

# SBA Fact Sheet 2010/11

## CZECH REPUBLIC

### The Czech Fact Sheet in a nutshell:

- ✓ *Czech SMEs are much more concentrated in manufacturing (almost 1/3 of total SME employment versus only 22% in the EU as a whole)*
- ✓ *Employment in SMEs has declined since 2003 (by some 116 000)*
- ✓ *'Catching-up' SBA profile lags behind the EU average in many areas, but 7 out of 9 areas show progress since 2005*
- ✓ *In 2010–11, the Czech Republic took major policy action in all ten SBA areas*

### About the SBA Fact Sheets<sup>1</sup>:

The Small Business Act (SBA) is the EU's flagship policy initiative to support small and medium-sized enterprises (SMEs).

The aim of the annually updated Fact Sheets is to improve understanding of recent trends and national policies affecting SMEs.

## 1. SMEs in the Czech Republic — basic figures

	Number of Enterprises			Employment			Value added		
	Czech Republic		EU27	Czech Republic		EU27	Czech Republic		EU27
	Number	Share	Share	Number	Share	Share	Billion €	Share	Share
Micro	880.613	95,5%	92,1%	1.008.589	28,8%	29,8%	17	19,6%	21,6%
Small	32.883	3,6%	6,6%	648.215	18,5%	20,4%	14	16,5%	18,9%
Medium-sized	6.923	0,8%	1,1%	712.878	20,4%	16,8%	17	19,6%	17,9%
<b>SMEs</b>	<b>920.419</b>	<b>99,8%</b>	<b>99,8%</b>	<b>2.369.682</b>	<b>67,7%</b>	<b>66,9%</b>	<b>47</b>	<b>55,7%</b>	<b>58,4%</b>
Large	1.418	0,2%	0,2%	1.131.191	32,3%	33,1%	38	44,3%	41,6%
Total	<b>921.837</b>	<b>100,0%</b>	<b>100,0%</b>	<b>3.500.873</b>	<b>100,0%</b>	<b>100,0%</b>	<b>85</b>	<b>100,0%</b>	<b>100,0%</b>

*Estimates for 2010, based on 2002-2007 figures from the Structural Business Statistics Database\_revised (Eurostat). The estimates have been produced by Cambridge Econometrics. The data cover the 'business economy' which includes industry, construction, trade, and services (NACE Rev. 1.1 Sections C to I, K). The data does not cover the enterprises in agriculture, forestry, fishing or the largely non-market services such as education and health. The advantage of using Eurostat data is that the statistics from different countries have been harmonised and are comparable across countries. The disadvantage is that for some countries these data may be different from data published by national authorities.*

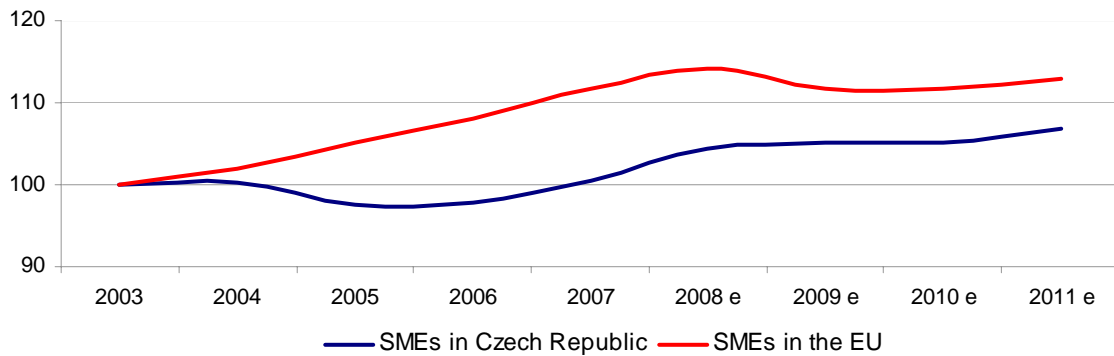
In the Czech Republic, even more than in most EU countries, the SME sector is dominated by its smallest segment, the micro-enterprises. Czech SMEs are substantially smaller (by almost 2 people) than the EU average: they have only 2.5 to 4.3 employees. This goes hand in hand with a certain focus on manufacturing: of their 2.37 million employees, almost a third work in manufacturing — compared to only 22% in the EU as a whole.

Over the past eight years, small businesses in the Czech Republic have turned in a patchy performance. In terms of the number of firms and the number of people they employ, Czech SMEs have been trailing the EU average

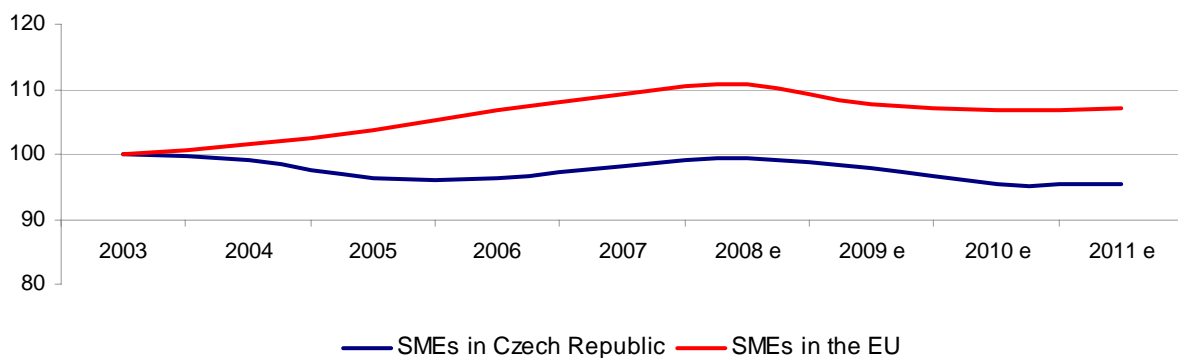
since 2003. Only in terms of production value, i.e. the value-added they produce, have Czech SMEs outpaced their peers in other EU countries. The trends among micro- and small firms are, however, not very consistent. For instance, the number of micro-firms grew by some 5% between 2003 and 2008. This rather modest increase, however, masks a much more dynamic development: the number actually dropped by 3% in 2005 and 2006 only to recover rapidly afterwards. By contrast, the number of employees steadily declined over the whole period, shrinking by around 10% or 116 000 jobs. These inconsistent trends are expected to continue — at least until 2011.

## SME trends in Czech Republic<sup>2</sup>

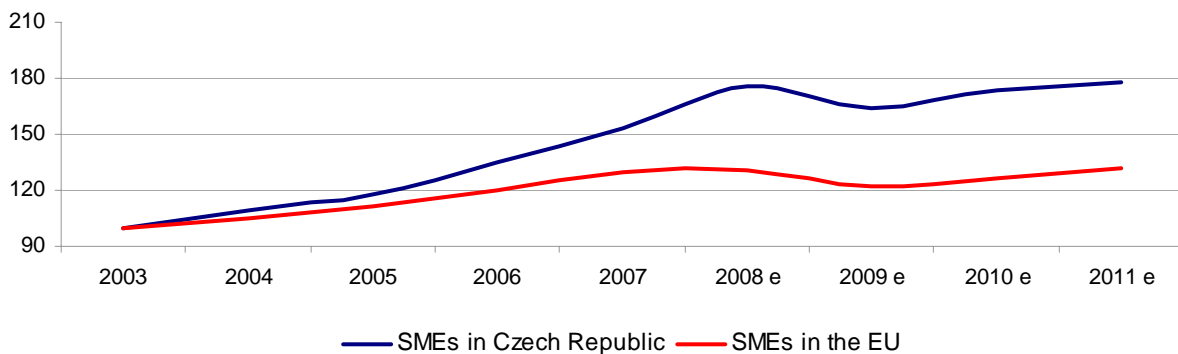
**Number of enterprises**  
 (Index: 2003=100, estimations as from 2008 onwards)



**Employment in enterprises**  
 (Index: 2003=100, estimations as from 2008 onwards)

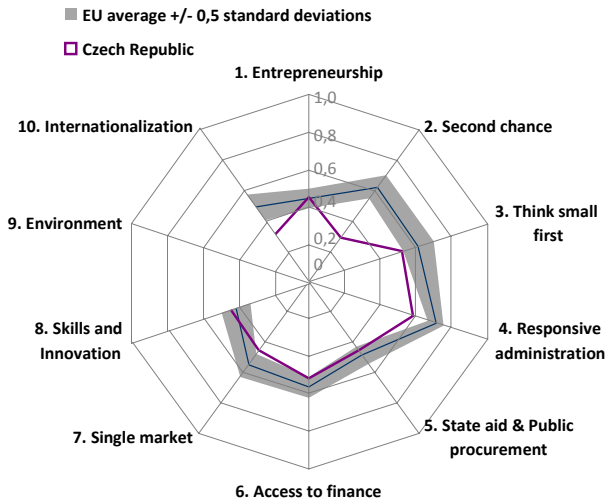


**Value added of enterprises**  
 (Index: 2003=100, estimations as from 2008 onwards)



## 2. The Czech Republic's SBA profile

Czech Republic's performance against the EU average by SBA area<sup>3</sup>



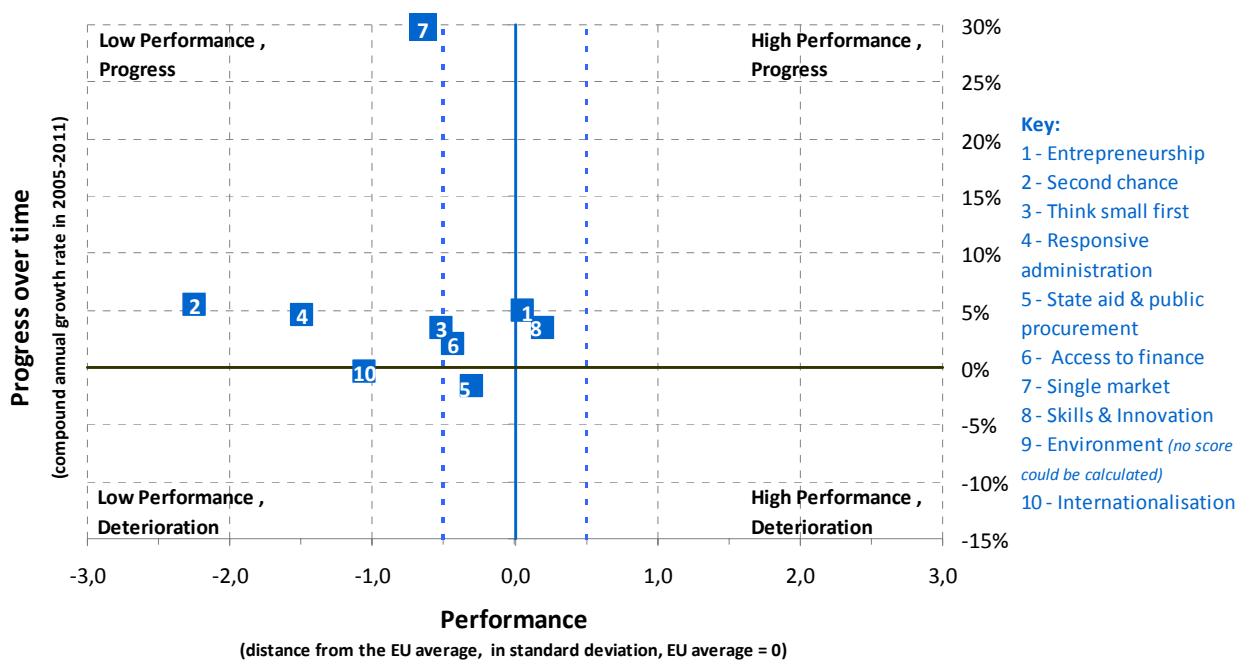
The Czech Republic is currently below the EU average in five areas, namely 'Second Chance', 'Think Small First', 'Responsive administration', 'Internationalization' and 'Single market'. (There are no data on the average score for area 9 'Environment' for any country). In another four areas, the Czech performance is in line with the EU average, but only just. In 'State Aid & Public Procurement' and 'Access to Finance', the scores are almost but not quite below average. Moreover, there is not a single SBA area where the Czech Republic stands out vis-à-vis its EU peers.

The good news is that in seven areas things have been improving. With the exception of 'Single market', which is an outlier, the growth rates have been modest but still sufficient to deliver real progress. The only area where conditions for Czech SMEs appear to have deteriorated is 'State Aid and public procurement'. The areas where the Czech Republic does best are 'Entrepreneurship' and 'Innovation and Skills'. Here the country is well abreast of its EU peers and is set to improve even further.

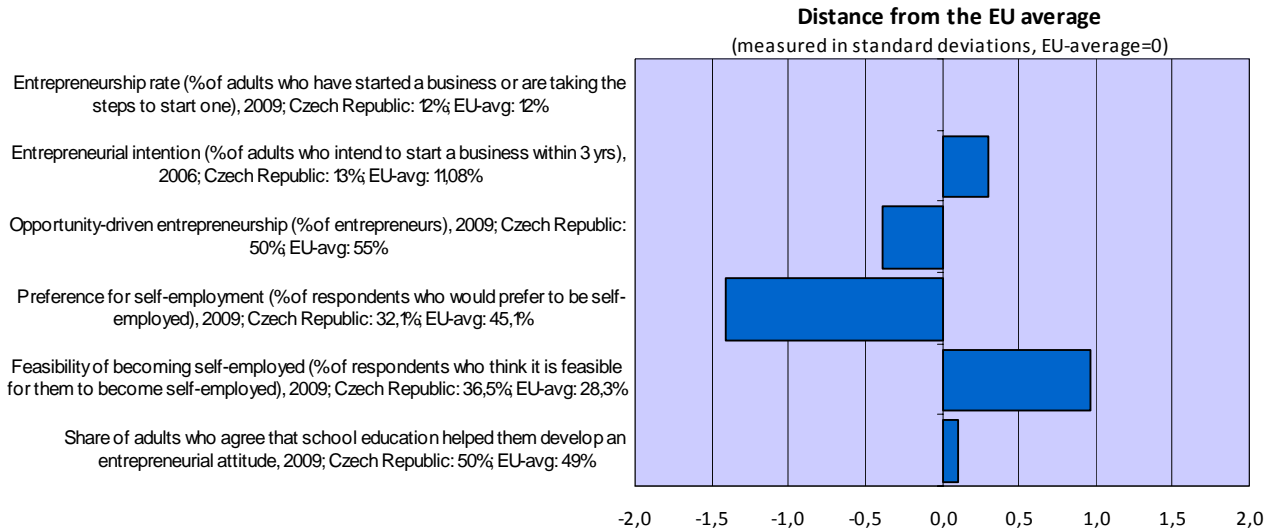
On the policy front<sup>4</sup>, the Czech Republic took action in all SBA areas in 2010–2011.

The Czech SBA profile is one of a 'catching-up' country: according to the most recent data it trails its EU peers in the majority of SBA areas. At the same time however, the situation in the vast majority of these areas has consistently improved, as measured by the average annual growth for the indicators from 2005 to 2011. If these positive trends continue, the Czech Republic could close the present gap.

### The Czech Republic's SBA performance: Status quo and trend in 2005–2011<sup>5</sup>



## I. Entrepreneurship



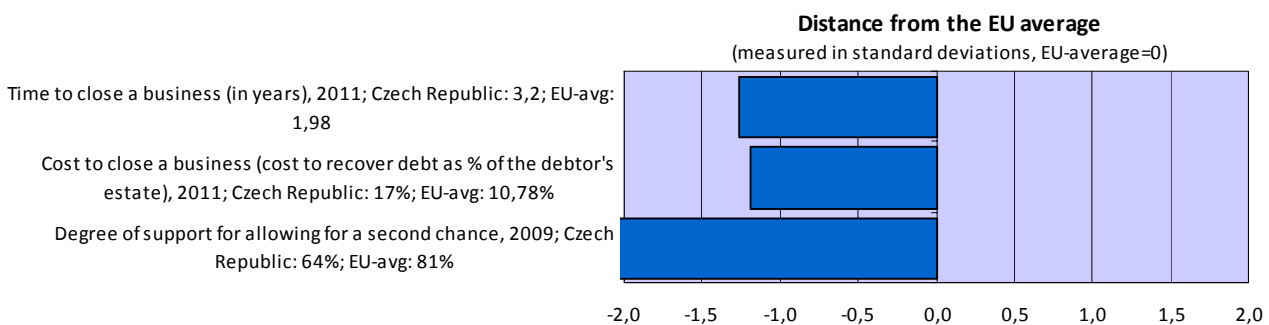
*Note: Data bars pointing right show stronger than EU-average performance and data bars pointing left show weaker performance.*

This is one of the few areas where Czech performance is fully in line with the EU average. This is also true of most individual indicators in this area, for instance the entrepreneurship rate and the share of 'opportunity-driven' entrepreneurs (for whom this was their first career choice). The only major divergences from the average are in the indicators of 'pre-entrepreneurship' attitudes. For example, the percentage of the adult population who would choose to be self-employed is much lower (32%) in the Czech Republic than in the EU as a whole (45%). Interestingly, however, 37% of the Czech population (compared to 28% in the EU as a whole) consider that conditions in their country are right for them to start their own business.

On the policy front, in 2010, the Czech Government introduced its National Strategy for Financial Training. This sets out an integrated plan for making people in the Czech

republic more financially literate. It ties in with the complex issue of how to improve consumer security and give Czech residents better protection on the financial markets. Also in 2010, the Government approved and began implementing the procedure for admitting and integrating immigrants in 2011. It puts into practice the Ministry of the Interior's integration policy and gives foreigners access to information in the Czech language and in their native languages. It also ensures that foreign residents have access to Czech language courses, and it encourages immigrants to start their own business or become legally employed.

## II. Second chance

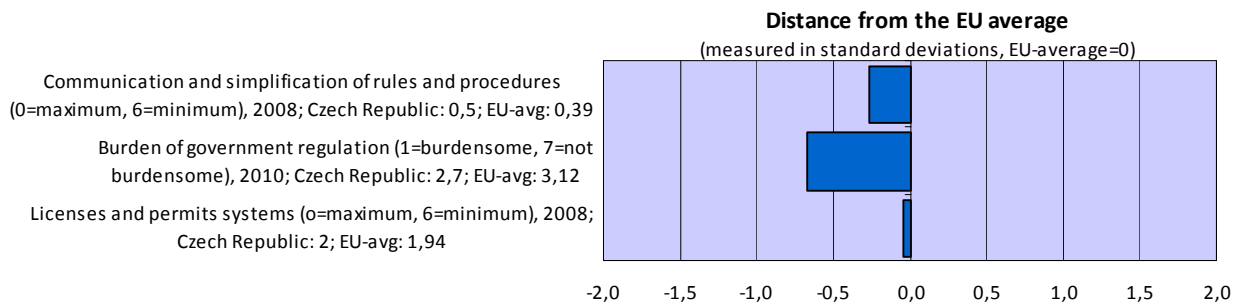


*Note: Data bars pointing right show stronger than EU-average performance and data bars pointing left show weaker performance.*

The Czech Republic is well below the EU average in this area. This is also true of each individual indicator. The widest gap is in the degree of support for allowing an entrepreneur a new start after a failed attempt. The negative sentiment towards this (only 64% as opposed to 81% for the EU in general) is more pronounced only in one other EU country, namely Slovenia. In addition, it is comparatively difficult in the Czech Republic to close a business in order to start a new one. The process takes more than three years, as against the EU average of less

than two years. Combined with the higher closing costs, this creates a more complicated environment for a restart than in most other EU countries. On the policy front, in 2010 the new Act on Financial Collaterals (Act No 408/2010 Coll., on Financial Collaterals) was adopted, together with the related Act No 409/2010 Coll. The related act amends a number of other regulations, such as the Czech Commercial Code, the Insolvency Act (No 182/2006 Coll.) and other acts regulating the financial market.

### III. Think Small First

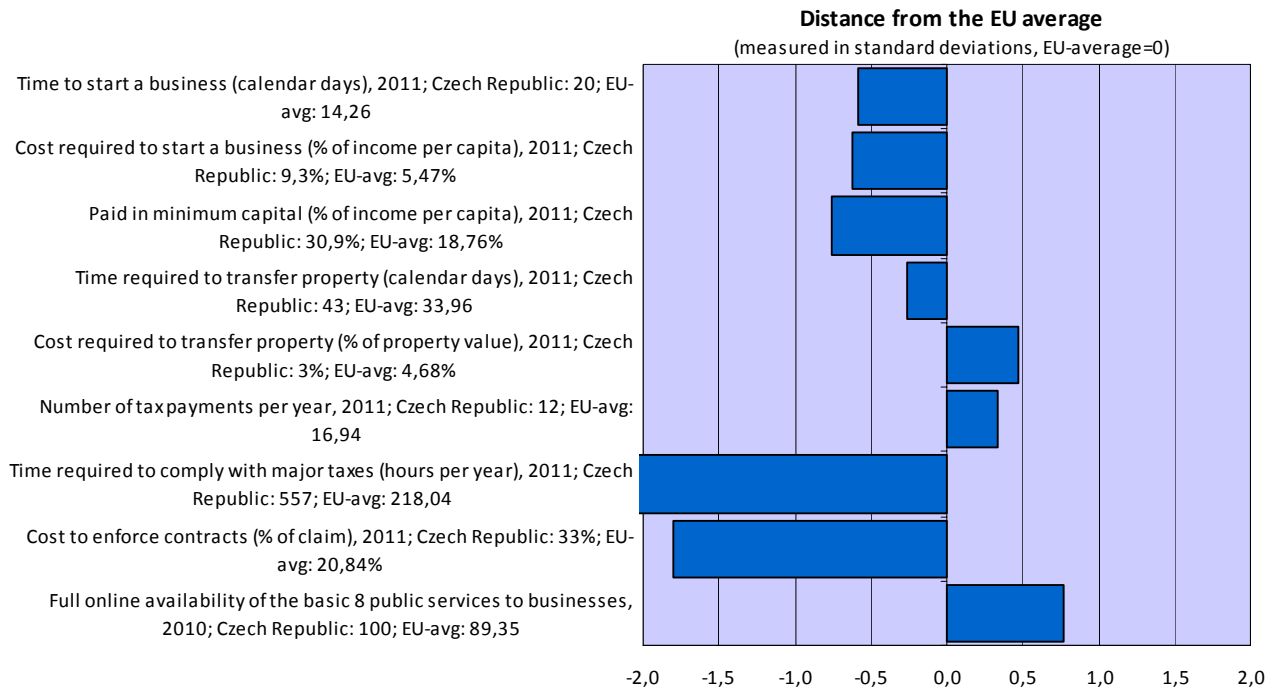


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In this area, too, the Czech Republic underperforms the EU average. This is largely because business owners take a rather negative view of the overall burden of government regulation. A number of policy measures were implemented in 2010 and early 2011 to promote further progress in this area. In 2010, the Government issued a

Policy Statement on key projects and provisions in order to establish the mandatory administrative processes for 2010–2014. There will be an impact assessment test for small and medium-sized businesses, with a set period of legal validity. It will assess and strengthen its institutional implementation and effectiveness.

#### IV. Responsive Administration



Note: Data bars pointing right show stronger than EU-average performance and data bars pointing left show weaker performance.

The below-average overall ranking for this area is broadly reflected in the underperformance of many of the individual indicators, and it affects all aspects. The most extreme case is the time required to deal with the major taxes: it takes a Czech entrepreneur 557 hours to get through his tax paperwork, which is more than two and half times the EU average (218 hours). The only EU country where it takes even longer is Bulgaria.

Also, the cost of enforcing contracts are substantially higher, accounting for a third of the total claim sum in the Czech Republic as against less than 21 % in the EU as a whole.

The cloud does, however, have a silver lining. All eight of the most important business-related services are now online, which puts the Czech Republic at the top of the EU class in this area. Also, the cost of transferring property is in line with the rest of the EU, as is the number of tax payments to be made. The latter situation is, however, compromised by the long time it takes to deal even with this small number of payments. It is also relatively expensive and time-consuming to start a business<sup>6</sup>.

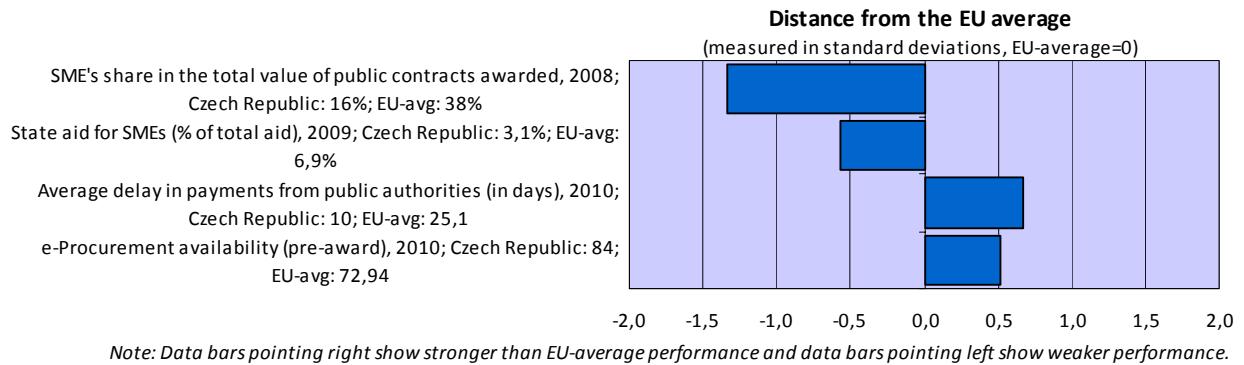
Policy wise, in 2010 the Government implemented a plan for reducing the administrative burden on business. It supports small and medium-sized businesses and its aim is to reduce the administrative burden by 25 % by the year 2012. Also in 2010, the Government issued a decree on

measuring the administrative burden and revising administrative procedures in order to evaluate and reduce the burden for entrepreneurs. The Government also issued a policy statement about simplifying the process of starting up a business, to ensure that data already held by the public authorities will not be required again.

Law No 513/1991 on reducing the administrative burden on entrepreneurs was also published in 2010. It defines the procedure for decreasing of administrative burden on entrepreneurs (the method to be used for measuring and re-measuring the burden). In addition, in 2010 the Government adopted a decree on the rules for selling online. It explains how electronic systems may be used for purchasing and exchanging goods.

Finally, in 2010, the Services Directive created an EU-wide network of administrative contacts which will help SMEs provide services in foreign countries. Points of Single Contact (PSCs) were set up in the Czech Republic to simplify the process of setting up a business and to help entrepreneurs provide services.

## V. State aid and Public procurement



The Czech area average score is only just inside the EU average range. The overall score is dragged downwards in particular by the indicators for the SMEs' share of public procurement and state aid. In the Czech Republic, SMEs account for only 16% of the total value of public contracts. This figure is not only well below the EU average of 38% but is also, the lowest value for all EU Member States. The share of State Aid going to SMEs in the Czech Republic (3.1%) is also less than half of what the average EU country awards to its small businesses (6.9%). Judging from the indicators on payment delays and the availability of e-procurement services, it is probably not the lack of SME-friendly conditions that keep the shares so low. After all, the typical delay in payments by public authorities in this country is about two weeks shorter than the EU average. Also, substantially more pre-award services are offered online than in many other EU countries. The above-average scores on the latter two indicators help to keep the average area score just within the 'EU average'

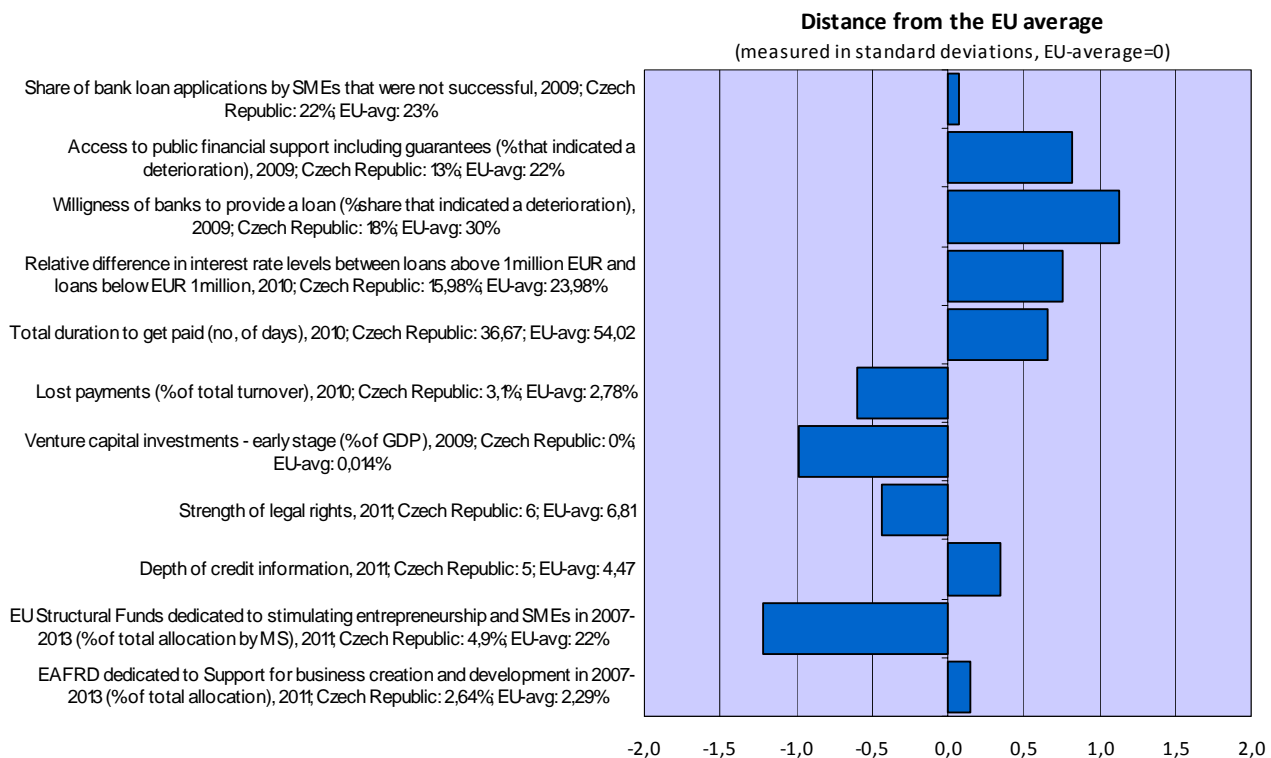
range, but the more important indicators of the actual extent of support to SMEs remain rather low.

Policy wise, in 2010 the Czech Republic joined the European Company Register (ECR). The aim is to reach agreement on sharing information and to increase cooperation between the Czech Republic and other participants in the web-based ECR.

In 2010 the Government also issued a decree adopting a strategy for online public procurement tendering in 2011–2012. The objective is to widen access to the relevant information, to give a more positive image to public procurement and to encourage firms to take part in the tendering procedure.

Finally, in 2011, the Government adopted a decree on its strategy for fighting corruption in 2011 and 2012. It will, in particular, combat corruption in the business sector.

## VI. Access to finance



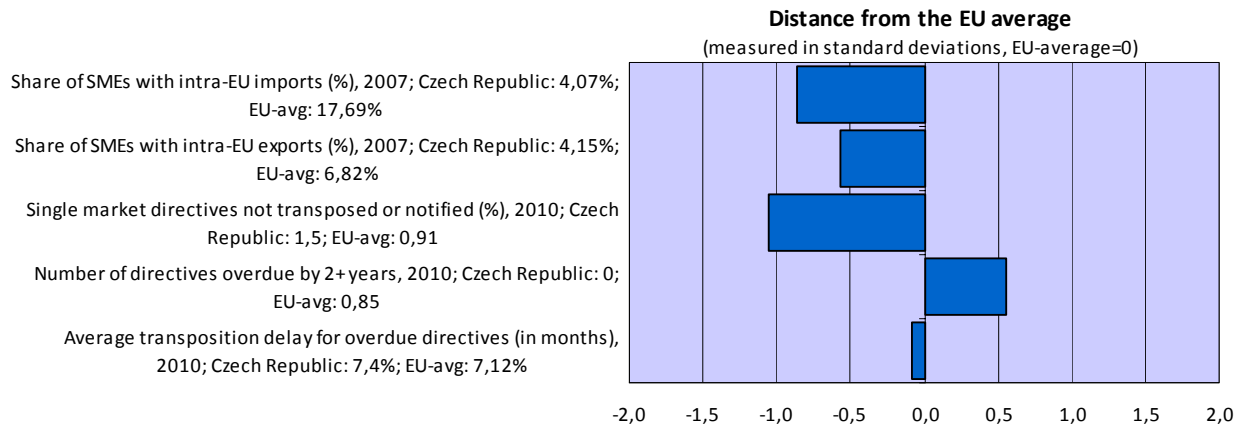
Note: Data bars pointing right show stronger than EU-average performance and data bars pointing left show weaker performance.

The Czech Republic barely maintains an average score in this area, and does so largely thanks to the very good scores (above the EU average) for indicators measuring access to credit financing. Three out of four indicators (the first four in the graph) score higher than their respective EU averages. Particularly outstanding is the fact that only 8% of SMEs in the Czech Republic (versus 30% in the EU as a whole) felt that banks had become less willing to provide loans. Government support in this area was also rated rather highly. According to the latest available figures, only 13% of SMEs in the Czech Republic found the situation deteriorating, as compared to 22% in the EU as a whole. This encouraging picture is rounded out by the relatively low mark-up on the interest rates for loans of less than €1 million. Interest on small loans was only 16% greater than on larger ones, compared to 24% in the EU

as a whole. The situation as regards other aspects of financing is much more ambiguous. Take cash flow, for example. The Czech Republic was ahead of the EU average (by some 17 days) when it comes to payment delays, and this is in line with the results of a similar indicator in the State Aid and Public Procurement section. At the same time, however, the Czech Republic did worse than the EU as a whole on lost payments. When it comes to venture capital financing, the Czech performance is the worst in the EU. Another remarkable result is the very low share (4.9%) of EU structural funds used for promoting entrepreneurship in the Czech Republic — less than a quarter of the EU average (22%).

On the policy front, the Venture Capital Fund (a financial tool supporting business start-ups) was launched in 2011.

## VII. Single market



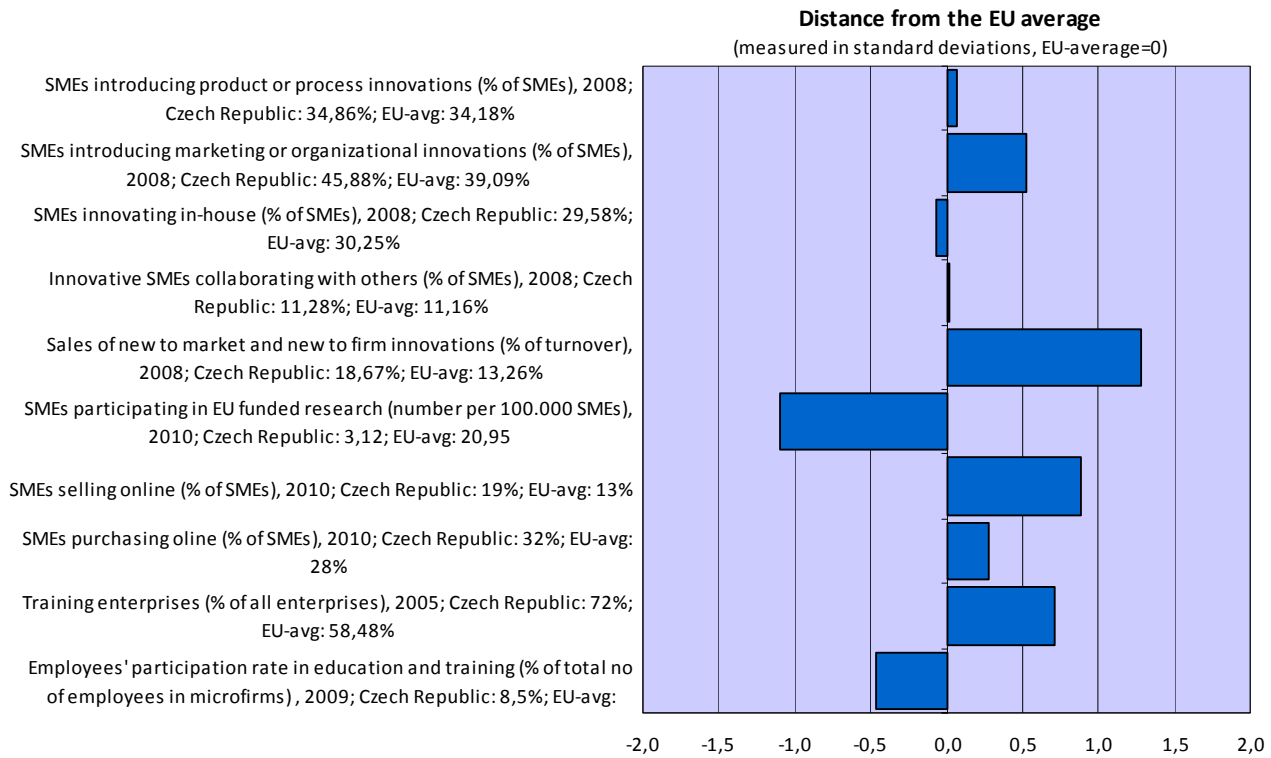
*Note: Data bars pointing right show stronger than EU-average performance and data bars pointing left show weaker performance.*

In this area, too, the Czech Republic falls below the EU average, mainly because of the poor trading performance of Czech SMEs. In particular when it comes to exporting to other EU Member States, Czech firms are well behind their peers in other EU countries. Only 4% of Czech SMEs reported intra-EU exports, compared with an EU average of almost 18%. Only slightly better are the indicators measuring the Government's performance in setting up the legal framework for the single market. While

there are no directives waiting for more than two years to be transposed into Czech law, there is nevertheless an above-average number of directives not transposed at all, or not notified as having been transposed.

On the policy side, Consumer Litigations File no. 460/10 was settled in 2010. This will help customers defend themselves against unfair commercial practices.

## VIII. Skills and innovation



Note: Data bars pointing right show stronger than EU-average performance and data bars pointing left show weaker performance.

In this SBA area, the Czech Republic achieves one its best results. The area average is fully in line with the EU average. Most of the individual indicators in this area are also on par with the respective EU average, in particular the core indicators which directly measure small firms' ability to innovate. Two of these indicators are above the EU average. One is 'SMEs introducing marketing and organisational innovations': almost 46% of Czech SMEs are busy introducing such innovations, whereas the figure for the EU in general is just 39%. The second above-average performance is on 'Sales of new-to-market and new-to-firm innovations'. Here the Czech score is almost 19% — some 5.5% higher than for the EU as a whole. The Czech Republic also scores well in online trading: its online sales are well ahead of the EU average. Finally, on training and skills, the results are ambiguous. There are many more training enterprises in the Czech Republic than in the EU as a whole (72% compared to 58%), but the employees' participation rate is almost sub-average.

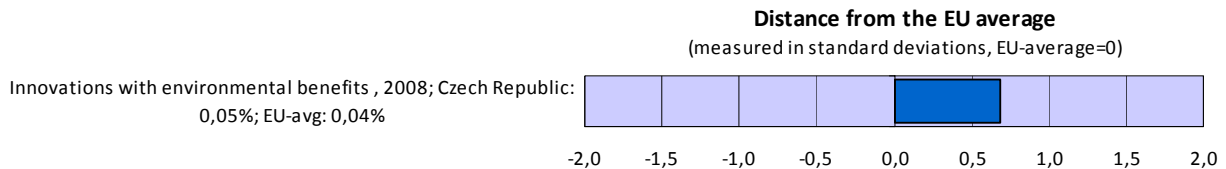
The Czech government has tried to address the issues in this area through a number of policy initiatives. For instance, the Government Decree on the 'NÁVRAT' (RETURN) Programme for Supporting Research, Experimental Development and Innovation was issued in

2010. Its main aim is to encourage top scientists working abroad to return to the Czech Republic. Also in 2010, the Government launched the ALFA Programme to support applied research and experimental development projects. It aims to step up R&D cooperation between businesses and research organisations. Similarly, in 2011, the Government launched the BETA Programme on public procurement in research, experimental development and innovation for the needs of public administration bodies, and the OMEGA Programme to support social science research and experimental development in 2012–2017.

Back in 2010, the Government proposed the 'GESHER/MOST' International Cooperation Programme between the Czech Republic and the State of Israel in research and experimental development (File No 239/10). SMEs will benefit from this bilateral cooperation.

Also in 2010, the Government adopted a proposal from the Ministry of Education, Youth and Physical Training to fund the THALES, JHR and SHAR research infrastructure projects (File No 138/10). This programme will benefit not only Czech SMEs but also small businesses in other EU Member States, and will make it easier for them to take part in international research.

## IX. Environment

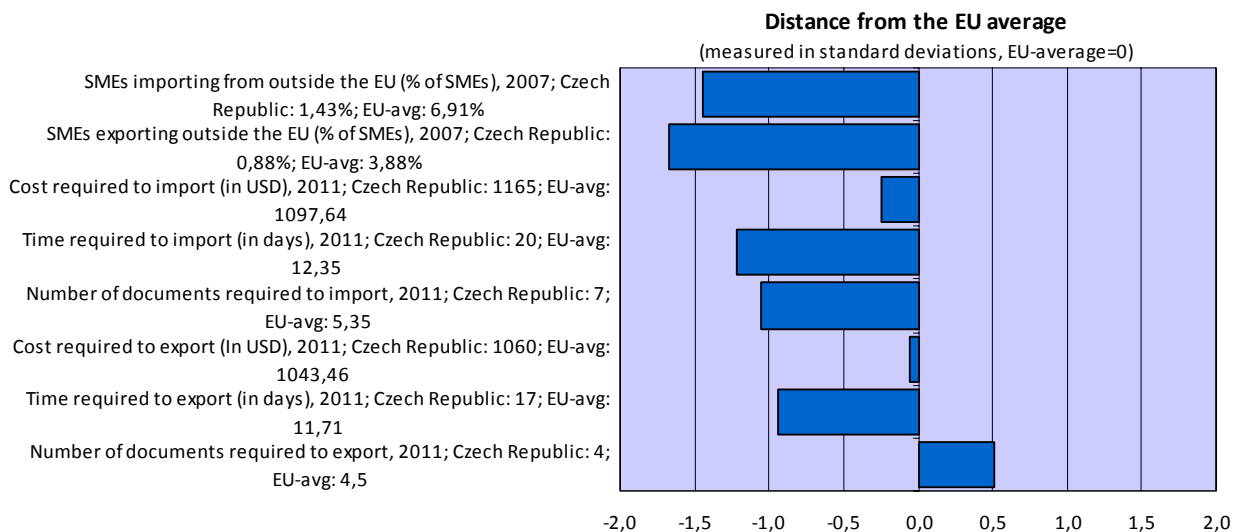


*Note: Data bars pointing right show stronger than EU-average performance and data bars pointing left show weaker performance.*

In the 'Environment' area there is only one indicator available, namely the share of small and medium-sized enterprises that produce innovations with environmental benefits for the enterprise and/or end-user. Consequently, no general conclusions can be drawn in this area.

On the policy front, in 2010 the Ministry of the Environment issued the Government decree No 419 of May 31 for strengthening competitiveness and business development in the Czech Republic. Its aim is to eliminate redundant environmental requirements.

## X. Internationalisation



*Note: Data bars pointing right show stronger than EU-average performance and data bars pointing left show weaker performance.*

As in the 'Single market' area so in 'Internationalisation', the Czech Republic is below the EU average. The reasons for this are obvious. First, Czech SMEs trade less than their EU peers on overseas markets. This is most apparent in the export figures: less than 1% of Czech SMEs export outside the EU, compared to the EU average of 3.9%. The administrative environment is also unhelpful: it takes Czech firms roughly one week longer than their

EU peers to export and import products. But the costs are in line with the EU average, and Czech exporters have to complete fewer documents than their EU peers.

On the policy side, in 2011 the Czech Ministry of Industry and Trade introduced the Czech Export Strategy 2012–2015. It focuses on finding new foreign markets for Czech products, increasing competitiveness, financing and insuring exported goods and providing public support.

### 3. Good practice

To show what the Government actually does to promote SMEs, we include an example of a good practice.

Implemented by the Technology Agency of the Czech Republic, the ALFA Programme supports R&D cooperation between businesses and research organisations. In particular it supports applied research and experimental development projects. The ALFA programme contains three sub-programmes:

1. Progressive technologies, materials and systems (support for enabling technologies applicable in multiple industries);
2. Energy resources and protection of the environment (renewable resources of energy; protection of ecosystems; environmentally-friendly technologies);
3. Sustainable development of transport (development of infrastructure; telematics; energy-efficient, environmentally-friendly and safe transportation).

The programme in effect covers the whole business of financing R&D and innovation activities at national level, and it is not too complicated even for small or medium-sized enterprises to apply to join this programme.

#### About the SBA Fact Sheets

The Small Business Act (SBA) Fact Sheets are produced by DG ENTR as part of the SME Performance Review (SPR) which is its main vehicle providing an economic analysis of SME issues. The Fact Sheets combine the latest available statistical and policy information for the 27 EU Member States and another 10 non-EU countries which also contribute to the EU's [Competitiveness and Innovation Framework Programme \(CIP\)](#). The Fact Sheets — produced annually — help to organise the available information so as to facilitate SME policy assessments and help monitor SBA implementation. They are not an assessment of Member State policies but should be regarded as an additional source of information designed to improve evidence-based policy making. For example, the Fact Sheets cite only those policy measures deemed relevant by local SME policy experts. They do not, and cannot, reflect all measures taken by the government over the reference period. More policy information can be found on a database accessible from the SPR website. Please see the end notes overleaf.

#### For more information

SME Performance Review:

[http://ec.europa.eu/enterprise/policies/sme/facts-figures-analysis/performance-review/index\\_en.htm](http://ec.europa.eu/enterprise/policies/sme/facts-figures-analysis/performance-review/index_en.htm)

Small Business Act:

[http://ec.europa.eu/enterprise/policies/sme/small-business-act/index\\_en.htm](http://ec.europa.eu/enterprise/policies/sme/small-business-act/index_en.htm)

The European Small Business Portal:

[http://ec.europa.eu/small-business/index\\_en.htm](http://ec.europa.eu/small-business/index_en.htm)

[Entr-SPR@ec.europa.eu](mailto:Entr-SPR@ec.europa.eu)

<sup>1</sup> Fact Sheet The SBA Fact Sheets 2010-2011 benefited substantially from input by the European Commission's Joint Research Centre (JRC) in Ispra, Italy. The JRC made major improvements to the methodological approach, statistical work on the dataset and the visual presentation of the data.

<sup>2</sup> The three graphs below describe the trend over time for the variables. They consist of index values for the various years since 2003, with the base year 2003 set at a value of '100'. As from 2008, the graphs show estimates of the development over time, based on 2003-2007 figures from the Structural Business Statistics Database (Eurostat). The estimates were produced by Cambridge Econometrics. The data cover the 'business economy', which includes industry, construction, trade, and services (NACE Rev. 1.1 Sections C to I, K). The data do not cover enterprises in agriculture, forestry, fishing or largely non-market services such as education and health. A detailed methodology can be consulted at: [http://ec.europa.eu/enterprise/policies/sme/facts-figures-analysis/performance-review/index\\_en.htm](http://ec.europa.eu/enterprise/policies/sme/facts-figures-analysis/performance-review/index_en.htm).

<sup>3</sup> The SBA radar chart plots for the different SBA areas the relative position of an individual country vis-à-vis the EU average. The individual values are averages of all available indicators for this area. The scale is from '0' (minimum or 'worst in the EU-27 class') to '1' (maximum or 'best in the class'). The EU average is located between those extremes and plotted as a grey band in the chart. Due to a lack of data, there is no area average for principle 9 ('Environment') for any country.

<sup>4</sup> The policy measures presented in this SBS Fact Sheet are only a selection of the measures taken by the Government in 2010 and in the first quarter of 2011. The selection was made by the SME policy country expert contracted by Ecorys (DG ENTR's lead contractor for the 2010-2011 Fact Sheets). The experts were asked to select only those measures which, in their view, were the most important, i.e. were expected to have the greatest impact in the specific SBA area. The complete range of measures that the experts compiled when producing this years' Fact Sheets will be published in the form of a policy database on the DG ENTR website alongside the Fact Sheets.

<sup>5</sup> The quadrant chart combines two sets of information: firstly it shows the status quo performance based on data for the latest available years. This information is plotted along the X-axis measured in standard deviations of the simple, non-weighted arithmetical average for EU-27. The vertical corridor marked by the dotted lines defines the EU average. Secondly, it shows the progress over time, i.e. the average annual growth rates for the period 2005-2011. The growth rates are those of the individual indicators which make up the SBA area averages. Hence, the location of a particular SBA area average in any of the four quadrants provides not only status quo information about where the country is located in this SBA area relative to the rest of the EU at a given point in time but also the extent of progress made in 2005-2011.

<sup>6</sup> The start-up indicators are based on World Bank data. For methodological details, please consult the Doing Business 2011 report at <http://www.doingbusiness.org/>. It should be noted that these findings differ from corresponding figures obtained directly from Member States (through a self-reporting exercise), according to which, in 2010, it took 15 days and cost €345 to start up a business in the Czech Republic. For more details please see: [http://ec.europa.eu/enterprise/policies/sme/business-environment/start-up-procedures/index\\_en.htm](http://ec.europa.eu/enterprise/policies/sme/business-environment/start-up-procedures/index_en.htm).