1. Basic information

1.1 CRIS Number: 2002/000.610-12
1.2 Title: Industry Development Grant Scheme (IDGS)
1.3 Sector: Economic and Social Cohesion (ECOSOC)
1.4 Location: Slovakia

2. Objectives

2.1 Overall objective:

To increase the competitiveness of Slovak industry on the international markets.

2.2 Project purpose:

To increase the value added content of Slovak industry through enhanced product offerings and process technologies through a grant scheme procedure, which will also have the effect of increasing the capacity of the central and regional structures to manage future EU Structural and Cohesion Funds.

2.3 Accession Partnership and NPAA priority

Accession Partnership (AP)

Regional policy and co-ordination of structural instruments

- To define the bodies in charge of the implementation of Structural Funds and the Cohesion Fund, in particular the Managing and Paying authorities; establish a clear division of responsibilities and improve the administrative capacity, in particular in terms of recruitment and training; ensure effective inter-ministerial co-ordination.
- Further develop a coherent development plan as required by the Structural Funds regulation; define the implementation structures of the final plan
- To set up the required monitoring and evaluation systems for Structural Funds, in particular for ex-ante evaluation and for the collection and processing of the relevant statistical information and indicators.
- To align with the specific financial management and control procedures for future Structural and Cohesion Funds under the relevant EC Regulations.
- Develop the technical preparation of projects eligible to Structural and Cohesion Funds assistance (project pipeline)

National Plan for the Adoption of the Acquis (NPAA)

Increasing Slovakia's competitiveness and strengthening less developed regions through investment, mainly into small and medium-sized businesses, human resource development, infrastructure and the environment.

Medium-term priorities (chapter 16 of the NPAA)
To strengthen the position and stimulate the growth of SME’s in key manufacturing sectors

2.4 Contribution to the National Plan for Regional Development (NPRD)

The activities supported under the IDGS will contribute specifically to the following targets identified as priorities for industry in the NPRD:

- Continuous growth in competitive production and services with special regard to small and medium sized enterprises
- Utilisation of domestic resources generating economic growth and permanent competitiveness

In addition, the activities will partially contribute to achieving the target of ‘Restructuring, micro-economic adaptation and stimulating the development of industry’ by supporting SME’s and research and development activities.

3 Description

The NPRD is the basic medium-term programming document in Slovakia until 2006. It is also the basis for receiving funding from EU pre-accession funds and, post-accession, will be the basic programming document for Structural Funds. The NPRD was approved by Government on 15/3/01 (Government Decree No 240/2001) and published in June 2001. The NPRD initially contained 4 Regional Operational Programmes (ROP’s) - corresponding to the 4 NUTS II regions: Bratislava, SW Slovakia, NW Slovakia and Eastern Slovakia) and 7 Sector Operational Plans (SOP’s).

Following submission of the Plan to the European Commission (EC) and subsequent feedback received, it has been decided to conduct a review of the NPRD. This review is to be completed by the end of 2002. Upon decision of the Slovak government, the NPRD will include 1 ROP and 6 SOP’s.

Under current government policy the Ministry of Construction and Regional Development (MCRD) will, on accession, become the Managing Authority for the European Regional Development Fund (ERDF). The Managing Authority for the SOP for Economic Development will be the Ministry of Economy (MOE).

According to current regional development planning, the Bratislava region (NUTS III), on Slovakia’s accession to the EU, will be designated Objective 2 status. The other regions of Slovakia will be designated as Objective 1.

The IDGS is designed to provide experience and guidance in the completion of institutional responsibilities in line with these policies and plans. Such experience will consolidate the skills developed under SR0107.01 – Development of the Institutional Framework and Administrative Capacity for Programming and Implementation of Structural Funds (see Section 3.2). However, it is expected that additional institution building support for MOE personnel will be required in the specific requirements of the IDGS, and this will be provided through a Technical Assistance (TA) contract. TA will also be responsible for mentoring the MOE in the evaluation of the IDGS to inform future policy and planning.
The NPRD, while acknowledging the need to eliminate regional disparities, states that “the main purpose of restructuring industry is the growth of competitiveness”. The validity of this priority is reinforced by the fact that Slovakia’s GDP is less than 50% of the average per capita GDP of EU member States, emphasizing the need for industry to increase its added value content, classically, by enhancing the value of output and decreasing the cost of inputs.

The importance of industry within the national economy is reported in the NPRD by reference to 1998 when industry accounted for 26.7% of GDP, 30.2% of total employment and approximately 80% of total Slovak exports. However, the report also highlighted that a large proportion of the exports by indigenous firms comprised low value, low margin sub-contract and semi-processed products plus non-sophisticated consumer goods. It concluded that “production finalisation is lagging far behind”. This situation holds obvious adverse consequences not only in lack of capability to develop export trade but also in withstanding open competition in industrial products on the home market.

It has also been identified that Slovak industrial enterprises do not appreciate the value of innovation in increasing quality and competitiveness. In the past, as evidenced by numerous studies (e.g. OECD reports on innovation), manufacturing industry in member states lagged significantly behind the USA in industrial innovation, a situation that prompted special response measures being introduced by the EC. There is cogent evidence (see reports prepared by the Institute for Public Affairs ‘A survey of the Economic Elite’s Opinions on Topical Issues Concerning the Slovak Republic’ and the interim evaluation reports conducted by EMS in November 2001 of SME related projects under the Phare programme), that Slovakia suffers an innovation deficit relative to Western Europe which engenders serious national competitiveness weaknesses.

As outlined in a report prepared by the National Agency for the Development of SME (NADSME) and the Infocentre, ‘Readiness of SME’s to Slovakia’s accession to the EU’, Slovakian SME’s generally are rightly expecting rapidly increasing competition on the domestic market and recognize a need for increasing product and service quality and more effective utilization of human resources. These needs require new technologies, equipment and training and therefore, require investment. Access to such funding, through loans, R & D subsidies, grants and seed and venture funds is essential to accelerate the development and adaptation process.

Larger industrial companies have cited an improved legal system and tax incentives to support innovation but also, as with SME’s, the need to have more accessible and affordable financial mechanisms. (Institute for Public Affairs).

The NPRD identifies 10 specific targets to meet an overall objective of restructuring industrial production to achieve growth and competitiveness in relation to international markets. The IDGS will focus on the achievement of two of these:

- Continuous growth in competitive production and services with a special regard to SME’s

Through the adoption of innovative product and process strategies thus building industrial capability to compete in open international trading conditions. SME’s in particular, because of their operational flexibility, can achieve comparatively rapid investment returns from development innovation.
• Utilisation of domestic resources generating economic growth and permanent competitiveness

The NPRD identifies the four main industrial sectors using domestic resources as wood processing, glass industry, manufacturing of building materials and magnesite products.

The project will focus on enterprises which can significantly enhance commercial performance through a) new product development or the redesign of existing products, and/or b) improving production processes, so that these innovations will result in increased sales values and/or decreased production costs to the point where the enterprises can withstand open international competition. Technology acquisition by means of inward licensing of products or process technology which allow of similar benefits will be included within the scope of the project as well as training for the successful management of innovation and accreditation of internationally recognized quality standards – always provided that these activities have not previously been grant aided. Product and process development activities will be centered within each enterprise so that development strategies will be realistically based having regard to the enterprise’s particular strengths and weaknesses in terms of its existing production, commercial and financial configuration. External expertise in the form of expert advice or technical test resources may be recruited but it must be related to a brief that is specific to the enterprise itself. This approach also supports the adoption of a sustained in-house innovative development culture.

There have been a variety of funding options available under Phare to support private sector activity. These include loan and credit schemes and guarantee funds. All these require the participation of financial institutions in the delivery of the project, and, therefore, require a further set of performance criteria to be followed. In addition, these schemes require repayment and, as such, constitute a continuing liability entailing cash flow from the enterprises for their duration. Furthermore, financial institutions are adverse to funding Research and Development (R & D) activities in enterprises since, these activities do not afford any loan collateral. Even in enterprises where there is surplus cash flow, product or process innovation is not regarded as a priority activity, or it is perceived as inherently complex and risky. Against this background, grants have the primary advantage of being both a source of funding and a means for minimising associated risk. As such, they constitute an important incentive to the participation of industrial enterprises in the IDGS. Using the grant scheme mechanism, as set out in this fiche, will therefore ensure a higher level of take up of the available funds than if the other mechanisms were used. This is borne out by a survey of 600 companies completed during the development of this fiche (see Annex D for summary). Marketing activities and grant activities will demonstrate the positive economic benefits of investment in innovation and this encourages industry to adopt R & D as an investment function in its own right.

The project will enable successful enterprises to be involved in grant funded activities. The selection of the projects will be undertaken objectively, taking into account:

• capacity of applicants to deliver the objectives of the scheme;
• positive commercial performance over previous 2 years;
• previous experience in R & D and innovation activities and/or demonstrable potential in these areas; and
• projected increases in gross and net margins
More detailed information concerning the scope and activities to be supported is given in Annex E. Applicants will propose the specific focus of activities but the broad themes have been agreed through discussion with the MOE, MCRD and NADSME.

Though Phare support under ECOSOC has been directed towards Eastern Slovakia, projects targeting industrial enterprises, as detailed in Section 3.2 of this fiche, have been implemented nationwide. In all cases, a higher level of interest has been shown by enterprises from outside of the Bratislava kraj, and this is backed up by the results of the survey of Slovak enterprises summarized in Annex D.

The Implementing Agency (IA) for the project is NADSME who has significant experience as an IA for previous Phare funded initiatives and, as such, will need little training other than in the specific requirements of this scheme.

Progress under the project will be reviewed by an IDGS Monitoring Committee, chaired by the Ministry of Economy (MOE). The MOE will also establish a higher level Committee which is responsible for overseeing all projects under the SOP for Industry and Tourism.

The selection of projects will be carried out by an Evaluation Committee which will be separate to the IDGS Monitoring Committee. The Evaluation Committee will identify and use a team of Assessors to score the individual applications.

A team of Advisers will be established drawing on expertise from NADSME, MOE and other relevant Ministries. This team will be responsible for ensuring that monitoring activities by the Business and Innovation Centres (BIC’s), Regional Advisory and Information Centres (RAIC’s) and Regional Chambers of Slovak Chamber of Commerce and Industry (RC’s SCCI) are being completed consistently. They will provide advice to the RC’s SCCI, BIC’s and RAIC’s staff in the generic skills of monitoring and also provide advice and information concerning sector specific issues, particularly under those projects financed from Component 1.

At the regional level, awareness activities will be executed and support will be provided to the applicants during the design and implementation phases of the scheme, through the network of BIC’s and RAIC’s. There are 12 RAIC’s and 5 BIC’s which were established with Phare support during the period 1992 - 1999. Like NADSME, these centres have significant experience in international projects and their involvement will help to strengthen their existing relationships with local businesses and develop new relationships. There is at least one RAIC in each NUTS III region. Slovak Chamber of Commerce and Industry (SCCI) is a public legal institution. Its status is conditioned by the Slovak National Council Act Nb. 9/1992 of the Chambers of Commerce and Industry Code under the provisions of the Slovak National Council Act Nb. 121/1996 of Code of Laws. 9 RC’s SCCI play irreplaceable role in regions and in partnership at NUTS I and III level.

The IDGS is open to all enterprises operating in the manufacturing sector. However, data from the Statistics Office of the SR show that over 99% of all registered companies in Slovakia employ less than 249 workers, i.e. they fall within the SME employment classification. A total of only 590 registered companies is classified as large. While a distinction is not made in the data between manufacturing and non-manufacturing companies – nor is information available of the number of enterprises that may have ceased trading – there remains a high probability that SME’s will dominate take up under the scheme.
Information is available on the number of manufacturing companies with more than 20 employees and this is 2,144 according to the Statistical Yearbook 2001. Given the co-financing requirement and the need to satisfy technical and financial capacity criteria, it is expected that applicants will mainly come from this group.

An overall budget of 4.3 MEUR will be made available to support these initiatives (3.3 MEUR from Phare and 1 MEUR will be provided by the Slovak government). There is no limit to the number of applications which can be submitted by individual enterprises. However, only one contract can be awarded to any applicant. There is no financial limit on the total project costs of each application. The contribution from the IDGS will be between 5,000 – 50,000 Euro.

Grants will be available under two separate components which are detailed in Section 3.5 of this document. It is anticipated that there will be finances available to support around 65 projects under the first component and around 40 projects under the second. Under similar schemes funded by the EU in member and applicant countries, it has been necessary to receive 4 applications for every successful project. A number of applications will be non-compliant and/or ineligible and will be disqualified during the first stages of evaluation. There should be sufficient remaining after this to allow a meaningful technical evaluation process to be completed. Using this 1 in 4 ratio as a guide, it is forecasted that the scheme will need to attract 260 applications under Component 1 and 160 applications under Component 2.

In accordance with the anticipated Objective 2 status of Bratislava region and the Objective 1 status of the rest of Slovakia, applicants from Bratislava must provide a minimum of 50% co-financing and applicants from other parts of the country must provide a minimum of 25%. A limited survey has been completed which indicates that industrial enterprises could afford this level of co-financing. It is expected that the average grant size will be in the order of 30,000 Euro and, on this basis, a total of 100 separate contracts will be awarded.

3.2 Linked activities

The MOE and NADSME are currently involved in the design and delivery of a number of related projects. The grant scheme will not duplicate these nor fund activities which would otherwise have been funded by the State. The following projects are most directly relevant:

QUALITY – the Programme for Quality Management System is funded through the State budget and aims to improve quality of goods and services in Slovakia through the development of advisory and educational services and lowering costs of the certification process. IDGS also aims to enhance quality standards but specifically within the manufacturing sector and only when part of a wider project – e.g. linked to the development of a new product.

Technology transfer – this project managed by NADSME provides grants to SME’s to develop progressive technologies in the production sector. IDGS will build on the experience and lessons learned in the implementation of this project. Successful organisations under this scheme will be eligible to participate in IDGS but not for the same project activity for which they have already received funding.

Export Development – this project is funded through the Phare programme and is managed by the Slovak Investment and Trade Development Agency (SARIO). It includes a grant scheme component which is available to support companies looking to increase their export potential. The project is currently in its second phase following successful completion of a
pilot project between March 1997 and October 2000. The second phase commenced in November 2001 and is due for completion in November 2002. The first round of call for proposals has been completed and contracts awarded to exporting companies.

There has been a number of lessons learned during these projects which are detailed in section 3.5.

Project SR0107.01 – Development of the Institutional Framework and Administrative Capacity for Programming and Implementation of Structural Funds. This project will centre on the Ministry of Construction and Regional Development, as overall co-ordinator of the Community Support Framework (CSF) and managing authority of the ERDF, and on the Ministry of Labour, Social Affairs and Family (MLSAF) as the Managing Authority for the European Social Fund (ESF). It will also provide the basic skills and capacity needed by the relevant line ministries to “assume the role of future managing authorities for SOP’s.”

The IDGS is one of four grant schemes designed with an objective of strengthening institutional capacity to manage Structural Funds. In addition to the IDGS are the following:

- Tourism Development Grant Scheme, also managed by the MOE;
- Regional Development Grant Scheme, managed by the MCRD; and
- Human Resource Development Grant Scheme, managed by the MLSAF

It will be important that all managing bodies for these grant schemes co-ordinate their activities in order to share best practice and to enhance impact of supported initiatives. It is particularly important to co-ordinate with the RDGS since this will also support measures identified under the SOP for Economic Development. An analysis of the specific measures under the SOP Economic Development and how these are being addressed by the various existing and planned grant schemes is attached as Annex G.

Applicants to all schemes should have access to information on applications which were successful under previous calls for proposals so that they are able to build on other investments being made in their region. There should be areas of potential collaboration with initiatives funded under the Regional Development Grant Scheme and under the Human Resources Development Grant Scheme in particular.

3.3 Results

The means for achieving all the results will be through the successful implementation of the grant scheme. TA will be provided to the organizations involved in the management and delivery of the grant scheme to increase their capacity in the design, implementation and evaluation of Structural Funds type instruments.

The outputs can be divided into two broad components:

Component 1 - Implementation of the Grant scheme

Output 1 – between 80 – 100 individual projects

The specific results of the grant funded initiatives will only be realized at the time of selection. The scheme will support a range of projects which will increase the competitiveness of the grant holders’ enterprises. Supported projects will:
- Increase output values and enhance production processes within industrial enterprises
- Improve quality standards and enhance marketability of products/services
- Improve managements’ capabilities within the enterprises
- Create conditions within and without enterprises for continuous development of innovative development strategies
- Promote regional development by increasing the stock of available institutional incentive measures that can promote more balanced growth
- Creation of new jobs with higher stability and increased skills levels of employees

The individual results of each initiative will be measured through monitoring and evaluation visits carried out by RC’s SCCI, BIC and RAIC personnel and through the submission of progress reports by the grant holders. Initiatives will be measured against the targets set out in the application form and, latterly, included in their contract with NADSME. The progress reports will include a comparison of actual results against targets and explanations for any variances. Longer term targets will be expressed in terms of levels and phasing of investment and projected effects over a stipulated, but not immediate, period on sales values, gross and net profits, employment levels and market offtake.

Given the limited funding available, it is not expected that the grant scheme will have a major immediate impact on Slovakian industry as a whole. However, by ensuring that the selection process brings forward those enterprises that are best positioned to benefit from innovation, the effect of the investment will be optimized. This outcome will not only result in substantial benefits to those enterprises but also, through effective dissemination of the impact (e.g. enhanced medium and long term profitability and new contracts), will serve as models for progressive companies within the entire industrial sector. This should encourage and trigger further innovative development.

**Output 2 – a developed marketing strategy for promotion of the scheme**

An essential part of the overall management of the grant scheme is the development and implementation of an effective marketing strategy.

The value of investing in personnel development and innovation is low in Slovakia and is perceived as an obstacle to the necessary increase in competitiveness required within the industrial sector. Media coverage during implementation will be particularly important in addressing this need. The success of the strategy will be measured through participation in future schemes and an increased use of RC’s SCCI, BIC and RAIC services.

The effectiveness of the marketing strategy will be measured by indicators such as the number of applicants against a required target of 260; number of people attending training and other project events; % of applications which meet the eligibility criteria; number of appearances in the regional and national media and the number of people accessing the project web-site.

**Output 3 – the positive results of IDGS disseminated to other relevant organizations.**

It is important that the dissemination of project benefits is achieved at two levels. Firstly, to promote the results of the completed initiatives to Slovak industrial and financial institutions in order to foster an environment and business culture which recognizes the importance of innovation and the need to invest in it. Secondly, to inform other national and regional bodies
involved in the management of SF type instruments of the results of the overall project so that lessons learned from the implementation of the IDGS can be incorporated into the design and management of future schemes.

Component 2 - Institutional development

**Output 4 – improved skills within the industrial enterprises in accessing EU funds**

It is anticipated that, if it is marketed effectively to its target audience, the IDGS should attract around 250 applications. Support will be available to all applicants during the design phase from the RC’s SCCI, RAIC’s and BIC’s and through formal Project Design Training. The application form and evaluation of bids will follow procedures and regulations outlined in the PRAG and will, therefore, be broadly consistent with the procedures set for accessing future EU funds. All applicants, successful or unsuccessful, will have increased capacity to access future regional development funds.

This will be measured by assessing the percentage of applicant organisations meeting the eligibility criteria and the percentage of applicant organisations meeting the minimum technical criteria. These percentages will be assessed over a number of call for proposals – should they be required. The success of applicants in accessing other EU funds will also be assessed through surveying a sample of successful and unsuccessful applicants.

**Output 5 – improved planning and project management skills within the successful industrial enterprises**

All grant holders will be supported by a range of mechanisms provided by the TA/MOE to improve their skills in areas such as financial planning and accounting, quality and performance management, business planning and marketing. This output also refers to the effective use of external agencies in the delivery of specialized functions, particularly in smaller organisations.

This output will be measured by assessment of each project in terms of activities completed on schedule; % of budget spent; and quality of technical and financial reporting.

**Output 6 – increased capacity of the MOE and regional organizations to design and implement pre-accession and SF-type funding instruments**

Support will be provided to central and regional organizations involved in the management of IDGS to increase the:

- capacity of individuals working in the organizations to complete their specific responsibilities, e.g. marketing or accounting,
- capacity of the organization as a whole through improving internal communication, personnel management and management systems
- capacity of the MOE and NADSME to develop further programmes to meet SOP targets, for funding under Phare 2003 and, later, from ERDF. This will include the preparation of programme frameworks
- effectiveness of the way organizations work together through improving communication and team working
Results will be measured by:

formal institutional assessment of central and regional organizations involved in the management of the grant scheme, including EU audit and verification processes; and

report questionnaires and interviews of applicants and grant holders to assess quality of support from the above and the resulting improvements relative to targets.

Target recipients and TA outputs are summarized as follows:

<table>
<thead>
<tr>
<th>Stakeholders</th>
<th>Impact / Results</th>
</tr>
</thead>
<tbody>
<tr>
<td>MOE/NADSME</td>
<td>Increased capacity to implement pre-accession and EU structural fund type instruments. Skills and expertise in contracting and negotiation, marketing, financial management and reporting and monitoring and evaluation.</td>
</tr>
<tr>
<td>BIC’s, RAIC’s and RC’s SCCI</td>
<td>Increased capacity in the management and administration of such schemes, including promotion to applicants. Skills developed and experience in supporting applicants in project design, handling media, monitoring and evaluation and the formal EU selection procedures.</td>
</tr>
<tr>
<td>Applicants</td>
<td>Experience and skills in project design</td>
</tr>
<tr>
<td>Grant holders</td>
<td>Experience and skills in project design and implementation.</td>
</tr>
</tbody>
</table>

3.4 Activities

The activities to be completed under the project can similarly be divided to meet the objectives of the main components set out in 3.3 above.

Grant supported activities

The purpose of the individual grants will be to increase the share of sophisticated production in the total volume of Slovak production; to increase management effectiveness; to increase industrial productivity and to raise awareness within industry of the positive benefits in investing in training and innovation. In order to achieve this, the grant scheme will be divided into two distinct components.

The first component will support projects which focus on the development of tangible products and productive capacity and quality. The second component will focus on increasing the skills levels within specific industrial enterprises, developing activities to facilitate Research and Development and raising awareness of the positive impact of innovation.

Component 1 – Enhancement of products and production processes

The purpose of this component will be to fund the design and development of a wide range of products and processes with the intent of increasing output added value; increasing industrial productivity and reducing overall costs.

Aiding the accreditation to internationally recognised quality standards is an integral part of this component. It is a mark of inexperienced business people that product price is considered the most important factor in commercial criteria whereas, in study after study, it has consistently
emerged that quality (and reliability of delivery) are more important to purchasing decisions. Consequently, it is important that, in any innovation programme, promotion of the attainment of an internationally recognized quality standard is an imperative. Potential activities are listed below with example projects attached as Annex E.

- Development of new products in-factory as additions to, or replacement of, existing product lines but with higher added value content. Support will be available for new product search activity (e.g. by attendance at conferences and fairs) as well as for training in innovation processes
- Upgrading production technology (including the application of computerised systems) with the effect of increasing production efficiencies and lowering unit costs
- Production of prototypes to ensure compatibility of innovation with equipment and other resource capabilities as well as for market testing
- Independent, professional testing of new product or processes to ensure compliance with standards and specifications
- Accreditation of internationally recognised quality standards. Including upgrading of existing accreditation. This accreditation must form part of a wider project – e.g. linked to the development of a new product range. The IDGS will not support projects whose sole purpose is to achieve accreditation, since this is already being covered under the Quality project managed by NADSME.
- Identifying and drawing on technical expertise and resources, both domestic and international, necessary to introduce new technology and products within existing product configuration, typically, the costs of designers, legal experts and experts in intellectual property acquisition.
- Major upgrading of existing product range to yield higher added value through higher unit revenues and/or lower unit costs
- Acquisition of new products and/or processes through the purchase of rights by way of a product licence or a know-how agreement.

A total of 3.0 MEUR will be available to support this component. Grant sizes will range from 5,000 - 50,000 Euro. In order to address the SOP priority to enhance those industries using domestic resources, 1 MEUR of the total available will be allocated to supporting the development of added value projects specifically in the wood processing, glass, building products and magnesite product sectors.

The potential beneficiaries of this component are industrial enterprises. Enterprises which have all the necessary expertise in-house are able to bid on their own. Enterprises which do not have all the necessary expertise in-house can submit proposals in partnership with other organisations as required e.g. with R & D institutions. In all cases however, the lead body must be the industrial enterprise. Such partnerships will help to develop long term relationships and ensure that progress is aligned with industrial as opposed to research based priorities.

Component 2 – Increasing innovation capacity

There is a general need to increase the management and technical capacity within industrial enterprises. This particularly relates to the development of production (particularly in the areas of technologies) and marketing, and the development of commercialisation strategies in general. In addition to increasing managers’ knowledge and expertise, there is also the need to generate new systems to undertake more effective research and development activity. This will be achieved
through the generation of new product ideas and concepts, new processes and technologies – their
design, development and commercialisation – and through establishing links with external bodies
including higher and further education institutions. This is particularly relevant given the
institutions to commercialise their R & D activities. IDGS will also promote the adoption of
innovation as an essential corporate function. Component 2 will directly address this target
through funding the following types of activities:

- **Training** - Participation in recognized courses in the following areas: marketing, financial
  management, budgeting, costing, project management, personnel management, sourcing and
  screening of new products; technical updating; implementation and management of change;
  and formation in the area of product and process innovation.

  It must be clearly illustrated that such training is part of a wider personnel development
  strategy. Given the minimum grant size available, it is expected that applications will be for
  a number of management and technical staff within one enterprise.

  Training could be delivered through participation in seminars, short courses, longer term
  programmes, distance learning and secondments to relevant industrial enterprises or
  education institutions (including training provided under other grant schemes).

- **Knowledge enhancement** – participation in international projects and professional activities,
  specifically relating to industrial innovation, including international conferences, product
  licensing fairs, trade shows and other forums for new product search or refinement of new
  product concepts.

- **Organisation of fairs and exhibitions** to promote the positive benefits of investing in
  innovation.

- **Completion of studies** into existing and future uses of innovation in industry

- **Establishing networks and working groups** for representatives of industry and R & D
  institutions (including higher and further education) in order to develop long term links

- **Conducting feasibility studies** to analyse how a third level (higher and further education) can
  commercialise their innovation and R & D activities.

A total of 300,000 EUR is available to support these projects. Grant sizes will range from 5,000 -
10,000 Euro. Potential beneficiaries include the full range of industrial enterprises and also
organisations such as Industry Liaison Offices, business support services and R & D institutions

**Management of the Grant Scheme**

The activities will follow the processes stipulated in the PRAG. The following documents have
been developed under the Project Preparation Facility:

- Grant scheme application form – applicant and assessment friendly
- Guidelines to Applicants – providing information and advice to assist applicants in the
design process
- Operational Manual – providing information and advice to those involved in the
  management of the grants scheme

These documents have been developed through consultation with, and participation of, relevant
national and regional organizations. It is important however that these documents are finalized
nearer the call for proposals. Key data such as deadlines, contact details and financial allocations will need to be inserted but the documents, as a whole, should be reviewed to assess whether any changes can be made to improve the efficiency of the IDGS.

Following approval of the final documentation by the project Monitoring Committee and the EC Delegation, the grant scheme will be launched and publicized using national and regional media-print and electronic. Support will be provided to applicants during the design of their applications through the national network of RC’s SCCI, RAICs and BICs. Formal ‘Information Days’ will be held to convey key details and selection criteria. These will also provide a forum for potential applicants to settle queries and to determine their eligibility. Once eligibility has been determined, Project Design Training seminars will be run in each region for enterprises with an appropriate project. Such activities will be particularly important in those regions with less experience in the development of EC applications.

In addition to such formal events, the RC’s SCCI, RAICs and BICs will be available to provide one-on-one support as required by applicants. Again, it will be particularly important that such support is available to regions with a lower capacity for producing applications of the necessary quantity and quality. RC’s SCCI, BIC and RAIC personnel in these regions in particular will need to be pro-active in ensuring that applicants receive the necessary advice.

Evaluation Committees and teams of Assessors will be established for each of the grant scheme components. These will be separate to the IDGS Monitoring Committee. The IDGS Monitoring Committee will be responsible for approving the Assessors and Evaluation Committee members and the criteria to be used in the selection of applications. NADSME should, where possible, draw on qualified personnel who have completed the evaluation of projects under previous Phare assistance programmes. The feasibility of using the same Evaluators as other Phare 2002 grant schemes should also be examined. The evaluation process will follow PRAG procedures.

Once evaluation has been completed, the focus of activity will move to the provision of support to grant holders and the financial management of the grant scheme, including reporting to the National Fund (Ministry of Finance), Monitoring Committees, and to the EC Delegation.

Project Implementation Training will be provided to representatives of all successful applicants. This will include sessions on sub-contracting, invoicing, marketing and project management. Such training should ensure that projects are delivered effectively.

**Monitoring**

Monitoring of individual projects will be carried out by RC’s SCCI, BIC and RAIC staff and through completion of progress reports by the grant holders. Formal monitoring visits will be held approximately three times for each contract. The exact number will depend on duration and complexity of the project and will be set out in a monitoring schedule attached to their contract with the Contracting Authority (NADSME). The monitors will be supported by a centrally based team of Monitoring Advisers who will ensure that monitoring is being carried out consistently across regions; provide on-the-spot support to BIC/RAIC and RC’s SCCI staff in carrying out their monitoring inputs; address areas of weakness and provide specialist advice in a particular sector. This team will therefore consist of individuals from NADSME and the MOE and from experts from other Ministries depending on the nature of the successful projects. For instance, an expert from the MCRD would be appointed for any projects in the building sector.
In addition to the formal visits, grant holders will also be able to call on the BIC’s/RAIC’s and RC’s SCCI to discuss other issues as they arise – e.g. preparation of grant payment submissions and completion of technical reports. Project progress will be assessed against the projected results in the individual applications. Where common problems are being experienced by grant holders, ‘Guidelines to Implementation’ will be prepared and distributed during implementation. Limited, specific training and workshops will also be provided as needs are identified.

These individual assessments will be incorporated into an overall analysis of the IDGS against the targets set out in the project terms of reference and those set in the logical framework attached as Annex 1 to this document. Key concerns and issues arising during this process will be included in the TA reports and will be discussed at IDGS Monitoring Committee meetings.

The MOE will use the above information to review progress against SOP Economic Development priorities. The progress being made against specific priorities and the review of best practice will assist the MOE to prepare programmes for possible funding under Phare 2003 and/or in future under ERDF. Workshops will be organised and facilitated by the TA in order to elaborate such programmes.

**Evaluation**

A final evaluation of each grant contract will be completed and approved by NADSME in order to release the final payment (subject to the invoice meeting the financial requirements of the MOE). Positive project results should be disseminated. Given that the impact of many projects will not be realised for 2 – 3 years, it is important that monitoring of the projects continues in the medium term, through the BIC’s, RAIC’s and RC’s SCCI. This should include a formal sample survey after 12 months of overall project completion.

**Marketing**

An IDGS marketing strategy will be developed prior to the launch of the first call for proposals. The strategy will be made up of three distinct phases:

- Promotion of the scheme to ensure that all potential applicants are fully aware of the scheme and have information necessary to submit eligible applications;
- Generation of positive media coverage during implementation so that the impact of individual projects is demonstrated to others; and
- Dissemination of the overall results on a national and regional scale (see Output 3)

The strategy should identify the most appropriate means of accessing the target groups at each phase, as set out in this fiche. The means should include electronic and other media forms and utilise regional and national media. It is important that the strategy takes advantage of existing networks to disseminate information, such as the Union of Employers, Union of Entrepreneurs and SCCI. The strategy should also include mechanisms for ensuring that eligible applicants in regions with less experience in the preparation of such proposals are aware of the project and understand the preparation and selection process.

A range of marketing materials should be prepared including leaflets, posters and signage. An interactive project web-site should also be developed, attached to the Ministry of Economy site. The web-site should include application documents, up-coming project activities and information on positive results of grant schemes to date. It should also be linked to other relevant sites such as NADSME, SCCI and individual RC’s SCCI, BIC’s and RAIC’s.
On completion of the individual grants, appropriate events will be organised to disseminate best practice and achievements. Such events may include a final conference and an inter-Ministerial workshop on grant management. Discussion of problems faced, solutions found and other examples of best practice should be held every 6–months between the Management Agencies and Implementing Agencies appointed for the grant schemes being developed under Phare 2002.

**Institutional Development**

TA will provide direct training, support and expertise for individuals and organizations at both the national and regional level to ensure that they are able to design, implement and evaluate similar projects in the future. Such training will be tailored to ensure that the IDGS is completed effectively and that experience gained in working on IDGS is used to consolidate skills relating to the implementation of Structural Fund programmes. The IDGS will build on the work completed under SR0107.01 and a review of the skills developed under this project will be undertaken by the TA during their first input.

The review will focus, at the national level, on the MOE and NADSME and, at the regional level, on the RC’s SCCI, BIC’s and RAIC’s. This analysis will determine the precise structure of the training programme including identification of training areas, participants for each course, appropriate personnel for delivery and appropriate means of delivery.

In advance of such an analysis it is expected that the formal training programme should include the following:

<table>
<thead>
<tr>
<th>Recipient</th>
<th>Area of training</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ministry of Economy/NADSME</td>
<td>IDGS project selection requirements</td>
</tr>
<tr>
<td></td>
<td>Advanced monitoring skills</td>
</tr>
<tr>
<td></td>
<td>Marketing</td>
</tr>
<tr>
<td></td>
<td>Contracting and negotiations</td>
</tr>
<tr>
<td>Evaluation Committee and Assessors</td>
<td>Project selection and evaluation</td>
</tr>
<tr>
<td></td>
<td>IDGS requirements</td>
</tr>
<tr>
<td>BIC / RAIC and RC’s SCCI personnel</td>
<td>IDGS requirements</td>
</tr>
<tr>
<td></td>
<td>Applicant support services</td>
</tr>
<tr>
<td></td>
<td>Marketing</td>
</tr>
<tr>
<td></td>
<td>Monitoring and evaluation</td>
</tr>
<tr>
<td>Applicants</td>
<td>Project Design</td>
</tr>
<tr>
<td>Grant holders</td>
<td>Project implementation – technical and financial management, budgeting and costing, project management, management of change, marketing and promotion, progress measurement and reporting.</td>
</tr>
</tbody>
</table>

The formal training will be part of a longer term personnel development strategy which will involve the following:

- Mentoring of team members to address individual weaknesses;
- Identification of particular project tasks to be completed by individuals to address weaknesses and/or further develop strengths;
Structured and continued delegation of responsibilities from TA to MOE and NADSME personnel during the project lifetime, including reviews of work completed; and
- Monitoring of training impact throughout the project to ensure consolidation of skills.

For areas where no such materials have been completed, manuals will be prepared to provide relevant post-holders with information on their responsibilities. It is assumed that such manuals will have been prepared for the financial management of the project under SR0107.01 but possible examples to be developed under IDGS include: Public Relations, Marketing, and Programme Planning.

A particular focus of the Training Needs Analysis will be the identification of the most appropriate means of developing delivery capacity within the MOE and RC’s SCCI, BIC’s/RAIC’s for future sessions on project requirements, MOE initiatives, press conferences. Training in presentation skills, necessary for the completion of IDGS, will also provide a platform for developing a training of trainers capacity under future projects. Opportunities under the IDGS activities for the development of presentation skills will be identified and performance reviewed.

The MOE will arrange that members of the IDGS Monitoring Committee will participate in appropriate training modules to ensure their understanding of the project and to improve the effectiveness and efficiency of decision making.

In addition to the provision of formal training, mentoring and support should be provided throughout by TA. The TA must ensure that the MOE, RC’s SCCI and BIC/RAIC personnel are guided in the completion of their roles and take on increasing responsibility for the delivery and evaluation of project activities.

In advance of the launch of the call for proposals, communication and management systems will be established between Ministries and between the central and regional structures. In particular, the systems should be established to ensure close co-operation with the other grant schemes being implemented in the MCRD and MLSAF. Staff at the RC’s SCCI, BIC’s and RAIC’s will be trained in the specific requirements of the grant scheme so that they are able to provide support to applicants during the design and implementation phases.

**Technical Assistance**

Technical Assistance (TA) will be contracted to work with the MOE, RC’s SCCI, BIC’s/RAIC’s and Monitoring Committee to ensure effective implementation of the IDGS with a particular responsibility for consolidating skills developed under SR0107.01 and analyzing impact of project funded initiatives with a view to informing future planning. They will have responsibility for the following specific tasks.

At the central level:
- Delivery of workshops on programme planning;
- Participation in quarterly review meetings and six-monthly Monitoring Committee meetings, including joint presentations with MOE/NADSME staff on project progress;
- Development of marketing strategy and mentoring MOE personnel through the design and implementation of this strategy;
- Delivery of training to improve presentation skills;
- Delivery of training in monitoring and evaluation to MOE Advisers
- Running workshops to meet grant holder needs;
- Establishing systems of quality control in implementation across all eligible regions;
- Technical support to the Secretariat in the organisation of the six-monthly Monitoring Committee meetings.
- Participation in project evaluation process as an observer

At the regional level
- Delivery of training to IDGS applicants in Project Design, under the first call for proposals;
- Delivery of training to grant holders in Project Implementation, following evaluation of first call for proposals;
- Delivery of training in assessment and evaluation of project applications to Assessors and Evaluation Committees;
- Delivery of training to RC’s SCCI, BIC’s and RAIC’s personnel in working with the media and public relations;
- Delivery of training in monitoring and evaluation of grant activities
- Participation in project evaluation process as an observer.

3.5 Lessons learned

From previous experience within other organizations which have managed loan and grant schemes - MOE (Tourism Section), SARIO and NADSME - the key learning points are:

3.5.1 Applicants require further technical and administrative support in the preparation of their projects in accordance with the requirements of the particular scheme. For SARIO (Phase 1) 68% of applicants failed to meet the administrative criteria set for the scheme. Such support for IDGS applicants will be provided by the RC’s SCCI, BIC’s and RAIC’s who are already experienced in EC, and other, grant schemes. The accessibility of these centres to applicants across the country will be essential in ensuring that the support structures meet the demands of applicants. It will therefore be important that the personnel at the RC’s SCCI, BIC’s and RAIC’s receive formal training in supporting applicants under this particular scheme and that they receive technical support from the MOE to ensure that advice is consistent and accurate across Slovakia.

3.5.2 Linked to the above, is the negative feedback from some applicants concerning the marketing of schemes. In particular, applicants have criticised the lack of clarity concerning project eligibility criteria. For the IDGS, the marketing materials will explicitly state the organizations and activities which are eligible to receive support. These materials will be part of a structured marketing strategy utilising MOE web-site and the national and regional media. Sessions will also be delivered to potential applicants in their region and these will afford an opportunity for applicants to determine their own eligibility.

3.5.3 Greater impact could also be achieved through the provision of formal support to applicants during project start up and during implementation. This will be completed through the monitoring process and through the distribution of regular ‘Guidelines’ on aspects of project management and planning which are identified during the monitoring.

3.5.4 Project applicants generally over-budgeted. As a result, funds were returned to the Contracting Authority. In most cases, such over-budgeting was identified (at least by the Contracting Authorities) towards the end of projects and outside the contracting period. Such funds were therefore wasted. Training in project design and project implementation should help to overcome this but, equally, it will be important that the projects under Component 1 are initiated on time so that any underspends can be timely identified.
4 Institutional Framework

The MOE is the designated Managing Authority. NADSME is the Implementing Agency and will be responsible for the technical and financial management of the grant scheme. An IDGS Monitoring Committee will also be established to review the work under the project and approve key documents.

The duties of the MOE will be defined in a Memorandum of Understanding (MOU) between the MCRD and the MOE and endorsed by the EU Delegation. These duties will include the supervision of the grant process, grant awards, supervision of awards, payments, maintaining records and approving technical reports, establishing a Monitoring Committee, identifying and nominating central and regional staff.

The management structure is shown in Figure 1

Figure 1 - Management structure for Industrial Development Grant Scheme
5. Detailed budget

<table>
<thead>
<tr>
<th></th>
<th>Phare support</th>
<th>Institution building</th>
<th>Total Phare</th>
<th>National Co-financing</th>
<th>TOTAL</th>
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<td></td>
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<td>3.5</td>
<td>1.1</td>
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</table>

(*) The Phare grant scheme allocation (3.3 MEUR) will be increased by a contribution of at least 1.1 MEUR from the Slovak government. This amount does not include the financial contribution (co-financing) to be provided by the final beneficiary.

6. Implementation arrangements

6.1 Implementing Agency

PAO. Mr. Juraj Majtan
National Agency for Development of Small and Medium Enterprises (NADSME)
Prievozska 30
821 05 Bratislava
Tel.: 00421-2-53417328
Fax: 00421-2-53417339

6.2 Twinning – not applicable

6.3 Non-standard aspects – A grant scheme will be implemented under the project according to the procedures and regulations set out in the PRAG. In accordance with the definition of grants (Section 6.11 of the PRAG), component 1, is designed specifically for the participation of SME’s.

Although the total grant programme is in excess of 2 million, the individual grant size is below 100,000 Euro. The scheme will therefore be organised as a local tender according to Section 6.2.1 of the PRAG.

Available grants range from 5,000 - 50,000 Euro. This range has been set in order to ensure there are a sufficient number of grants available to test the administrative and management procedures within the relevant institutions.

6.4 The total Phare grant fund available is 3.3 MEUR (increased by the Slovak government by 1.1 MEUR). On the assumption that the average grant awarded will be 30,000 EUR, a total of 100 individual grant contracts will be involved. This level of financial support will achieve significant impact in the companies who are successful. This is the minimum number of individual grants which will allow for capacity to be developed in the areas of quality control, project selection, financial management and monitoring and evaluation.

A service contract for Technical Assistance will also be required at an estimated cost of 0.2 MEUR.
7 Implementation schedule

7.1 Call for proposals should be launched according to the following schedule:
   First call – June 2003
   Second call – November 2003
7.2 Start of project activity - first contract is expected to be signed in September 2003.
7.3 Project completion - last payment is expected to be made in October 2005

8 Equal opportunity
Equal opportunity principles and practices in ensuring equitable gender participation in the project will be guaranteed

9 Environment
No environmental impact study has been undertaken for the project during the preparation of the project fiche. The grant scheme is designed to encourage and support a wide range of projects, the impact of which will only be known once they have been selected. It will, however, be a requirement of each individual application that they provide information on environmental impact.

10 Rates of return
A key criterion for the selection of projects is the forecasted and assessed growth in gross and net margins, as detailed in application forms. Progress in accordance with these forecasts will be the acid test of project success. However, the phasing of returns is important. The initial stages of innovation will impact negatively on the overall rate of return (because costs are being incurred on the development activities) but the return then tends to increase steeply as the commercialization phase gathers momentum (due to increased revenue inflows). This investment flow behaviour is exemplified in the case example given in Annex E. For Component 1, which will account for the bulk of expenditure under the scheme, input/output data can be readily extracted from clients’ accounting records for calculation of factual ante/post Return on Investment.

Results of Component 2 are not so readily quantifiable but assessment will be carried out following completion of activities with a sample of grant holders. This will provide a practical base for evaluation.

11 Investment criteria

11.1 Catalytic effect. The funding represented by the grants would not be available to industry from conventional banking or investment sources. Because of the delay in pay back during the development and testing phases, industry generally has been reluctant to fund innovation solely from its own resources. The substantial returns that should accrue from the commercialization stage render the grants as valuable leverage in R&D funding. The success of the scheme will also tend to induce participants to fund continuing innovation from own resources and have the demonstration effect of encouraging other enterprises within the industrial sector to adopt R&D programmes as an effective development strategy.
11.2 Co-financing. A minimum of 50% co-financing will be required from all applicants registered in the Bratislava region. A minimum of 25% co-financing will be required from applicants registered in other regions.

11.3 Additionally. Funding for innovation is not available from existing financial institutions.

11.4 Project readiness and size. All required documentation for design and implementation of the scheme has been made available to the Ministry of Economy.

11.5 Sustainability. The scheme represents a response to a national development priority and is assured of Ministerial and Government commitment. The results from the scheme will be readily quantifiable. Project models are available from similar schemes undertaken in Member States which evidence sustainability compliance.

11.6 Compliance with State Aid provisions. The grant scheme will be designed to conform fully with the regulations and guidelines of the Commission. Guidelines for Applicants will be designed in accordance with the format set out in the PRAG for subsequent approval by the EC Delegation. The Guidelines will clarify eligible activities for support, administrative, financial and technical criteria against which applications will be assessed and will provide applicants with information on how to complete the necessary documentary submissions.

11.7 Contribution to National Development Plan. Section 2.2 provides a detailed description of the areas of the NDP to which the project will contribute, in particular as a measure to respond effectively to the priority need of enhancing industrial competitiveness.

12 Conditionality and sequencing

The Phare grant scheme allocation (3 MEUR) will be increased by the Slovak government by 1 MEUR.

Annexes

Annex A – Logical framework
Annex B – Detailed implementation chart
Annex C – Contracting and disbursement schedule
Annex D – Summary of project survey
Annex E – Project examples
Annex F – SOP analysis
Logical Framework for the Industry Development Grant Scheme

<table>
<thead>
<tr>
<th>Logframe planning matrix for Project title:</th>
<th>Programme name and number:</th>
<th>2002/000.610-12</th>
</tr>
</thead>
<tbody>
<tr>
<td>Industry Development Grant Scheme (IDGS)</td>
<td>Contracting period expires: 30.11.2004</td>
<td>Disbursement period expires: 30.11.2005</td>
</tr>
<tr>
<td></td>
<td>Total budget: 4.6 MEUR</td>
<td>Phare budget : 3.5 MEUR</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Intervention logic</th>
<th>Objectively Verifiable Indicators (OVI’s)</th>
<th>Means of Verification (MOV)</th>
<th>Assumptions</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Overall objective</strong> - to increase the competitiveness of Slovakian industry on the international markets</td>
<td>Added value in ERDF supported industries Enhanced turnover and performance of Slovakian companies by 2006</td>
<td>Industrial sectoral statistics</td>
<td></td>
</tr>
<tr>
<td><strong>Project purpose</strong> – to enhance value added by Slovakian industry through upgraded product offerings and process technologies</td>
<td>80 - 100 successfully implemented projects achieving their projected objectives on time and within budget. Rate of absorption of ERDF Full budget utilisation</td>
<td>Beneficiary companies audited accounts Monitoring reports TA reports</td>
<td>Further commercial support to companies available from financial institutions, on completion of grant scheme.</td>
</tr>
<tr>
<td>Outputs</td>
<td>10 companies gaining international quality certification</td>
<td>Monitoring reports</td>
<td>Absorption capacity exists within Slovakian industry to fully utilize funds as targeted.</td>
</tr>
<tr>
<td>------------------------------------------------------------------------</td>
<td>----------------------------------------------------------</td>
<td>--------------------</td>
<td>--------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>• Increased output values and enhanced production processes</td>
<td>50 new products, technologies and services</td>
<td>SME Annual Reports</td>
<td>Individuals trained stay within the project structure after completion so that capacity is maintained and sustainability achieved.</td>
</tr>
<tr>
<td>• Improved quality standards and enhanced marketability of products/services</td>
<td>developed or existing range upgraded</td>
<td>Institutional appraisal report</td>
<td></td>
</tr>
<tr>
<td>• Improved managements’ capabilities</td>
<td>30 company managers trained in change management</td>
<td>Perseus reports</td>
<td></td>
</tr>
<tr>
<td>• Improved conditions within enterprises for continuous development of innovative development strategies</td>
<td>250 eligible applications received</td>
<td>Evaluation report</td>
<td></td>
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<tr>
<td>• Increased stock of available institutional incentive measures that can promote more balanced growth</td>
<td>Increased awareness of MOE/EU activities.</td>
<td>Verification report</td>
<td></td>
</tr>
<tr>
<td>• New jobs with higher stability and increased skills levels of employees</td>
<td>Verifications of MOE as competent in ex-post evaluation</td>
<td>Institutional appraisal report</td>
<td></td>
</tr>
<tr>
<td>2. Developed marketing strategy for promoting grant schemes</td>
<td>Effective financial reporting</td>
<td>Media coverage</td>
<td></td>
</tr>
<tr>
<td>3. Results of the project disseminated on a national scale.</td>
<td>Programming documents for Phare 2003 and ERDF</td>
<td>Web-site hits</td>
<td></td>
</tr>
<tr>
<td>4. Improved skills within the industrial enterprises in accessing EU funds.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5. Improved planning, accounting and project management skills within the industrial enterprises.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6. Increased capacity of the MOE and regional organizations to implement pre accession and post accession funding instruments.</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Absorption capacity exists within Slovakian industry to fully utilize funds as targeted.

Individuals trained stay within the project structure after completion so that capacity is maintained and sustainability achieved.
### Activities
1. Institutional Assessment of NADSME and MOE.
2. Support and mentoring of MOE/NADSME/RAIC/BIC/RC’s SCCI personnel in key skill areas.
3. Strategies for publicising grant scheme in accordance with PRAG requirements.
4. Training in project evaluation, marketing, presentation skills, monitoring and evaluation.
5. Events to disseminate best practice and achievements.
6. Quarterly review meetings and 6-monthly Monitoring Committee meetings.

| MOE and MCRD appointed personnel Technical Assistance Grant scheme in operation | Ownership of the project is accepted by stakeholders Individuals with gained expertise stay within the project structure after completion so that capacity is maintained and sustainability achieved Appraisals are undertaken objectively and transparently Applications meet minimum administrative and technical requirements | Pre-conditions The Slovak government will increase the Phare allocation by 1 MEUR |
### Annex B

#### Cumulative contracting schedule by quarters (in MEUR)

<table>
<thead>
<tr>
<th></th>
<th>30/03/03</th>
<th>30/06/03</th>
<th>30/09/03</th>
<th>31/12/03</th>
<th>31/03/04</th>
<th>30/06/04</th>
<th>30/09/04</th>
<th>31/12/04</th>
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#### Cumulative disbursement schedule by quarters (in MEUR)

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<tr>
<th></th>
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This schedule shows only the disbursement of Phare funds. It does not include figures for the co-financing contributions from the State Budget or from grant holders.
## Industry Development Grants Scheme

### Disbursement schedule

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### Phase 1: Project Fiche development
- 1.1 Development of initial project fiche
- 1.2 Submission of final project fiche
- 1.3 Review of project fiche
- 1.4 Endorsement of project fiche

### Phase 2: Project design and contracting
- 2.1 Preparation of project terms of reference
- 2.2 Publication of notices and shortlisting
- 2.3 Tender preparation and submission
- 2.4 Tender evaluation
- 2.5 Contracting and negotiation

### Phase 3: Project Implementation
- 3.1 Call for proposals
<table>
<thead>
<tr>
<th>Phase 4: Project evaluation</th>
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<tbody>
<tr>
<td>4.1 Review of IDGS by Ministries</td>
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<tr>
<td>4.2 EC Audit</td>
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</tbody>
</table>

3.2 Project design
3.3 Project evaluation/selection
3.4 Project contracting
3.5 Project implementation
3.6 Second call for proposals
3.7 Project implementation

<table>
<thead>
<tr>
<th>Phase 4: Project evaluation</th>
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<tr>
<td>4.1 Review of IDGS by Ministries</td>
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<tr>
<td>4.2 EC Audit</td>
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</table>

3.3 million Euro grant scheme
2.25 million contracted under the first call for proposals
1.05 million contracted under the second call for proposals

Disbursements exclude co-financing from host Ministry
Summary of survey on IDGS applicants

Annex D

It is anticipated that there will be finances available to support around 65 projects under Component 1 and around 40 projects under Component 2. Under similar schemes funded by the EU in member and applicant states it has been necessary to receive 4 applications for every successful project. A number of applications will be non-compliant and/or ineligible and will be disqualified during the first stages of the evaluation. There should be sufficient remaining after this to allow a meaningful technical evaluation process to be completed. Using this 1 in 4 ratio as a guide, it is forecasted that the scheme will need to attract 260 applications under Component 1 and 160 applications under Component 2.

A questionnaire was designed to assess potential demand for the IDGS, against the targets given above. The questionnaire was administered by e-mail to some 600 different size enterprises with a wide geographical spread. Time constraints did not allow any follow up to increase response rates. A total of 112 (18.7%) responded.

48% of respondents expressed interest in the scheme (9% of total survey population). This is lower than would usually be expected for programmes funding private sector development activities. Unfortunately, those respondents who were not interested provided no information on their size or location so it was not possible to assess where, and with who, the scheme would be least popular as well as where it would be more so. To draw conclusions from the survey it is necessary to assume that all sizes of organization showed equal interest.

1. It is anticipated that the majority of eligible applicants will be enterprises employing in excess of 20 employees. Enterprises with less employees than this will struggle to find the necessary co-financing and demonstrate sufficient implementation capacity. On the basis of there being 4,000 Slovakian industrial enterprises with more than 20 employees, a simple extrapolation, using the 9% overall figure, would give a predicted total of 360 applicants for Component 1.

It should be highlighted that eligibility of applicants will not be determined by the number of employees. However, promotion materials will need to emphasise the capacity necessary to implement such projects so that applications are confined as far as possible to enterprises which have a realistic chance of meeting the selection criteria for management experience.

2. All applicants for Component 2 can come from the above groups and also include Higher Institutes of Education, R&D technical institutions and Business Support organisations that can facilitate industrial innovation.

If the benefits of these projects are marketed correctly, applications received should be in excess of 400.

3. Of the positive survey respondents:

- 80% of those contacted were interested in product development
- 71% of those contacted were interested in product testing
- 63% of those contacted were interested in training; and
- 44% of those contacted were interested in all three

On this basis, the scheme will need to be flexible enough to allow applications which include components of all 3 separate types of project. The IDGS should also include a smaller project size for those which are exclusively aimed at training.
4. 63% of those contacted would be able to meet the 50% co-financing requirement. A further 23% would be able to meet a 21% – 49% co-financing.

Applicants could therefore cope with the planned co-financing of 50% in Bratislava and 25% in the other regions.

5. 75% were interested in total project sizes of between 1 - 100,000 Euro. On the assumption that this was calculated on the basis of a 50% co-financing arrangement, the Phare contribution would be a maximum of 50,000 Euro.

The grant range should be set at a maximum of 50,000 Euro. This would equate to 100,000 Euro projects in Bratislava and 75,000 Euro elsewhere, should they meet the minimum co-financing requirements.

6. Of the organisations who responded:

41% of enterprises registered in Bratislava were interested in participating in the scheme 50% of enterprises registered in Middle Slovakia were interested in participating in the scheme 64% of enterprises registered in Eastern Slovakia were interested in participating in the scheme

This would indicate that companies across Slovakia are aware of the benefits of such schemes and attach sufficient importance to them to provide the necessary co-financing. Such statistics would not back up the need to allocate regional budgets.

7. 40% of those interested regularly looked at web-sites of organisations such as NADSME and the SCCI.

Marketing of the scheme should use links to such web-sites but they should also use the national media, as required under the PRAG, and the local media, to ensure maximum publicity and take-up.
Background

The grant scheme is designed to enhance industrial competitiveness by increasing added value within manufacturing industry by means of product and process innovation through the promotion of

- Factory based new product and/or process development
- Major upgrading of existing product lines
- Inward acquisition of new products / technology
- Quality accreditation
- Improved management expertise in innovation
- Heightening awareness of the importance of innovation in industrial development.

The scheme will apply to private Slovak based manufacturing companies.

Grant aid may apply to eligible costs of innovation incurred in the following areas:

- Salaries and wages of qualified personnel engaged in approved product and process R&D programme
- Fees of external experts required for project design/test/implementation
- Travel and subsistence costs necessarily incurred for project purposes
- Materials, tooling and other necessary equipment
- Costs incurred in prototype production
- Costs incurred in independent testing
- Costs incurred in approved management training formation
- Costs incurred in gaining internationally recognised quality assurance accreditation

The following is an analysis of how the project will address each of the measures identified in the Industry SOP to achieve the two Specific Targets. Factual examples are given for those measures covered by the IDGS (as well as calculations of investment returns in a particular example case).

Support Measure: ‘Financial programmes: lower financial load and access to capital’

The project will substantially reduce the level of risk capital required to undertake in-house R&D. Provision of R&D investment entirely from internal cash flow is generally regarded as excessively risky and burdensome by industry and is also regarded by banking institutions as outside their lending remit. The availability of grant aid will both significantly contribute to lowering the burden of funding and improving funding access.

Support Measure: ‘Enhancement of knowledge potential of managers in the area of ...development of production (particularly in the areas of technologies) and marketing

The project will directly address this target through the grant funding of management training formation in the area of product and process innovation.
Action example:

Grants of up to 50% of fees can be awarded for attendance at approved Management Training Courses designed to equip managers to engage in successful innovation including the sourcing and screening of new products and technologies, technical, commercial and financial feasibility assessment of new product concepts, intellectual property protection, innovation planning, control and accounting, new product commercialisation strategies and successful incorporation of strategic innovation within corporate planning.

Support Measure: Support of participation in international projects and professional activities.

The programme will address this target directly in the sphere of industry innovation.

Action example: Grants can be approved towards the cost of

a) travel, accommodation and subsistence for attendance at appropriate international conferences, shows and other forums for new product search or refinement of new product concepts

b) travel, accommodation and subsistence for advancement of possible new product acquisition plus grant aid towards the costs of associated professional advice in, e.g., legal and technical areas.

Support Measure: Support of innovative developments based on knowledge of domestic R&D.

Addressing this target measure can be regarded as the core of the project in that activation of industry based R&D is central to the project.

The following action examples are based on actual cases of industries within the EU:

Case A
Company A is engaged in rotomoulding of a range of agriproducts including open air animal drinking troughs. Water needed to be replenished frequently involving labour input. Overspills also regularly occurred resulting in water wastage. Company successfully completed a redesign incorporating an automatic cutoff ballcock on the same principle as applied in a domestic toilet cistern. New product commanded a price of 40% over previous product.

- Development expenditure involved selection of technical redesign options, redesign of tooling, fabrication of soft tooling, production and testing of prototypes.
- Total cost of some 100,000 Euro attracted grant aid of 50,000 Euro.

Investment data, product costings and analysis of return on the investment are given under.

Case B
Company B is engaged in production of heavy standard timber joinery, mainly roof trusses, for construction industry. Business was low margin, dependent on high volume sales and subject to price competition from both domestic and foreign producers. With aid of technical institute and architectural designers, the company undertook a programme for development of
decorative timber facias for use in prestigious buildings, such as offices, restaurants and hotels. Based on a range of selected designs, software was designed which controlled the equipment that inscribed the designs into the timber. Products were then hand finished. Unlike Case A, the project entailed engaging market promotion and sales staff at commercialisation stage.

- **Grant aid of 50% (in the order of 120,000 Euro) was paid toward the development costs of the project – fees of external experts, design costs, software development and prototype costs.**

**Case C**  
Company C is engaged in natural stone paving and cladding. It originally had design software developed so as to illustrate final design to clients and to pass contract design specifications to workshop. Workshop wastage, i.e., finished cut stone relative to rough stone input, constituted a problem that impacted on gross margins. With expert input from technical institute and in conjunction with machinery suppliers, the company developed equipment software controls which resulted in a significantly enhanced finished stone to raw material ratio, thus substantially increasing the gross margin of the business.

- **Grant was made available towards cost of software development including external experts fees as well as first run testing of computerised controlled machinery.**

Support Measure : Support of the transfer of technological information from industrially developed countries

The project will specifically address this target by grant assisting the costs of technology inward transfer.

**Case D**  
Company D was engaged in production of upmarket fiberglass based chairs and couches for offices and homes. The company would mould basic furniture shells, upholster them and then attach them to steel frames (made by subcontractors). The business had flourished originally because of the novelty of the product range but came under serious competition particularly from high quality designed imports. The use of fiberglass limited the range that could be produced and the company was reaching a point where it was being forced out of business. With the aid of external market researchers, the company conducted product searches based on their technical strengths in fiberglass technology. As a result, a royalty product licensing agreement was concluded with a German firm under which the company switched to production of small leisure yachts.

- **Grant aid was extended to cost of participation at international fairs (as part of new product search), fees associated with intellectual property (notably, advice services of a Patent Agent) and legal advisers’ fees and cost of mould for first prototype production.**

The experience also led the company to adopt inhouse R&D as an important corporate function. As a result, it became a leading supplier of flotation rafts for the European fish farming and oil exploration industries, even against American competition.

Support Measure: Support of information systems operating mainly in the area of subcontracting and export
Achievement of this target would not be regarded as a high priority in the overall context of the project. Experience would indicate that even export oriented subcontracting does not yield medium and long term benefits that are comparable with indigenous innovation. Subcontracting is of obvious benefit in absorbing new technology and know-how but much subcontracting tends to be awarded on low margins / tight prices with the constant risk that the contract will be transferred to a lower cost area. There may be exceptional cases for enterprises to utilize subcontracting as a step towards developing independence but, in general, there does not appear to be a strong case for special support.

Support Measure: ‘Support in the area of intellectual property’

Access to professional advice and support would be a grant aidable activity under the project.

- Grant aid was available towards professional costs of patent/copyright searches and judgements as well as professional advice as to measures for protection of any intellectual property arising from own R&D activity.

Intellectual property acquisition and protection is a highly specialised area. Some of the cases under reference required greater inputs than others, e.g., Case D required considerable patent agent advise compared with Case A (which, in fact, registered copyright protection), but it was important that such expertise should be available and affordable and, consequently, fees for the expertise should be grant aidable.

Support Measure: ‘Support in the area of supporting quality and in the area of certification’

Aiding internationally recognised quality standards accreditation is an integral component of the project.

The prevailing wisdom among inexperienced entrepreneurs is that the selling price is the all important factor in commercial transacting whereas, in study after study, it has consistently emerged that quality and reliability of delivery are more important factors in purchasing decisions. This underscores the need to include the attainment of an internationally recognized quality standard as an integral part of any industrial innovation programme.

- Grant aid was available towards the costs of professional personnel, e.g., industrial engineers, engaged exclusively in installing the QC systems, cost of necessary test equipment

Support Measure: ‘Support for the introduction of new computer and communication technology.’

Activities designed to achieve this target would qualify for grant aid under the scheme, within the context of commercial and sustainable product and process development.
Case A – Output results

Pre and post innovation performance can be clearly established as follows:

<table>
<thead>
<tr>
<th></th>
<th>Pre – I.</th>
<th>%</th>
<th>Post – I.</th>
<th>%</th>
<th>Variances</th>
<th>%</th>
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<tbody>
<tr>
<td>A. Sales revenue per unit -</td>
<td>30</td>
<td>100</td>
<td>42</td>
<td>100</td>
<td>12</td>
<td>40</td>
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<tr>
<td>B. Direct costs of Sales</td>
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<td>C. Materials</td>
<td>12.6</td>
<td>42</td>
<td>1.8</td>
<td>4</td>
<td>1.8</td>
<td>14</td>
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<tr>
<td>D. Labour</td>
<td>1.5</td>
<td>5</td>
<td>0.3</td>
<td>20</td>
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<tr>
<td>E. Total Direct Costs (B + C)</td>
<td>14.1</td>
<td>47</td>
<td>1.8</td>
<td>4</td>
<td>2.1</td>
<td>20</td>
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<tr>
<td>F. Gross Margin (A – B – C)</td>
<td>15.9</td>
<td>53</td>
<td>25.8</td>
<td>61</td>
<td>9.9</td>
<td>61</td>
</tr>
<tr>
<td>G. Overheads</td>
<td>10.5</td>
<td>35</td>
<td>10.5</td>
<td>25</td>
<td>0</td>
<td>0</td>
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<tr>
<td>H. Net pre tax profit</td>
<td>5.4</td>
<td>18</td>
<td>15.3</td>
<td>36</td>
<td>9.9</td>
<td>183</td>
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</table>

Salient points are:
- The Gross Profit, i.e., the margin between Sales and the materials and labour utilised in the Sales increased from 53% of Sales revenue to 61% of Sales. The cost of transformation of the raw materials reduced from 47% to 39% of Sales: the 61% Gross Margin represents 8 percentage points increase in added value.
- The Net Profit per unit doubled from 18% of Sales to 36%; this is an exceptionally high margin due to the fact that the indirect expenses / overheads remained unchanged.

Investment performance

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<tr>
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<th>Year 1</th>
<th>Year 2</th>
<th>Year 3</th>
<th>Year 4</th>
<th>Year 5</th>
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<tbody>
<tr>
<td>Investment (net) –</td>
<td>50,000</td>
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<tr>
<td>Units sold</td>
<td>0</td>
<td>4,324</td>
<td>5,644</td>
<td>6,581</td>
<td>7,708</td>
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<tr>
<td>Sales revenue</td>
<td>0</td>
<td>181,608</td>
<td>237,048</td>
<td>276,402</td>
<td>323,736</td>
</tr>
<tr>
<td>Net pre tax profit</td>
<td>0</td>
<td>19,069</td>
<td>24,890</td>
<td>29,022</td>
<td>33,992</td>
</tr>
<tr>
<td>Investment cost balance</td>
<td>50,000</td>
<td>30,931</td>
<td>6,041</td>
<td>(22,981)</td>
<td>(56,973)</td>
</tr>
<tr>
<td>Return on investment - %</td>
<td>0</td>
<td>38</td>
<td>50</td>
<td>58</td>
<td>68</td>
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</table>

Salient points are:
- No trade revenue accrued in Year 1 when most of the development programme was undertaken. Nevertheless, the net investment was fully recovered within Year 4.
- Return on Investment has been very satisfactory even from period of first commercialisation, i.e., Year 2.
- If grant were not made, total investment would not be recovered until Year 6, assuming promoter would have been disposed to undertake programme entirely from own resources.
<table>
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<tr>
<th>Specific target</th>
<th>IDGS</th>
<th>TDGS</th>
<th>RDGS</th>
<th>HRGS</th>
<th>EIGS</th>
<th>Sapard</th>
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<tbody>
<tr>
<td><strong>Restructuring, microeconomic adaptation and stimulation of the development of business</strong></td>
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<td>Liberalisation of business environment</td>
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<td>Attraction of DFI</td>
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<tr>
<td>Support of SME</td>
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<td>Promotion of R &amp; D</td>
<td>X</td>
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<tr>
<td>Development of infrastructure and ecology</td>
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<td><strong>Support of investments and allocation mechanisms enhancing long-term competitiveness and creation of effective jobs</strong></td>
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<td>Liberalisation of business environment and general prioritization of direct investments</td>
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<td>Complex information system for the needs of investors in Slovakia</td>
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<tr>
<td>Location and economic-environment analysis of optimal types of economic activities</td>
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<tr>
<td>Acceleration of the settlement of property rights on land designed for industrial park foundation</td>
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<td>Consultancy help to communities/towns/regions in drawing up quality projects</td>
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<tr>
<td><strong>Stabilisation of business environment and its continuous improvement</strong></td>
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<td>Strengthening of economic policy, particularly of its market-neutral components;</td>
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<td>Acceleration of application in the practice of results of approximation process within accession to EU.</td>
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<tr>
<td><strong>Promotion of sales with special regard to exports</strong></td>
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<td>Maximization of export sales from existing capacities and productions</td>
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<tr>
<td>Introduction of integrated data base of WTO;</td>
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<td>Consultancy in the area of trade and gaining a market position for SME’s</td>
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<tr>
<td>Participation of industrial enterprises in exhibitions and fairs</td>
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<td>Support of industrial enterprises processing domestic raw materials, and market competitiveness</td>
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<td><strong>Support of financial competitiveness</strong></td>
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<td>Enhancement of efficiency of granting loans and guarantees with stress on transparency;</td>
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<td>X</td>
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<td>Foundation of alternative capital associations (credit regional cooperatives and funds)</td>
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<td>Complex development of e-business</td>
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<td>Open data base of non-payers available to the public</td>
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<tr>
<td>Guidance and consulting services in the area of financial management.</td>
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<td>X</td>
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<tr>
<td><strong>Continuous growth in competitive production and services with a special regard to SME’s</strong></td>
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<tr>
<td>Improvement of the quality of legislative and administrative environments</td>
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<tr>
<td>Financial programmes: lower financial load and access to capital</td>
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<tr>
<td>Enhancement of knowledge potential of managers of small and medium-sized enterprises</td>
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<td>X</td>
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<tr>
<td>Completing the educational programmes at all</td>
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<td></td>
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<td></td>
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<td>X</td>
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<tr>
<td>levels (vocational, secondary, University education)</td>
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<tr>
<td>Support of participation in international projects and professional activities</td>
<td>X</td>
<td>X</td>
<td>X</td>
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<tr>
<td>Support of innovative development based on knowledge of domestic R&amp;D</td>
<td>X</td>
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<tr>
<td>Support of the transfer of technological information from industrially developed countries</td>
<td>X</td>
<td></td>
<td>X</td>
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<tr>
<td>Support of information systems operating mainly in the area of subcontracting and export</td>
<td>Sub-c</td>
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<tr>
<td>Support in the area of intellectual property</td>
<td>X</td>
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<tr>
<td>Support in improving quality and in the area of certification;</td>
<td>Qual.</td>
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<tr>
<td>Support for introduction of new computer and communication technologies.</td>
<td>X</td>
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</tbody>
</table>

**Utilisation of domestic resources generating economic growth and permanent competitiveness**

<table>
<thead>
<tr>
<th>Development of productions in the sectors:</th>
<th></th>
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</thead>
<tbody>
<tr>
<td>Final products of wood processing</td>
<td>X</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Products of glass industry</td>
<td>X</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Products of manufacture of building material</td>
<td>X</td>
<td></td>
<td></td>
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<tr>
<td>Products of magnesite</td>
<td>X</td>
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</tbody>
</table>

**Enhancement of efficiency of power economy and development of communal power eng’ing**

Not being addressed

**Building and improving quality of commercial distribution networks**

| Creation of legislative framework, promoting sales of quality and competitive products of Slovak origin | X |  |  |
| Implementation of programmes for the support of SME | X | X | X | X |

**Building and development of industrial parks**

| Legislation for foundation of industrial parks and Act on Industrial Parks and Zones; |  |  |  |
| Programmes of financial and property support in relation to the community; |  |  |  |
| Formation of stimulating instruments; | X |  |  |
| Definition of relation of state admin. and self-government in founding/managing industrial parks | X |  |  |
| Development of infrastructure for industrial parks, in cooperation with public and the private sectors. | X |  |  |

**Sustainable development of rural areas**

<p>| Foundation of micro-enterprises dealing with economic activities – crafts, services and tourism | X |  |  |
| Support to small production enterprises dealing with foodstuffs processing; |  |  | X |
| Creation in the individual rural areas of „farming relief“ and establishment of „soft“ infrastructure |  |  |  |
| A focus on the network of financial services designed for micro-enterprises |  |  |  |
| Different initiatives aimed to rural development |  |  |  |</p>
<table>
<thead>
<tr>
<th>Conservation and utilisation of its cultural potential.</th>
<th></th>
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</thead>
<tbody>
<tr>
<td>Development of multi-functional agriculture</td>
<td></td>
<td></td>
<td>X</td>
</tr>
<tr>
<td>Enhancement of competitiveness of foodstuffs industry</td>
<td></td>
<td></td>
<td>X</td>
</tr>
</tbody>
</table>

Qual = Quality programme  
EIGS = Export Investment Grant Scheme (previously Sub-c = Sub-contracting  
EDIS)