

INNOVATION POLICY PROJECT IN SERVICES - IPPS (A SSA INNO-NET) 2006-07

CZECH REPUBLIC

Data collection and research material

Data will be collected by conducting personal interviews with key informants using snow-ball sampling method. Information gleaned from existing policy documents, recent research reports and Trend-chart (<http://trendchart.cordis.lu/>) database will also be used in the mapping study analysis.

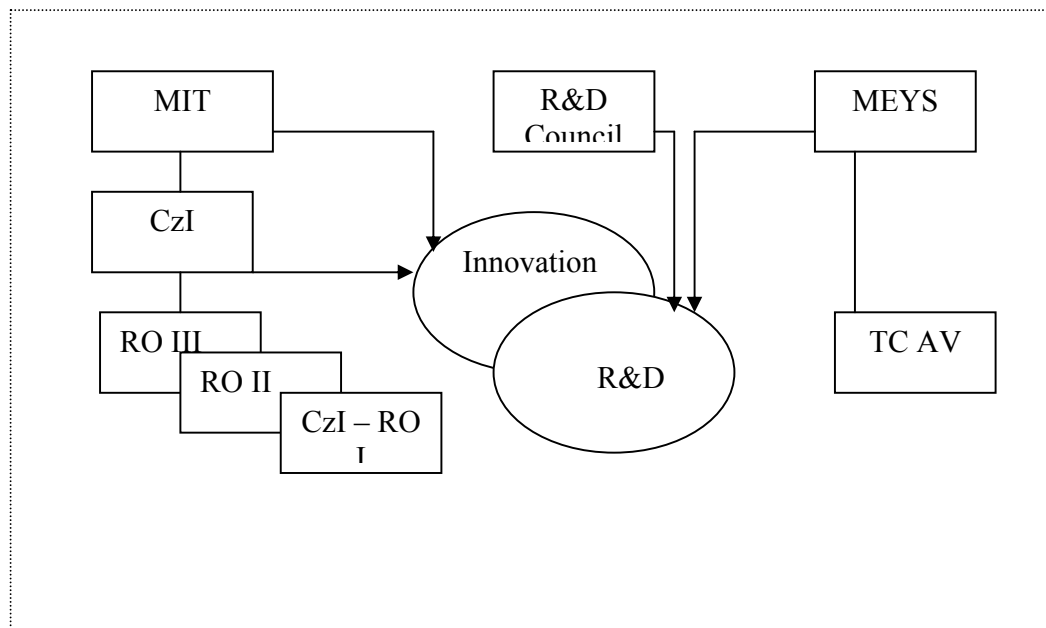
Service innovation policy mapping template

The following sections include the key research questions and some explanatory remarks for carrying out the policy mapping study. The demandside terminology follows relatively closely the lines set by Georghiou in his recent report1.

1. Schematic presentation of the innovation system

A diagramme that illustrates the key innovation policy actors and relationships between them on national / regional levels.

Diagram 1: Key Innovation policy actors



Explanatory notes:

MIT: Ministry of Industry and Trade

MEYS: Ministry for Education, Youth and Sports

CzI: Czechinvest - Investment and Business Development Agency

RO I – iii: CzechInvest´ regional office

TC AV: Technology Centre (of the Czech Academy of Sciences) which plays few important roles in the R&D and innovation system; TC AV is funded mainly by the MEYS.

On the regional level local governments are responsible for the region development, including innovation strategy. Regional Development Agencies support the innovation system on regional level. Besides them few other regional actors play a more or less important role (Chambers of Commerce, Regional Contact Organizations, Regional Advisory Information Centers).

2. Which policy actors have recognised services and related innovations?

This question highlights who are the actors that are relevant / active in relation to service innovation policy design and delivery. Relevant actors can include a number of organisations including: ministries, agencies, intermediaries, development organisations, regional level organisations, research institutes, programme managers...

Basically, all of policy actors both on national and regional level have recognized services and related innovations. Every of relevant documents addressed services as product to be innovated. Particular care has been taken to services by Ministry of Industry and Trade (MIT) and its agency Czechinvest (CzI) - see further.

The document “Operational Programme Industry and Business for the period 2004 – 2006” (Průmysl a podnikání) pays particular attention to consultation services for businesses. In this document regional advisory services are mentioned as a powerful tool for companies´ support (in particular SMEs). Within this operational programme consultancy should be engaged for improving of transfer of knowledge and cluster initiatives.

In a similar document “Operational Programme Business and Innovations 2007 - 2013” (Podnikání a inovace), deficiency of services for businesses has been identified as a handicap for further economy growth in the Czech Republic. Such deficiency is relevant in particular to SMEs which are not able to retain such services by themselves.

3. How the identified policy actors address service related innovations?

For example, in the light of interviews, policy documents, programmes and current activities.

There is a lot of examples about services related innovations. The most important documents are listed below:

- National Innovation Strategy
- National Innovation Policy (2005 – 2010)
- National R&D Policy (2004 – 2008)
- Innovation Concept for the Business Sector (2005 – 2010)
- Regional Innovation Strategies (it has been worked out in nearly all of 14 Czech regions)

- Operational Programme Industry and Business (2004 – 2006)
- R&D programmes, administered by
 - o MIT such as TANDEM or IMPULS
 - o Czechinvest – programme Sustainable Prosperity
 - o MEYS – Research Centres

Service innovation related policy measures

The aim of this section is to provide an analytical description of the identified service innovation policy measures. Issues to be addresses (questions 3-7) include:

- Description of the problem the policy measure seeks to solve

Importance of innovation in the service sector has been identified as very important issue; it is addressed in the respective documents. On the other hand, only few specific measures have been established in this respect with exceptions which will be treaded in the further articles. A specific ICT programme is run in the framework of National R&D Programme. Criteria published on ICT dissemination and utilization in the European Innovation Scoreboard show comparatively good position of the Czech Republic (contrary to some others, e.g. number of patents per capita) but its further development and utilization in the industry and business sector are still an issue.

However, one specific respective measure should be mentioned. The system of investment incentives attracted in the past to the Czech Republic many investors who benefited mainly from the comparative low cost (in particular personal). Respective benefits for the national economy were of no more then short term character. The new initiative strived to improve the short term character of this instrument (see following paragraphs).

- Goal and rationale of the measure

In order to change the orientation of the above mentioned system of investment incentive, Czech government decided to extend the incentives for supporting Technology Centers and Centers of Strategic Services (Centers). Services with higher value added are now supported by tax release and state aid for personnel training.

- Running time of the measure

The system of investment incentives supporting Technology Centers and Centers of Strategic Services came into force in the year 2002.

- Resources allocated for the measure

As an example: the amount of CZK 639 have been allocated via this instrument within the year 2006.

- Policy related activities / policy delivery process

- Outputs and outcomes of the policy measure

Since the beginning of this initiative, 90 new Centers have benefited from this instrument according to Czechinvest statistics (www.czechinvest.com). The amount of money invested by private investors (mainly foreign ones) due to this incentive has been close to Euro 500 mil.

3. Identify and describe supply-side measures that are targeting services related innovation

The existing explicit innovation policies are mostly concerned with the supply side and even more with R&D support of various types, ranging from funding of science in public institutions through to fiscal incentives for firms to increase R&D spend. The typology below divides these policies to finance related measures and services offered by the government.

Finance related measures

- Equity support

The permanent effort of R&D policy makers for higher engagement of venture capital has not been successful so far. An appropriate form of state intervention by establishing an early stage investment fund (seed capital fund) is currently under preparation in the framework of JEREMIE initiative (initiative of the European Investment Bank and European Investment Fund).

- Fiscal measures

Each of companies in the Czech Republic (including SMEs) is entitled to use the tax deduction for its own R&D activities since 1. January 2005 under defined conditions (only R&D activities according to the Frascati manual are eligible, a corresponding project must be set up etc.).

- Support for public sector research

CR has rather complex system of R&D funding, consisting of the institutional and programme part. Total sum of public support is close to 0,6 % GDP. A small part of private R&D investment is allocated to the public R&D institutions (Universities, Czech Academy of Sciences).

- Support for training and mobility

There are few instruments enabling long life education including training, some of them using the European Social Fund. For the international mobility of students and R&D staff is very suitable the Marie Curie Programme within the EU Framework Programmes.

- Grants for industrial R&D

Approximately 7 % of the total public funding is dedicated to the industrial research and experimental development. A substantial part of it is supporting the collaborative research where only companies together with academic institutions can apply (e.g. in the so called TANDEM Programme which is managed by the MIT).

Services

- Information brokerage & support

Only in the ICT sector specific matching activities are organized (presumably due to the extraordinary importance of this specific sector).

- Networking measures

See the former paragraph

Examples of policy measures include:

- Dedicated service R&D and innovation programmes

Dedicated service R&D and innovation programmes:

- o Targeted Programme “Information Society” in the framework of National Research Programme
- o Investment incentives for Technology Centers and Centers of Strategic Services provided by the Czechinvest (see www.czechinvest.com)

- R&D and innovation programmes open for service firms

Each of instruments is available to the service-oriented companies

- Use of ICT / existing technology in new service development

In the framework of the new Operational Programme Business and Innovation (under preparation) support of ICT and its dissemination should play an important role

- Promotion of KIBS as catalyst of innovation

- Services development in manufacturing context

There is a complex network of national and regional service organizations who are dedicated for supplying services to the companies. One example is the Czechinvest’ network which actively helps to the regional companies and institutions in preparing projects for the Structural Funds. Similar role play the network of Regional Contact Organizations in the field of international R&D collaboration (supporting EU Framework Programmes)

- Support for service concept and business model development

In the framework of science technology parks and business incubators (there are already more than 40 in the CR) a duly attention is devoted to services, in particular in the ICT utilization and consultancy.

- How to define service concept development project

- Promotion of network based services

Among others, three regional ICT clusters, one on eco-labeling and one on bioinformatics are in the phase of preparation.

- Support for peer to peer networks ->

- non-monetary exchange of knowledge

CzI is permanently supporting promotion and networking of Clusters in the Czech Republic. Few national Technology platforms are under preparation; the collaboration within the TP is based mainly on sharing the knowledge in some extent.

4. Identify and describe demand-side measures that are targeting services related innovation

Policies that seek to increase either the motivation or the likely success of innovation by acting upon the demand side issues, that is the specification and purchase of innovative goods and services. Typically demand-side policies focus on areas / markets which industry itself has

already identified as critical to its future and it is market forces which will drive innovation forward.

Demand side policies can be presented in three main groupings:

- *Systemic policies* which provide an environment which may amplify other innovation policy measures by optimising relationships between actors – promotion of clusters being an example; Support and promotion of clusters is one of big issues in the national and regional innovation strategies. The agency Czechinvest operates a programme supporting creation of clusters. Already 15 clusters are registered in the CR, another 39 are in the phase of preparation.

- *Regulation* which in many markets, such as environmental technologies, defines the competitive space and can be used to extend it;

The regulatory framework is compatible with EU regulations and stimulates sufficiently a competitive space, in particular in the environmental sector. The National Environmental Policy explicitly takes care of eco-innovation.

and

- *Procurement* where the purchaser can specify goods and services in terms of a function which offers higher performance than what is currently available off-the-shelf and hence requires an innovative step to achieve it.

The first step has been done by adopting the new Act on public procurement No 137/2006. Czech Republic is striving to utilize the EC initiative concerning public procurement (see the preparation of the Handbook Procurement for Innovation and Research).

Actors - organisations involved in policy activities at the EU-, national-, and regional levels.

According to the Act No 130/2002 the MEYS is responsible for the R&D policy on the national as well as on EU levels, however the R&D Council of Czech Government plays an important role, too. The last one recently worked out the National innovation strategy and National innovation policy. Technology centre (of the Czech Academy of Sciences) plays an important operational role being member of NICER (National Information Centre for European Research), International Relay Centre, National Contact Point for EU Framework Programmes etc. On the regional level the decision making role play local governments whilst Regional Development Agencies act on the operational level.

5. Identify and describe measures promoting services internationalisation

Services internationalisation can be an effective way to promote innovation and growth. Typically this type of promotion will focus on service exports and/or inward investments.

Examples of policy measures include:

- Export / internationalisation promotion

In order to foster the international collaboration of Czech R&D teams some supporting instruments have been adopted, e.g. the EUPRO Programme (administered by the MEYS).

Recently an instrument of the type “exploratory award” has been established; teams who have the

intention to take part in the EU Framework Programmes can benefit of this programme whilst preparing the project draft.

- Inward investment promotion

A specific tool has been established few years ago – the investment incentives have been extended to companies, who invest into Technology Centers and Strategic Services Centers.

- Marketing, promotion of an attractive location

o Availability of R&D capabilities in the area

There is comparatively skilled R&D personnel in the Czech Republic, however the share of natural sciences, technical and engineering graduates should be improved. Besides universities, a strong state R&D sector plays a role, lead by the Czech Academy of Sciences. Former industrial R&D sector has been privatized and some of the institutes have reached a very strong position on the European level (see www.avo.cz).

o Availability of skilled employees

The long year tradition of an industrial country is still a comparatively advantageous factor.

o Attractive living conditions

According to the respective research the Czech Republic belongs to one of 30 most attractive countries to live in. Czech capital Prague is very popular not only for tourists – tens of thousands of foreign citizens are living here permanently, much of them working in the service sector (banking, consultancy, ICT multinationals).

o Regulation related ‘competition’ between locations

There is no targeted regulation; however, a big role in this respect play the regional conditions – level of local costs, dispensable human resources and their competences. Many regions have utilized the state aid for building industrial zones. Some service organizations benefited from this opportunity and built their new facility in those locations.

o Tax free zones

There are no tax free zones in the Czech Republic

o Tax breaks for inward investors

See the above mentioned Czi programme for Centers.

o ‘Cutting the red tape’ - barriers to entrepreneurship

Currently a lot of effort is dedicated to clear the existing barriers (e.g. by easing start of a new company).

6. Identify and describe measures seeking to create favourable framework conditions for service related innovation

Governments can facilitate service related innovation by providing the necessary framework conditions, a supporting infrastructure in areas including higher level macroeconomic stability, competition policy and general infrastructure but also more directly the infrastructures such as:

- Human Resources and Employment Conditions

The running programme “Human Resources Development” is a good opportunity for improving the long live learning.

Within the framework of structural funds the new operational programme “Education and Competition” extends this chance to the period 2007 – 2013.

- Science Base

The operational programme “R&D for Innovation” should in the period 2007 – 2013 change substantially the Czech R&D map; a lot of regional activities is under preparation in order to support the region development.

- Regulatory Framework (including State Aid, Competition standards and IPR)

The pending political discussion tackles this topic very seriously; one of the anticipated measures should unify the agenda of financial offices with the social security agenda, etc.

State aid in the R&D and innovation sector shall have to cope with the new regulatory framework of the EU.

- Fiscal Environment

Basically, Czech Republic is aiming at the acceptance into the Euro-zone. But nevertheless, reaching the Maastricht criteria is at present the top priority for every of possible political representation.

Actors include: governments at the EU-, national-, and regional levels, including Ministries, Agencies, Technology Centres.

Examples of policy measures include:

- Service development & innovation strategies

See operational programmes Business and Innovation and others.

- Clear and transparent policy statement on services and innovation,

Services have in the business oriented programmes the same position as the other sectors (with explicitly mentioned exceptions – e.g. operational programmes).

- Implementation of horizontal service development strategy

- Education and skills development programmes

See the operational programme Education and Competitiveness.

- Research policy, focus on services related topics

Within the above mentioned operational programme Business and Innovation the key importance for the future development has been attributed to following sectors:

- research and technological development (networking and cluster support),
- information society (support of on-line public services and IT service for SMEs)
- innovation for the benefit of SMEs (services for SMEs, clusters).

- SME / enterprise policy measures

With respect to the Community framework for state aid for R&D and innovation the preference is given SMEs (e.g. via higher state aid intensity).

- Promotion of service related enterprise & innovation culture

Quality of regulatory regime can influence service related innovations in numerous different ways. In his case it is of particular importance, how conducive the regulatory regime is towards service innovation. Often also regulatory changes stimulate innovation.

Czech political representation have declared a good will to make the regulatory framework more client-friendly. Simplification of the company starting-and-running is a pending process.

6.1 To what extent horizontal policies are supporting service related innovation?

Ideally horizontal policy co-ordination provides means by which the full range of policies may be combined and amplified to achieve a greater effect. The framework conditions theme is quite extensive, hence it is useful to focus on some key issues that can be identified. For instance, identification of service innovation related horizontal policies and the way they operate.

- Have various policy areas together recognised services and related innovation?

- Are there co-ordinated actions in where different policy areas take joint efforts to facilitate service related innovation. (For instance, if skilled labour has been recognised as a bottleneck, are the joint activities where different policy areas together seek to address this problem?)

Horizontal policies are not explicit in this field in the Czech Republic. Nevertheless, embryonic policies of a kind in other policy documents and practices could be identified.

Strategic development programmes are the most relevant ones. As one of the positive embodiments of public administration reform associated with higher responsibility for regional and municipal development given to lower levels of decision making, they have been mushrooming at these levels since the beginning of this century. Most of them have been elaborated as a necessary condition to apply for the European structural funds. They can (and do) put together concepts that would not be linked and integrated otherwise: innovation centres, spreading of excellence programmes, tailored educational schemes. The Achilles' heel of these initiatives is a poor institutional infrastructure, stemming from non-existent system of strategic governance at the central level of public administration, and not well developed managerial skills in the country.

The country finds itself in a paradoxical situation: we can find excellent examples of effective innovation hubs, providing consultancy, advise, social and technical support to their clients, that have been able to develop despite the imperfect political and administrative environment. Provided there will occur a considerable improvement in targeted public policies, the hidden

innovation potential of the country will show its strength and express itself in immediate as well as long-term positive societal and economic impacts.

7. Future policy measures – are there some new policy measures being developed for services and related innovation?

During the period 2007 – 2013 a slightly changed instrument supporting creation of Technology Centers and Centers of Strategic Services will be implemented. Less stringent conditions (e.g. the reduction of a limit of minimum invested money) should attract more investors, including the Czech ones. Following services are eligible: development of new ICT application, design and implementation of ICT, shared services, client support, repairs of high-tech products.

In the framework of structural funds few service related instruments are under preparation such as utilization of ICT within companies, R&D and innovation support, consultancy, IPR protection.

8. Other relevant issues and comments related to the emerging service innovation policy

Future relevant policy documents (such as National Innovation Policy or National R&D policy) should address explicitly few topics related to the service sector or innovation in public procurement. EU (TrendChart) initiatives are a powerful incentive for doing it.