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# Innovative Concepts in the Regional Policy of the Czech Republic

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## **Abstract**

The new paradigm of regional policy is based more on competitiveness, innovation and internal potential of regions than on balancing regional disparities by public aid only. Innovation policies are being established and implemented at national and regional levels covering relatively a broad range of public initiatives directed towards supporting the innovation activities and stimulating the creation of pro-innovation environment. This is underlined in key EU strategic documents for new planning period 2007-2013 including Community Strategic Guidelines, Competitiveness and Innovation Programme and national development programmes of member countries as well. The paper describes the contemporary approach to regional policy developed in the key strategic documents in the Czech Republic with special focus to regional innovation strategies and innovative clusters and the possible ways of financing from EU Structural funds. The approach is documented in the case study of Moravia Silesia region, former steel heart of the country, which passes through huge structural transformation in the last decade.

## **Key words**

Regional development, regional policy, innovation, clusters

**JEL Classification: O31, O38, R11, R58**

## **1. Introduction**

According to the latest Eurostat regional statistics (Eurostat news release, May 2006), regional GDP per habitant in EU25 countries in 254 NUTS 2 regions varies from 33% to 278%. Only one region in seven keeps above 125% of the EU25 average. The three leading regions in the ranking of regional GDP per inhabitant in 2003 were Inner London in the United Kingdom (278% of the average), Bruxelles-Capitale in Belgium (238%) and the Grand Duchy of Luxembourg (234%). Among the 37 regions exceeding the 125% level, seven were in Germany, six each in Italy and the United Kingdom, five in the Netherlands, three in Austria, two each in Belgium and Finland, one region each in the Czech Republic, Spain, France, Ireland and Sweden, and the Grand Duchy of Luxembourg.

The only region in this group amongst the new Member States was Praha in the Czech Republic (138%). On the other hand one in four regions is below 75% GDP per habitant threshold. Among the 60 regions below the 75% level, sixteen were in Poland, seven in the Czech Republic, six in Hungary, five each in Greece and Italy, four each in Germany, France (all overseas departments) and Portugal, three in Slovakia, two regions in Spain, and Estonia, Latvia, Lithuania and Malta. All these data show that regional disparities in EU member states are huge and require the political and economic interventions through both EU and national cohesion and regional policies.

**Table 1: Regional GDP per inhabitant in the EU25 in 2003 (in PPS, EU25 = 100)**

The ten highest regions			The ten lowest regions		
1	Inner London (UK)	278	1	Lubelskie (PL)	33
2	Bruxelles-Capitale (BE)	238	2	Podkarpackie (PL)	33
3	Luxembourg	234	3	Podlaskie (PL)	36
4	Hamburg (DE)	184	4	Świętokrzyskie (PL)	37
5	Île de France (FR)	173	5	Warmińsko-Mazurskie (PL)	37
6	Wien (AT)	171	6	Opolskie (PL)	37
7	Berkshire, Buckinghamshire & Oxfordshire (UK)	165	7	Észak Magyarország (HU)	38
8	Provincia Autonoma Bolzano (IT)	160	8	Východné Slovensko (SK)	39
9	Oberbayern (DE)	158	9	Eszag-Alföld (HU)	39
10	Stockholm (SE)	158	10	Dél-Alföld (HU)	40

Source: Eurostat (STAT/06/63)

Overall, disparities have been falling across the EU since 1995. This fall has been more rapid between countries than between regions with internal regional disparities in several Member States increasing. Regional disparity levels are higher than national disparities, but they are also falling. While growth has been generally higher in many of the least prosperous regions, it is noteworthy that the most prosperous regions have also performed well over this period. Thus the shares in total GDP accounted for by the least and the most prosperous regions both increased over this period. This is also the result of regional policy measures.

Regional policy and regions can be seen as a solution to global challenges. However, it is more and more evident that growth strategies run from the centre are not sufficient anymore: to be effective, they must be supplemented by tailored local and regional strategies. The nature of economic growth is such that many of its key drivers, including innovation, can be much more efficiently addressed at the sub-national level because that is the level at which most businesses, especially small and medium-sized businesses, interact with one another and with centres of learning and technology. Regional policy is often regarded as almost synonymous with the Structural and Cohesion Funds. But they are an instrument, not the policy, and EU regional policy goes well beyond funding. Unlike any other EU policy, regional policy is based on an approach of partnership with authorities at different levels. It ensures that Member States, regions and other stakeholders share the goals of the programmes and projects.

## **2. European regional policy – past, present and future**

Regional policy in Western Europe has been in existence for over fifty years. It has developed either as national regional policy in different states or as the coordinated policy of European Union under the title EU structural and cohesion policy.

The European Union developed a regional policy of its own, with progressively more resources devoted to economic and social cohesion. In recent years, it is possible to identify a significant shift in the ‘paradigm’ of regional development. The traditional approach to regional development was undertaken by central governments using the different subsidies to firms, infrastructure and the location of public sector activity. In part, this has been superseded by a ‘contemporary’ approach, characterised by decentralised intervention based on integrated regional development plans and strategies, designed and delivered by partnerships of regional and local actors.

There are four characteristics of these contemporary approaches to regional development. First they have a broad sphere of action, covering a range of policy sectors: infrastructure, business development, RTD, human resources, tourism, environment etc. Second, the national policy versions tend to encompass economic development in all regions, not just those designated for regional policy purposes which exhibit the biggest regional disparities. Third, they tend to take a pro-active approach to development, with a multiannual programme of measures targeted at the business environment and soft infrastructure. Lastly, they have a distinctive approach to policy implementation which is collective/negotiated, led by regional authorities and involving a wide range of partners from local government, the voluntary sector, business and social communities (Bachtler, 2001). In this context, new theories of regional development came to the fore, especially those concerned with industrial milieux (Storper, Camagni) and the role of clusters, systems of innovation and networks (Porter, Morgan, Cooke).

It was recognised that competitive advantage increasingly implied the ability and capacity of regions to facilitate the generation, acquisition, control and application of knowledge and information, in the interests of innovation and marketing. According to Bachtler “new or modern” regional policy increasingly targets both equity and efficiency, shifting the policy-focus from redistribution to competitiveness. It also favours supply-side instruments and ‘bottom-up’ local economic development initiatives. It embodies a stronger spatial but also a thematic/sectoral targeting of resources, whilst at the same time acting on reduced regional aid eligible areas. It is implemented and delivered by different (broader) actors and mechanisms, allocating a greater role to local public and private actors.

With the relaunch of the EU Lisbon strategy, cohesion policy has been recognized as a key instrument at the Community level contributing to the implementation of the growth and jobs strategy – not just because it represents one third of the Community budget, but also because strategies designed at local and regional levels must also form an integral part of the effort to promote growth and jobs. The role of SMEs, the need to meet local skill demands, the importance of clusters, the need for local innovation centres is such that in many cases strategies also have to be built from below, at the regional and local levels. Moreover, this applies not only to the economic agenda but also to the broader effort to involve citizens who, through the partnership and multilevel governance arrangements under which cohesion policy is managed, have the chance to become directly involved in the Union's growth and jobs strategy (Commission, 2006).

The EU structural and cohesion policy received new impetus in the Community strategic guidelines for cohesion policy (2007-2013). The Community Strategic Guidelines contain the principles and priorities of cohesion policy and suggest ways the European regions can take full advantage of the € 308 billion that has been made available for national and regional aid programmes over the next seven years. National authorities will use the guidelines as the basis for drafting their national strategic priorities and planning for 2007-2013, the so called National Strategic Reference Frameworks (NSRFs). According to the guidelines and in line with the renewed Lisbon strategy, programmes co-financed through the cohesion policy should seek to target resources on the following three priorities:

- improving the attractiveness of Member States, regions and cities by improving accessibility, ensuring adequate quality and level of services, and preserving their environmental potential;
- encouraging innovation, entrepreneurship and the growth of the knowledge economy by research and innovation capacities, including new information and communication technologies; and

- creating more and better jobs by attracting more people into employment entrepreneurial activity, improving adaptability of workers and enterprises and increasing investment in human capital.

Each EU member country has adopted its own NSRF in which the national cohesion strategy is outlined. This is also the case of the Czech Republic.

At the Conference “Regions for Economic Change: Innovating through EU Regional Policy” (June, 2006) Commissioner for Regional Policy Ms. Hübner in her keynote speech addressed the issues of regional policy’s role in supporting the process of developing or adapting regional innovation strategies and experimenting with innovative approaches and actions including regional innovation clusters. The Regional innovation strategies have proved themselves as a mechanism which makes public policy more effective and as a catalyst for innovation. They do so by supporting public bodies, enterprises and other stakeholders to define needs and actions which can then be tested before wider implementation. Many regions (e.g. in Austria, Sweden, Finland, Denmark) incorporated this approach into their operational programmes financed within cohesion policy from structural funds for 2007-2013.

The Community Strategic Guidelines refer to the role of the Structural Funds in supporting the creation of regional and trans-regional clusters. Regional approach to clusters should be based on analysis of a region’s existing strengths and its potential, because clusters provide a favourable environment for sharing knowledge, acquiring partners and thus for generating new ideas and innovative products, technologies and services. Through sharing resources, clusters also help businesses and researchers to overcome the obstacles that they face working independently: researchers may not have a competent partner to help transform their theoretical findings into a marketable product or the managers of an SME may believe that they do not have the requisite knowledge or resources to invest in new products. Even though clusters remain business-led and businesses within them remain competitors, the public authorities should make sure they understand what support the cluster needs to flourish and managing Structural Funds programmes to look at the existing or potential clusters they could support, either alone or in conjunction with other regions.

### **3. Regional Structure of the Czech Republic.**

Following 1989 the Czech Republic has undergone significant political, economic and social changes, culminating by the CR's accession to the European Union on 1 May 2004. The active involvement of the Czech Republic in the European area has accelerated the country's economic growth. The Czech Republic has embarked on a path of convergence toward the more advanced countries of the world; in 2005 the CR's World Bank status has been upgraded from a developing to that of a developed country. In spite of these successes, the Czech Republic has been facing a number of serious problems which threaten its competitiveness and social cohesion in the long term as well as its capacity to fully deploy its human resources and economic potential. The Czech economy is a highly open economy characterized by a pronounced orientation toward foreign trade with the EU member states. The strong influx of direct inward investments to the CR during the last seven years has substantially altered the character of the Czech economy and boosted its competitiveness. The persistent negative factors affecting the dynamics of Czech economy include, i.a. insufficiently developed innovative processes impacting on the competitiveness of businesses, lack of adequate transport and other infrastructural networks and regional disparities and a gradual worsening of the development potential in certain regions.

The Czech Republic is characterised by a fragmented structure of its settlements, with a historically determined high number of municipalities. There is a great number of

municipalities in the Czech Republic (6249 to 31. 12. 2004) of which only a minor part can be regarded as towns based on international standards. The CR has only five cities with populations exceeding 100,000 - Prague, Brno, Ostrava, Plzen, Olomouc. The dense network of small and medium-sized towns hinders the emergence of stronger poles of development that could become the key poles of regional development, thus making it possible to create a network equally extending over the entire CR territory. The positions of the regional capitals is weaker compared to regional capitals abroad.

The territory of the Czech Republic is divided into 14 regions and 77 districts including the territory of the capital city of Prague. The regional level corresponds to the division of the Czech Republic into NUTS III territorial statistical units. The NUTS II regions consist of one to three NUTS III units. They were created with regard to the need of coordinating and implementing the economic and social cohesion policy. The regional structure of the Czech Republic can be seen at Figure 1.



**Figure 1: Regional Structure of the Czech Republic**

The development in the last fifteen years has caused the huge regional disparities mostly between the capital city of Prague and the rest of the country, as can be seen on example of several indicators at Table 2.

**Table 2: Regional disparities in Czech cohesion regions**

Cohesion regions 2004	Population	GDP per capita in PPS EU-25=100	Unemployment rate	% of total R&D expenses
Prague	1 170 571	143.0	3.9	37.9
Central Bohemia	1 144 071	66.4	5.4	20.6
Southwest	1 175 330	64.3	5.8	5.6
Northwest	1 126 721	59.0	13.1	1.7
Northeast	1 480 144	60.9	6.7	9.7
Southeast	1 640 354	64.9	7.9	12.8
Central Moravia	1 225 832	56.7	9.8	5.2
Moravia-Silesia	1 257 554	58.2	14.5	6.3
<b>the Czech Republic</b>	<b>10 220 577</b>	<b>70.9</b>	<b>8.3</b>	<b>100.0</b>

Source: Czech Statistical Office

The main causes underlying the uneven development of the regions and the emergence of regional disparities are mostly as follows (NSRF, 2006): Regional differences in economic structure and its diversity – a significant slump of production and employment in the heavy industries – Moravia-Silesia and the North-West; the downfall of the textile and electrotechnic industries - in the North-East and the clothing and footwear industries - in the North-East (Pardubice region), Central Moravia (Zlín region) and the South-East (Highlands); a marked loss of workforce in agriculture, particularly in the traditional agrarian regions - in the South-East and in Central Moravia (Olomouc region); development of the tertiary sector, concentrating predominantly in larger towns and agglomerations. The quality of human resources (e.g. education level, entrepreneurial tradition) and of local government (insufficient administrative capacities in small municipalities), low interregional mobility of the workforce. A persistently unsatisfactory environmental situation – Moravia-Silesia and the North-West, large cities. Uneven coverage of territory with technical and transport infrastructure. Differences in the geographical position of the regions within the Czech Republic as well as in the EU context.

The substance of the regional disparities, not mentioning however the fundamental difference existing between the socio-economic level and the degree of development of Prague on the one hand and of the cohesion regions on the other hand, can be expressed by the following types of cohesion regions:

1. Regions undergoing rapid development – Prague.
2. Regions undergoing development – South-West and Central Bohemia.
3. Regions having low growth dynamics – South-East and North-East.
4. Regions lagging behind – Central Moravia.
5. Regions on the decline – Moravia-Silesia and the North-West.

Even more pronounced disparities can be identified at the level of regions and especially, at the level of the micro-regions, where substantial differences in economic performance exist. They relate to the availability and territorial coverage in particularly the peripheral regions, including the availability of public services, as well as to the unemployment rate. The resolution of these problems is being addressed by a number of systemic steps taken by the Czech government, embodied in particular in key strategic and programming documents including in particular in the „Economic growth Strategy of the Czech Republic (November, 2005) ), in the „Convergence Programme of the Czech Republic“ (updated version of November 2005), in the „National Reform Programme“ (National Lisbon Programme of October 2005) in the „CR National Development Plan for the 2007-2013 period“ (February 2006), in the „Strategy of regional development of the Czech Republic“ (May, 2006), in „National Strategic Reference Framework of the Czech Republic“ (May, 2006) and others.

#### **4. Regional Development Policy in the Czech Republic**

The real regional policy in the Czech Republic was born only in the late nineties of the last century when the process of introduction of higher levels of self-governments was finalised in 2000 and the Act on Regions (No. 129/2000) was adopted. At present there are 14 self-governmental regions (NUTS III level), which play an increasingly important role in shaping and implementing public policies in regional development. With the adoption of Act No. 248/2000 Coll., on support to Regional Development the first systemic steps in regional development were taken.

The first Czech regional strategy was approved in 2000 and the programming documents for EU structural funds in the period 2004-2006 were approved. The main role in managing

the regional policy was given to Ministry of regional development established already in 1997. The regional policy was a reaction to the growth of regional disparities and the expectations of Structural funds after accession to the EU. By 2004 the Czech Republic had its own national regional policy co-financed by national sources and EU pre-accession instruments Phare, Sapard and Ispa.

After joining EU the regional policy of the Czech Republic has changed. The Czech Republic approved its own national Strategy of regional development with national priorities in 2006, however the national regional policy has adopted the same principles as Structural Funds and it is aligned with Structural funds programming, so the two policies can be considered as coherent and coincident. The additional reason is the lack of national sources for financing the own regional policy in the period of 2007 – 2013, when the huge inflow of Structural funds requires national co-financing. The basic principles and strategies for the Czech regional policy are formulated in National development Plan 2007 – 2013 and National Strategic Reference Framework 2007-2013.

The Czech Republic has accentuated the EU principles to implement the Lisbon strategy and, at the same time, also reflects the Czech specifics, i.e., the threat of deepening regional and, to an extent, also social disparities. „Europe must re-establish the fundamentals of its competitiveness, boost its growth potential and productivity and strengthen its social cohesion, while focusing mainly on knowledge, innovation and optimisation of the human capital“ (Community Strategic Guidelines, 2007-2013).

The global objective of the National Strategic Reference Framework for the 2007 – 2013 period is to transform Czech Republic's socio-economic environment in compliance with the principles of sustainable development, so as to make the Czech Republic an attractive location for investment as well as for the work and life of its citizens. By means of incessant strengthening of the country's competitiveness, a sustainable development will be reached which will proceed at a pace higher than the EU-25 average. The CR will strive to boost employment and to pursue a balanced and harmonised regional development, which will result in enhancing the quality of life of the country's population.

Czech Republic's factors of competitiveness include four strategic objectives which will be implemented by the following priorities.:

- a) ***A competitive Czech economy*** (competitive business sector, support of R&D capacities for innovation, developing a sustainable travel industry);
- b) ***An open, flexible and cohesive society*** (education, raising employment rate and employability, strengthening social cohesion, developing information society and smart administration);
- c) ***An attractive environment*** (protecting and improving the quality of the environment, improving access to transportation and transport infrastructure);
- d) ***A balanced development of territory*** (balanced regional development, development of urban districts, development of rural areas, development of capital city of Prague and territorial cooperation).

For the achievement of strategic objectives the 24 operational programmes supported by EU Structural funds are prepared. In the Convergence Objective, which covers 7 NUTS 2 cohesion regions except Prague there are 8 sectoral operational programmes and 7 regional operational programmes. These programmes will be co-financed by ERDF, ESF structural funds and by Cohesion fund. In the Regional competitiveness and employment objective (for the region City of Prague) there are 2 operational programmes co-financed by ERDF (competitiveness) and ESF (adaptability). In the European territorial cooperation Objective there are 7 operational programmes co-financed by ERDF and ESF structural funds.



The global objective of the regional operational programmes is aimed at boosting development of the CR regions, at increase of their competitiveness and attractiveness for investment, and at enhancing the quality of life of the population, while respecting balanced and sustainable development of the regions following from utilisation of their potential. The Managing Authorities are Regional Councils of the individual cohesion regions. The regional development will be supported by other, sectoral operational programmes, too. The spectrum of measures is very high from hard factors as infrastructure, enterprise and innovation to soft ones as human resources development. The overall structure of these programmes and financial allocations is given in Table 3.

**Table 3: Operational programmes allocations**

Operational Programmes	EU Contribution (mil. €)	%
<b>Convergence Objective (7 NUTS 2 Regions)</b>		
OP Enterprise and Innovations	3041,2	11,75
OP R&D for Innovations	2070,6	8,00
OP Environment	5176,5	20,00
OP Transport	5564,7	21,50
OP Education for Competitiveness	1811,8	7,00
OP Human Resources and Employment	2588,2	10,00
Integrated Operational Programme	258,8	7,50
Regional Operational Programmes (7 programmes)	3429,4	13,25
OP Technical Assistance	258,8	1,00
<b>Convergence objective Total</b>	<b>25882,3</b>	<b>100,00</b>

<b>Regional competitiveness and employment objective (Prague Capital)</b>		
OP Prague Competitiveness	297,2	71,0
OP Prague Adaptability	122,0	29,0
<b>Regional competitiveness objective Total</b>	<b>419,2</b>	<b>100,0</b>

<b>European territorial cooperation Objective</b>		
OP Cross-border Cooperation (5 programmes)	345,6	90,00
OP Transnational Cooperation	38,4	10,00
OP Inter-regional Cooperation	N/A	N/A
<b>European territorial cooperation Objective Total</b>	<b>384,0</b>	<b>100</b>

Source: Gov. Resolution 494/2006

Our focus here is limited to innovation and the factors which increase the regional innovation capacity, competitiveness and regional welfare.

## 5. Regional innovation strategies and regional clusters

As an example of successful innovation initiative in European Union may serve the IRE network. The Innovating Regions in Europe (IRE) network is the joint platform for collaboration and exchange of experience for regions that are developing or implementing regional innovation strategies and schemes. The aim of the network is to give member regions access to new tools, schemes and inter-regional learning opportunities on innovation promotion, in order to improve their ability to boost innovation and competitiveness among regional companies. The IRE network is open to all European regions that are committed to developing their regional innovation systems. The majority of the IRE member regions have undertaken Regional Innovation strategy projects with support from the European Commission. The IRE network was originally established to support these regions in their work to enhance regional innovation. The IRE network comprises more than 200 members. Over 120 IRE regions have developed regional innovation strategies. In 2005, the network was enlarged with the addition 33 new Regional Innovation Strategy projects. The similar approach takes places to some extent in the Czech Republic too.

### 5.1 Regional innovation strategies

The Czech Republic's accession to the European Union has opened up more room for the development of new approaches to enhancing the innovative capacity and competitiveness of national and regional economies. Innovation is a key element of economic and social development in developed economies. The regions of the Czech Republic are now presented with a unique opportunity to reap the benefits of integration into the common European economic area. The Czech Republic adopted in the last years many relevant strategic documents for innovation support on both national and regional levels in national or regional innovation strategies. The map of Regional Innovation Strategies in Czech Republic (2006) is shown in Figure 2.



**Figure 2: The Regional Innovation Strategies in the Czech Republic**

National Innovation Strategy of the Czech Republic (2004) centres on the formation and development of conditions for the innovation process, concentrating on system—based solutions for the innovation environment and on the development of the innovation infrastructure. National Innovation Policy of the Czech Republic (2005) for 2005 – 2010 respects the need for technological and non-technological innovation in the Czech economy, but in the same manner as innovation policies of the advanced countries it is mostly aimed at innovation of technical nature. Innovation Strategy for Industry and Enterprise for the period

2005-2008 defines measures with focus to the innovation infrastructure development and to the growth of innovation activities of Czech enterprises. However specific regional innovation strategies were developed at regional level. The Czech regions want to, and must, enhance their competitiveness at both national and international level. The developments towards the regional innovation strategies started already a couple of years ago.

Successful regional strategy requires political commitment, very good cooperation between regional actors: companies, business associations, research institutions, financial sector and business support organizations, involvement of both private and public regional actors and concentration on needs of companies in the region and focus on upgrading of existing companies.

Regional innovation strategies in the Czech Republic have many common features which can be summarized in the following table.

**Table 4: Objectives and measures in Czech regional innovation strategies**

<b>Objectives</b>	<b>Measures</b>
To create conditions for the development of promising and emerging sectors	Regional foresight Development of clusters and cooperation networks
To improve the infrastructure for innovative firms	Development of physical infrastructure Development of services
To build new and strengthen existing R&D capacities in relation to the business sector	Development of R&D capacities in the region Enhancement of R&D marketing Engagement of regional capacities in national and international programmes and projects
To develop human resources	Lifelong learning in line with the needs of emerging industries, businesses and new trends Development of T-skills; development of creativity and entrepreneurship in students Promotion of technical studies and making them attractive Development of collaboration between educational institutions and businesses – identifying new forms of collaboration in the field of innovation
To secure funding for innovation projects	Greater use of existing sources of funding and new sources from the Structural Funds Feasibility study of establishing a regional innovation fund Risk venture funds and Business angels
To enhance the image of the region as a technology friendly one and to create an innovative environment	Awards system and its promotion Promotion of the region, marketing activities Making research, technologies and innovation more attractive to the public

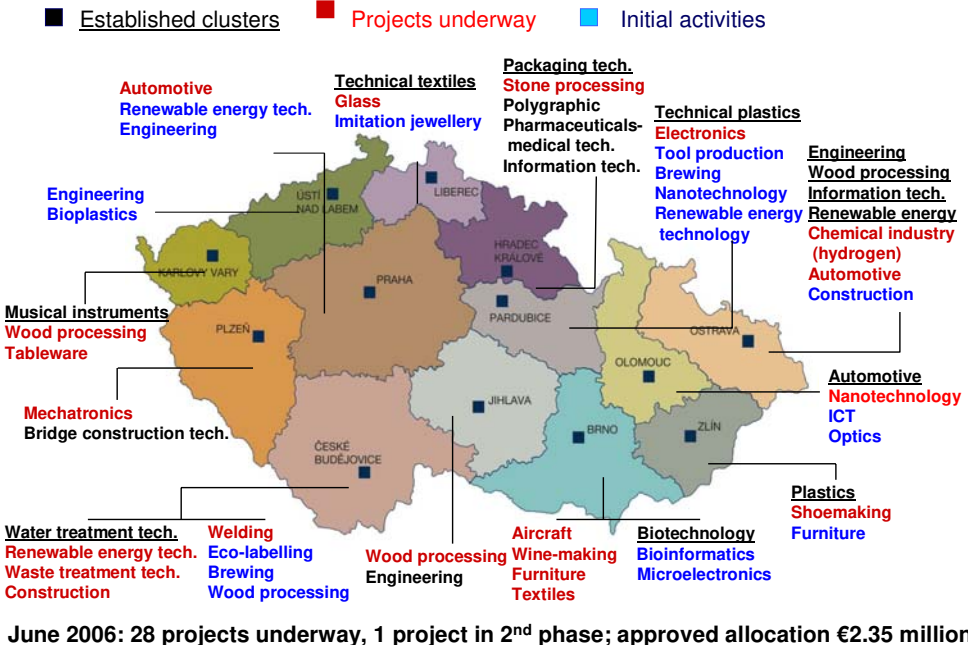
Source: Skokan (2004)

RIS has four key methodological principles. First, RIS should be based on public-private partnership and consensus (the private sector and the key regional R&D players should be closely associated in the development of the strategy and its implementation); Second, RIS should be demand-led (focusing on firms' innovation needs, SMEs in particular) and bottom-up (with a broad involvement of R&D regional actors) in their elaboration. Third, RIS should be action-oriented (at the end of the process new innovation projects in firms and/or new

innovation policy schemes); Finally, regions participating in RIS should exploit the European dimension through engaging in inter-regional co-operation and benchmarking of policies and methods.

### 5.2 Regional clusters

Industry or regional clusters are today recognised as an important instrument for promoting industrial development, innovation, competitiveness and growth. Although primarily driven by the efforts made by private companies and individuals, clusters are influenced by various actors, including governments and other public institutions at national and regional levels. That cluster concept covers a variety of different business structures, national-regional-cross-border clusters, clusters of competence, industrial or production systems and innovation systems and is used for different purposes to increase the competitiveness of SMEs, support collective research, rationalize a whole industry, implement environment management system. This is why there are so many different definitions, but almost all of them share the idea of proximity, networking and specialisation. The most widely used definition is Porter’s (Anderson, 2004): “Clusters are geographically close groups of interconnected companies and associated institutions in a particular field, linked by common technologies and skills. They normally exist within a geographic area where ease of communication, logistics and personal interaction is possible. Clusters are normally concentrated in regions and sometimes in a single town”.



Source: CzechInvest

Figure 3: Map of clusters in the Czech Republic

It is important to distinguish between clusters - groups of companies in a geographical region or industrial sector, sharing resources and experience for mutual benefit - and cluster initiatives (CIs) - efforts organised by government or enterprise to increase the growth and competitiveness of clusters within a region. Cluster initiatives typically include three strands: cluster companies, government, and the research community. While clusters are a long-

standing phenomenon, many of the most successful in recent years have been linked with concerted initiatives. CIs are now appearing in less-developed regions of advanced economies, as well as in developing economies. Cluster initiatives have developed as a new policy agenda, most often as an outgrowth from traditional policy areas such as regional policy, innovation policy and industrial policy. CIs are emerging within three distinct policy fields: (1) regional industry and SMEs policies, (2) FDI attraction policy, (3) science, research and innovation policies, which are often being summarised under the concept of cluster policies

The first ideas on clusters in the Czech industrial policy appeared in 2000-2001 during the preparation the National Development Plan and Operational Programme Industry and Enterprise (OPIE) for EU Structural Funds at the Ministry for Industry and Trade. At the same time the CzechInvest, a former governmental agency for foreign direct investment launched the pilot project Identification of industry grouping for state aid support in North Moravia Silesia in 2002. Based upon the results of the project prepared by the group of foreign and local experts the Cluster Development Programme – CLUSTERS was included into the prepared Operational programme (OPIE) and CzechInvest was entrusted to develop and manage the support for the cluster initiatives in the Czech Republic.

The official government approach to cluster policy developed in the Czech Republic only in the last few years. The main its outcomes are: Pilot study on Clusters in North Moravia Silesia (Ostrava, 2002); Preparation of cluster concept and policy at national level (within Ministry of industry and trade and CzechInvest); Development of Cluster programme 2004-2006 within EU Structural funds; Training of cluster facilitators, concept promotion in the regions, national Cluster conferences (2004, 2005, 2006) and preliminary analysis of cluster potential in the Czech Republic; National cluster strategy (adopted by the Czech government in July 2005); Cooperation of universities, businesses and public regional and national authorities (triple helix); National cluster study (Cluster mapping project) in 2006 as the basis for future cluster development in new Structural funds period 2007-2013 with cluster support involvement in prepared Cooperation programme.

The support of Cluster programme 2004-2006 is involved in Operational Programme Industry and Enterprise within the Measure: Development of Information and Consulting Services. The Objective of the programme is to increase economic growth and economic competitiveness through development of industry associations – clusters. Clusters can be created at regional, national and cross-border levels (Skokan, 2005). The objective of the programme shall be attained through the necessary support to groups of companies and associated institutions in these two types of projects: Search for companies suitable for association in clusters, assessment of viability and benefits of clusters (Phase I). Establishment and development of clusters and fulfilment of their mission (Phase II). The total subsidy for three year period 2004-2006 amounts 9 mil. €, of which 6,75 mil. € will come from European Regional Development Fund and the rest from state budget.

## **6. Regional innovation clusters in North Moravia and Silesia**

Moravian Silesian Region (in Czech Moravskoslezský kraj) is an administrative unit of the Czech Republic, located in the north-eastern part of its historical region of Moravia and in most of the Czech part of the historical region of Silesia. The region borders two other countries – Poland to the north and Slovakia to the east. It is a very industrial region, which was called the "Steel Heart of the Country" in the communist era, for its prevalence of heavy industry, especially steel works. Since the fall of the communism these industries have been in decline and the region suffers from high unemployment (about 15% compared with 8 % national average). Restructuring and revitalization of industry, closing of many coal mines,

improving of the environment thanks to many ecological steps in plots and factories and enterprises were the main processes affecting the region in the last decade.

The framework for regional innovation policy is formulated in strategic and programming documents organized by regional authority. These programmes are of different nature from Policy proclamation “The way forwards” to Regional development plan for the period 2004-2008, Regional innovation strategy (2004), Regional operation programme (EU structural funds) 2007-2013, Blueprint of Regional Research and Development strategy and others. The documents follow the national programmes of regional development and utilisation of EU structural funds.

The last ten years are marked by huge inflow of foreign investments into the region, which has prepared more than 600 hectares of industrial zones. More than 70 foreign investors came into the region, the example of most known are Huyndai (automotive), Siemens (electrical engineering), ASUSTek Computer (ICT), LNM Holdings (metallurgy), etc. Knowledge base of the region is formed by four universities attended by more than 30 000 students with seven faculties of VSB Technical University at the lead. The most important industrial sectors in the Moravian Silesian Region are already organized in clusters, which gives the Region a new profile and makes it much simpler for investors to access individual subcontractors. Moreover in clusters there already exist links of firms to the VSB-Technical university, as it is seen in the following table. In this respect, this is the leading Region in the Czech Republic.

**Table 5:Regional clusters in Moravia Silesia**

Name	Established	Faculty	No. of firms
MSSK – Engineering Cluster	3/2003	Mechanical Engineering	36
MSDK – Wood Cluster	8/2005	Civil Engineering	25
IT Cluster	1/2006	Electronics and IT	20
ENVICRACK-Waste pyrolysis cluster	4/2006	Mechanical Engineering	22
HYDROGEN - Cluster	Under preparation	Safety Engineering	11
KAS – Automotive parts Cluster	Under preparation	Mechanical Engineering	11

The innovation scene in Moravian-Silesian Region has four key characteristics. One, Region has a globalised and hierarchical but not especially well-networked and largely publicly-led innovation setting, with a few highly innovative inward investors and a large share of firms not engaged very seriously in the pursuit of internationally competitive innovation practices. Two, within this structure are a number of smaller sub-systems involving public and private participants who are pursuing, on a small scale, practices that are comparable to those of far more accomplished networked and interactive innovation systems elsewhere. Three, in parallel, there are exemplar firms, often indigenous in origin, having reached positions of global competitiveness through innovation in traditional industries. Four, in the last years regional clustering is flourishing based on traditional inter-firm links and strengthened by new inward investors and the regional and government policies supported by EU structural funds programmes.

## 7. Conclusion

Contemporary regional policy is not focused in the regional disparities only. The regional competitiveness based on innovation and making use of regional potential for its development and growth is the new priority of development policies. All innovating regions in Europe developed their regional innovation strategies with measures for innovation support within regional innovation system with the aim to increase the regional innovation capacity. The regional innovative clusters are the drivers of innovation in each regional innovation strategy as it was proved in the last decades within Innovating regions network in old EU member states and as it seems to appear in new countries as well.

In Community Strategic Guidelines 2007-2013 for Cohesion Policy in Support of Growth and Jobs, the emphasis is given i.a. to establishing poles of excellence, bringing together high technology SMEs around research and technological institutions, or by developing and creating regional *clusters* around large companies or to the existence of *clusters* of innovative businesses. The Czech Republic involved these principles in the new programming documents for Structural funds and many cohesion regions are already on their way to join the group of Innovating regions in Europe. And this is the best proof of successful regional policy, as shows an example of Moravia Silesia region.

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