministry of Industry and Trade exerts an increased effort in following directions:

- **Statistics on SMEs sector** - on 27 March 1998 a working group composed of experts of Czech Statistical Office and Ministry of Industry and Trade was constituted with the aim to improve the situation in SMEs statistics. Thanks to its activity the main data on SMEs sector of 1997 are available now. Contemporarily preparation works for the law on general data collection 2001 are going on. The above mentioned working group is fully involved in it.

- The necessity of an „awareness“ campaign in order to inform SMEs of the availability of services delivered by the network of RPIC (RAIC) and BIC - information about this activities is disseminated by different channels, for instance by the brochure Podpora podnikání v ČR (Business Support in the Czech Republic) issued every year by Ministry of Industry and Trade, by different economic newspapers and magazines, etc. It seems to be necessary to strengthen the information by the help of special seminars and other opportunities for entrepreneurs using all available means.

The system for monitoring performance of the RPIC (RAIC) should be improved - this logical requirement should be solved in a framework of control activities of the Ministry of Industry and Trade.