

2016 SBA Fact Sheet

Czech Republic

Key points

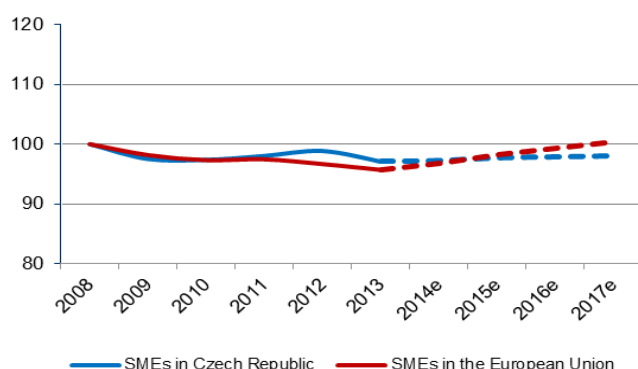
Past & future SME performance¹: In 2015 the number of SMEs grew by 1 % from the previous year, representing approximately 10 000 companies. Czech SMEs started increasing their output while keeping employment roughly stable. Both parameters remained below their pre-crisis levels though. The SME value added in 2015 grew by 6 % from the previous year, reaching 97 % of its 2008 level. SME employment increased slightly from 97 % to 98 % of its 2008 level (with 26 000 new jobs in absolute terms). The outlook for the next two years is mixed. SME value added is expected to grow by 4 % p.a., while employment is forecast to remain stable.

Implementing the Small Business Act for Europe (SBA): The Czech Republic's SBA profile shows mixed results. The country's strengths include State aid & public procurement and Environment. Notably, the result for public procurement is significantly influenced by a single indicator, measuring the participation of SMEs in public tenders. At the same time, the European Semester process has identified further quality enhancements to the public procurement process as necessary. Average scores were recorded in the areas of Entrepreneurship, 'Second chance', Access to finance, Single market, and Skills & innovation. The performance in 'Responsive administration' and internationalisation was below average. Since 2008 the country has made moderate progress implementing the Small Business Act. Policy measures put in place have addressed all SBA areas, although a number of individual SBA recommendations have yet to be implemented. The fastest progressing areas include State aid & public procurement, 'Second chance', Single market and 'Responsive administration'. Significant policy efforts went to better anchor the 'Think Small First' principle in the policy-making process. Performance in the areas of Entrepreneurship, Skills & innovation, and Internationalisation actually deteriorated compared to 2008.

SME policy priorities: Challenges remain unchanged from the previous year. It is necessary to raise the profile and public appeal of Entrepreneurship. The application of the 'Think Small First' principle needs to be strengthened, in particular by systematically applying the SME test to new legislative proposals. Developing e-government solutions is extremely important to create a more favourable business environment and public administration needs to be made more responsive to SMEs' needs. Last but not least, international trade, both in the Single market and with non-EU countries, appears to be the area where short-term gains should be the easiest to accomplish.

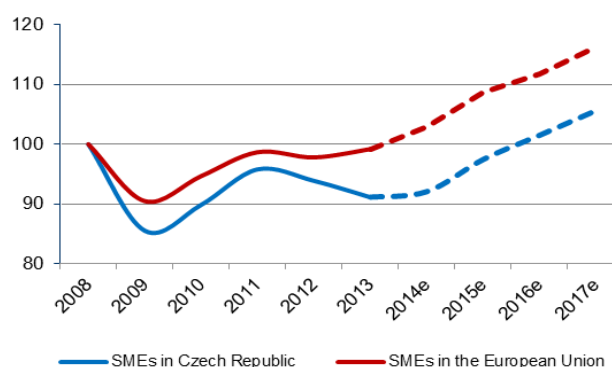
Number of persons employed in SMEs

(Index: 2008=100, estimates as from 2014 onwards)



Value added of SMEs

(Index: 2008=100, estimates as from 2014 onwards)



About the SBA fact sheets

The Small Business Act for Europe (SBA) is the EU's flagship policy initiative to support small and medium-sized enterprises (SMEs). It comprises a set of policy measures organised around 10 principles ranging from Entrepreneurship and 'Responsive administration' to Internationalisation. To improve the governance of the SBA, the 2011 review of it called for better monitoring. Published annually, the SBA fact sheets aim to improve the understanding of recent trends and national policies affecting SMEs. Since 2011, each EU Member State has appointed a high-ranking government official as its national SME envoy. SME envoys spearhead the implementation of the SBA agenda in their countries.

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1. SMEs — basic figures

Class size	Number of enterprises			Number of persons employed			Value added		
	Czech Republic		EU-28	Czech Republic		EU-28	Czech Republic		EU-28
	Number	Share	Share	Number	Share	Share	Billion €	Share	Share
Micro	955 046	96.1 %	92.8 %	1 123 258	31.7 %	29.5 %	17.9	20.1 %	21.2 %
Small	31 140	3.1 %	6.0 %	625 065	17.6 %	20.2 %	12.7	14.3 %	18.0 %
Medium-sized	6 430	0.6 %	1.0 %	668 338	18.9 %	17.0 %	18.2	20.5 %	18.2 %
SMEs	992 616	99.8 %	99.8 %	2 416 661	68.2 %	66.8 %	48.8	54.9 %	57.4 %
Large	1 492	0.2 %	0.2 %	1 127 464	31.8 %	33.2 %	40.1	45.1 %	42.6 %
Total	994 108	100.0 %	100.0 %	3 544 125	100.0 %	100.0 %	88.9	100.0 %	100.0 %

These are estimates for 2015 produced by DIW Econ, based on 2008-2013 figures from the Structural Business Statistics Database (Eurostat). The data cover the 'non-financial business economy', which includes industry, construction, trade, and services (NACE Rev. 2 sections B to J, L, M and N), but not enterprises in agriculture, forestry and fisheries and the largely non-market service sectors such as education and health. The advantage of using Eurostat data is that the statistics are harmonised and comparable across countries. The disadvantage is that for some countries the data may be different from those published by national authorities.

SMEs in the 'non-financial business economy' play an equally important role in the Czech Republic as they do in the EU — in both cases they represent 99.8 % of all businesses. Czech SMEs account for 55 % of total value added and 68 % of total employment, both of which are similar to the respective EU averages. Among Czech SMEs, medium-sized firms produce the highest share of value added (20 %), while micro firms account for the largest share of jobs (32 %).

The single most important sector for SMEs is *manufacturing*, accounting for 29 % of both SME value added and SME employment. *Wholesale and retail trade* contributes the second highest shares of SME value added and employment, each share slightly exceeding 20 %.

In 2015, the Czech 'non-financial business economy' got back to its 2008 level of value added. And yet, the recovery was not evenly spread across different size-classes. The total SME value added in 2015 was 3 % below its 2008 level. Small companies delivered only 90 % of the value added they created back in 2008, while medium-sized firms slightly exceeded their 2008 level of output.

In 2015, overall SME employment was 2 % lower than in 2008, with no significant volatility during the preceding two years. Total SME employment appeared to be largely unaffected by the crisis. Job losses that affected small and medium-sized firms were largely absorbed by increasing employment in microenterprises, which in 2015 employed 8 % more people

than in 2008. Employment in small companies and in medium-sized businesses was 10 % below its pre-crisis level.

SME value added in most sectors has fallen since 2008. Notable exceptions to this trend included *real estate activities* and *accommodation and food service activities* sectors.

SMEs in *real estate activities* performed strongly and delivered an increase of 26 % between 2008 and 2015, despite high volatility of results. SME employment has similarly increased: by 12 % in the same period. Several factors contributed to the growth of this sector, among which the gradual deregulation of rents from 2006 onwards.² The resulting rent increases led to a revival of the real estate market.^{3,4} The low interest rates that prevailed during the post-crisis period also boosted the market for real estate transactions.⁵ At the same time the low interest rates strengthened the preference of Czech people for ownership rather than renting.⁶ Furthermore, home ownership became more affordable following the increases in disposable household incomes over the past two decades.⁷

Another sector which outperformed the wider Czech economy was *accommodation and food service activities*. SME value added in this sector grew by 24 % in the years 2010-2015, compared to 9 % in the overall 'non-financial business economy' during the same period. One significant growth driver was the strong increase in tourism and travel, reflected in a 25 % rise in international tourists to the Czech Republic in 2010-2014.⁸ The Czech National Bank supported this growth since 2013 with exchange rate interventions which stimulated foreign demand by artificially weakening the local currency.⁹ This sector also benefited from a rise in domestic demand,¹⁰ which usually accounts for approximately half of the total output of this sector.¹¹ Despite the strong growth of SME value added in *accommodation and food service activities*, SME employment fell

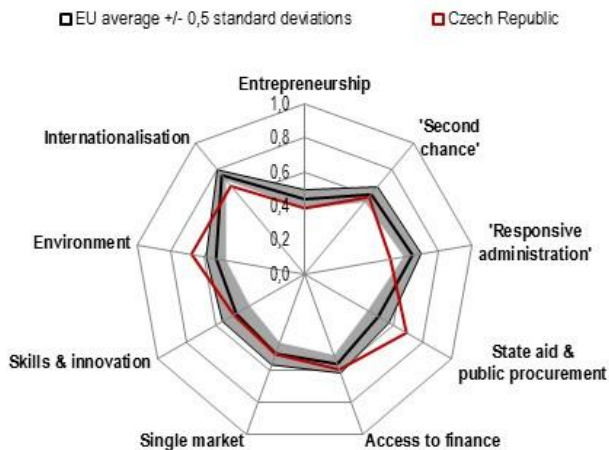
by 4 % in the years 2010-2015. This was due to the more competitive environment, which put pressure on companies to increase productivity. In 2012 productivity was significantly lower in this sector than in other sectors, and therefore offered considerable possibilities for improvement.¹²

Despite the inconsistent pattern of evolution in business registration and de-registration, the number of registered companies rose consistently by roughly 5 % from 2008, to a total of 430 992 in 2015.¹³ Business registrations increased by 2 083 to 26 953 in 2014-2015. Since 2012, registrations have continued to rise, particularly in 2013-2015, when there was a sizable increase of more than 8 % annually. In 2014-2015, business de-registrations also increased, by 44 %, to 7 312. This was the highest total number of de-registrations in recent years. However, the annual number of de-registrations has fluctuated widely since 2008, ranging from decreases of 50 % to increases of 60 %.

The most important factor leading to this steady growth in the number of registrations was the introduction of various government policies aimed at promoting new business ventures. These included the 2015 launch of programmes to provide consultancy services to SMEs, and to fund new micro firms' investments in technological improvements.^{14,15} The high number of de-registrations can be partly explained as a consequence of increased competition as more new businesses entered the market, which exerted strong pressure on existing firms, forcing those with the lowest productivity out of business.

The 2016-2017 forecast for SMEs is for moderate growth, in line with the 'non-financial business economy' as a whole. While SME employment is expected to continue to stagnate, SME value added is expected to grow by 4 % annually in 2016-2017.

2. SBA profile¹⁶



The Czech Republic shows a fairly average, if uneven, SBA profile. Its strengths are State aid & public procurement and Environment. At the same time, the 2016 country-specific recommendations encourage the Czech Republic to adopt the outstanding anti-corruption reforms and improve public procurement practices. In five SBA areas, Czech performance is average: Entrepreneurship, 'Second chance', Access to finance, Single market and Skills & innovation. The country needs to improve the quality of its administration and the conditions for SMEs to do business abroad, particularly with non-EU countries.

The Czech Republic has made moderate progress in implementing the SBA, although the government has not adopted a specific strategy for SBA implementation.

Since 2008, the government has put in place measures that addressed each individual area of the SBA. While priorities included 'Think Small First', Access to finance and State aid & public procurement, the data show that most improvements in performance took place in State aid & public procurement, 'Second chance', Single market and 'Responsive administration'. Access to finance and Environment progressed little from their relatively advanced levels, while negative developments were

registered in Entrepreneurship, Skills & innovation and Internationalisation. Notably, policy-makers introduced new measures in these areas, e.g. five agreements with commercial banks were signed to make possible the disbursement of funds from the European Fund for Strategic Investments. The results are not yet adequately reflected in the latest statistical data.

Policy measures presented in this fact sheet are a selection of the measures the government took in 2015 and the first quarter of 2016 (the reference period).

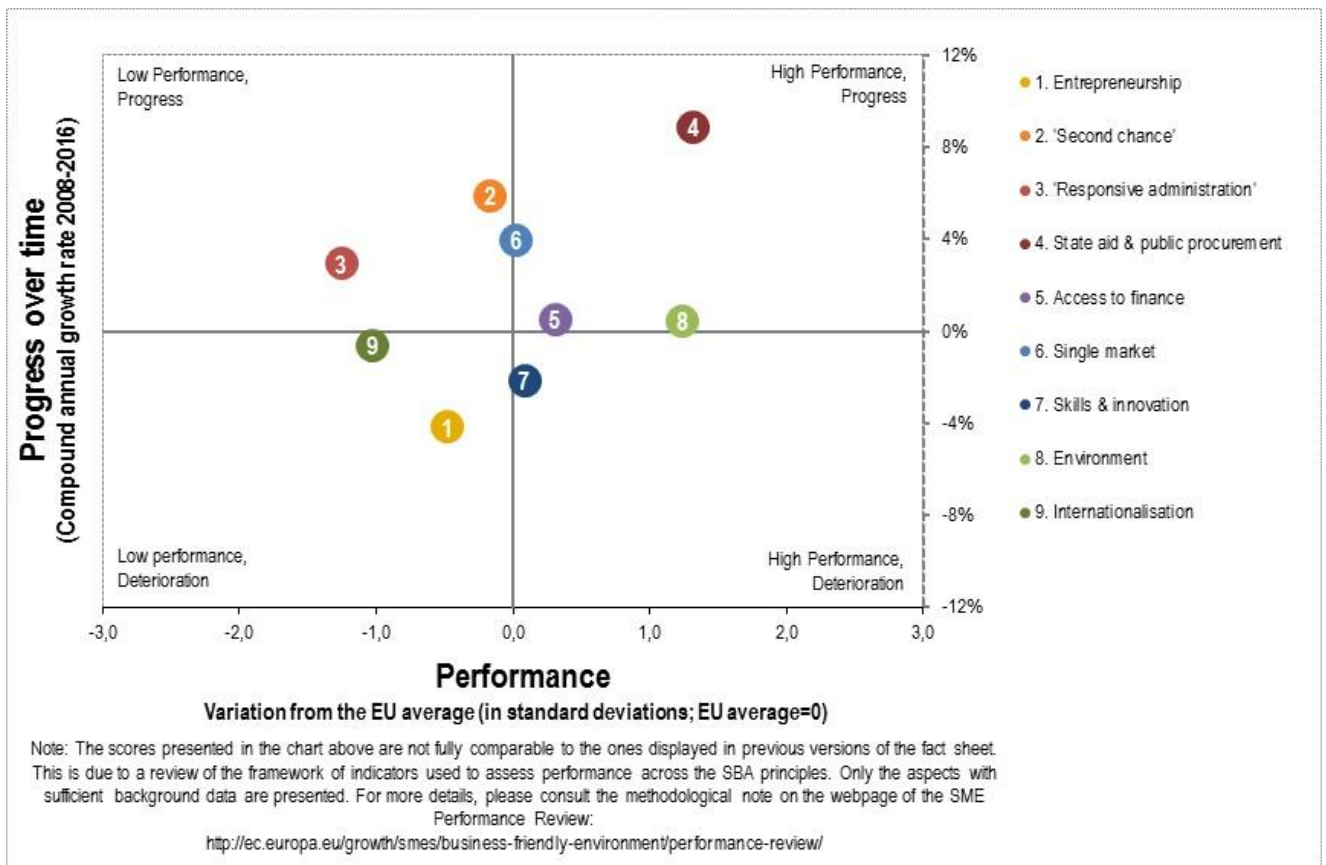
During the reference period, the government adopted or announced 10 significant policy measures addressing seven policy areas under the SBA.

Stakeholders acknowledge moderate progress in implementing the SBA and believe that Entrepreneurship, Skills & innovation and Environment were the SBA policy areas in which most significant policy achievements were made in 2015. The policy developments concern:

- the technology programme, put in place to help start-ups and micro-enterprises purchase new technologies;
- the energy savings programme, which funds the implementation of energy saving solutions in SMEs; and
- the knowledge transfer partnerships programme, which contributes to intensifying collaboration between SMEs and R&D specialists in the area of Skills & innovation.

SME policy topics have recently gained in visibility thanks to the work of the SME Envoy and intensified engagement of SME stakeholders in a dialogue with public authorities. The feedback SME representative organisations provide is currently better aligned with the structure of the SBA. In addition, there were a number of measures specifically aimed at SMEs introduced under the Entrepreneurship and innovations operational programme, which further boosted the public image of SMEs. And yet, many challenges persist and further policy efforts are needed to complete the implementation of the SBA.

SBA performance of the Czech Republic: state of play and development from 2008 to 2016¹⁷



3. SBA principles¹⁸

3.0 'Think Small First'

The 'Think Small First' principle is intended as a guiding principle for all policy- and law-making activities. It requires policy-makers to take SME interests into account at the early stages of the policy-making process. The principle also calls for newly designed legislation, administrative rules and procedures to be made simple and easy to apply.

The government is responsible for administering the implementation of the Think Small First principle. Numerous positive steps have been put in place to better address the interests of SMEs. And yet a number of areas still require policy action. Stakeholders argue that the major challenge in this area is the incorporation of the SME test in the regulatory impact assessment (RIA) process and its use in practice.

The key implementation document is the action plan for supporting SMEs adopted in December 2015. It was developed in collaboration with the Czech Economic and Social Agreement Council, also including representatives of its SME members. The document defines priorities and practical measures to facilitate more effective development of SMEs in the Czech Republic in all phases of their entrepreneurial cycle in 2016. The implementation of individual measures put forward in the document is being continuously monitored.¹⁹

The use of common commencement dates is optional and promoted in all regulations affecting business environment. SME representatives emphasise the importance of common commencement dates and call for a sufficient period of time to be granted between the adoption and actual implementation of newly prepared regulations to enable SMEs to comply. It is estimated that approximately 60 % of laws make use of common commencement dates, with the next target being 70 % by the end of 2017.

RIA is applied only to selected legislative measures. The overall quality of the RIA analysis is often difficult to assess because of

frequent shifts during the legislative process. The impact of changes to the original proposal is not assessed. Frequently, the impact of legislation on businesses is carried out in a summary fashion and in particular does not follow the proportionality principle, which requires the level of analysis to be proportionate to the expected results.

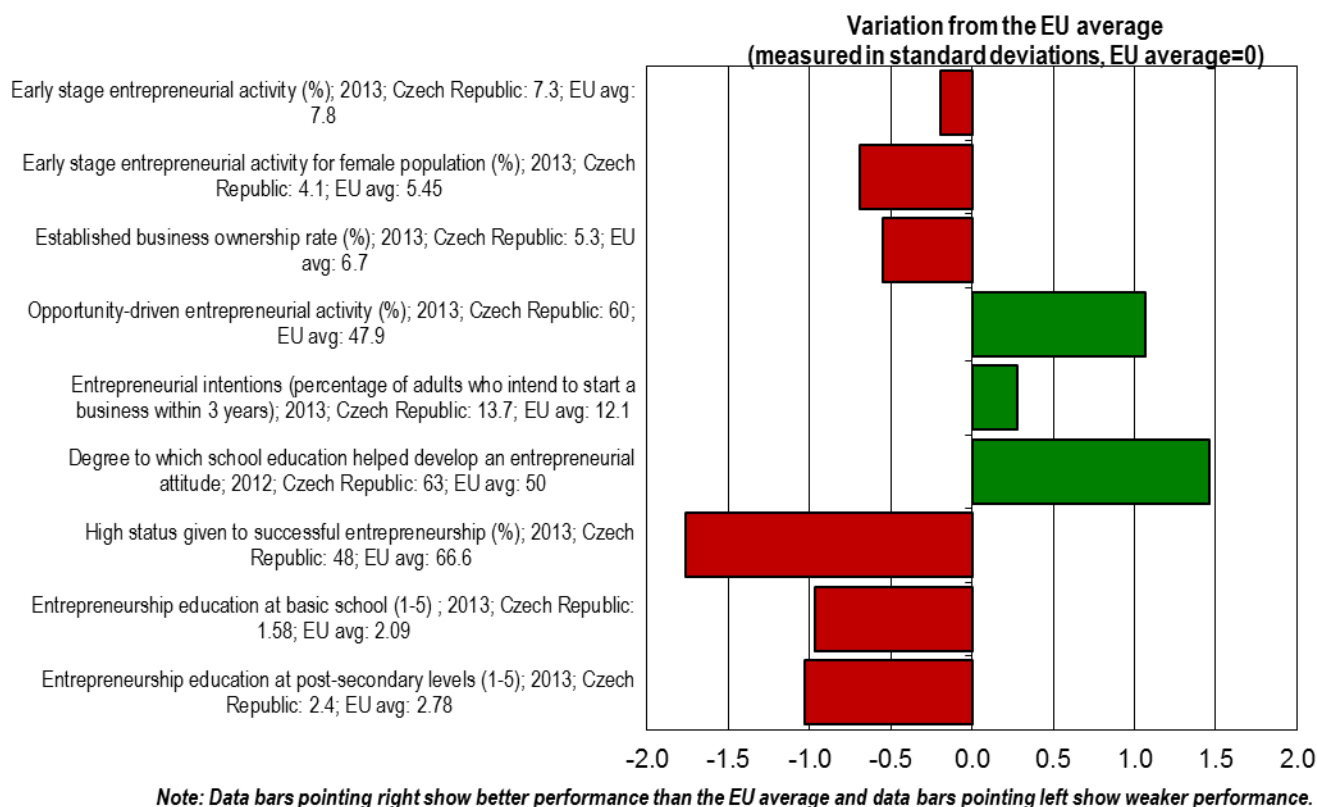
The 'SME test' is not performed, despite the fact that preliminary methods for its implementation have been developed.

In this reporting period, the results in the Think Small First area are not entirely positive. Although a positive trend was reported by SME stakeholders, particularly regarding the state administration's action to ensure two-way communication and early consultations on principal measures and legislation that affect SMEs, a certain unwillingness and insufficient appreciation of the importance of the SME sector is still evident in the approach of some line ministries.

SME representatives consider the reduction of the administrative burden to be stagnant. Measures to simplify some of the bureaucratic procedures that affect SMEs are too often quickly replaced by new measures introduced by line ministries which impose similarly time-consuming demands on entrepreneurs, thus negating any time saved.

During the reference period for this fact sheet, no new significant policy measures were implemented in this SBA area.

3.1 Entrepreneurship



According to the latest data, the Czech Republic's performance was on a par with the EU average. The two newly introduced composite indicators were related to entrepreneurship education. The first reflects the public perception of how well primary and secondary school curricula encourage creativity, self-sufficiency and personal initiative, teach market economic principles and pay adequate attention to new firm creation and entrepreneurship. The second indicator measures how well different post-secondary education programmes prepare students to start up and grow new firms. The scores recorded for both these indicators were below the average EU values.

The evolution in scores of individual indicators recorded in this area since 2008 has been negative.

The Czech Republic has not put in place a national approach to entrepreneurship education. Similarly to most European countries, the school curriculum covers the process of setting up a business. There exist a number of programmes that aim to develop that curriculum further, but these efforts are largely not coordinated with each other. Examples include the P-KAP project, Junior Achievement Czech Republic, practice enterprise and activities funded by the European Social Fund.

Public perception of entrepreneurs, particularly those running small businesses and handicraft businesses, is not sufficiently positive. In collaboration with the Confederation of Industry, the

government has been trying to address the situation: 2015 was named Year of Industry and Technical Education and 2016 Year of Crafts. And yet, young people have been becoming less keen to start their own business. The Czech Republic is experiencing a long-term decline in the number of students willing to enter technical or vocational training courses.

Ease of transferring a business remains a major issue, despite some facilitating measures introduced earlier. There is no central platform in the Czech Republic that would facilitate such transfer of ownership.

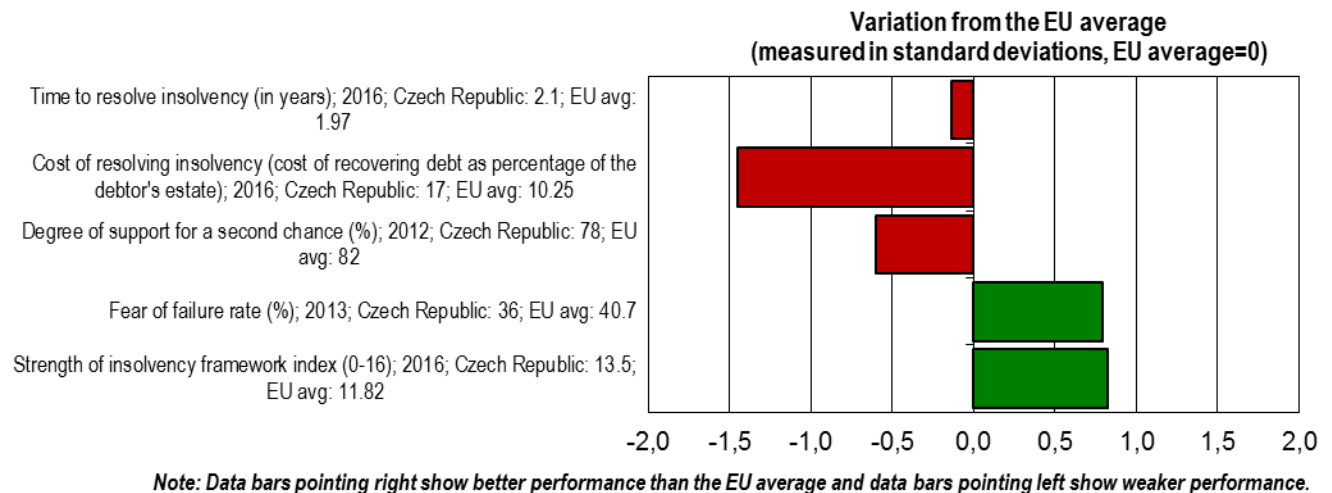
Since 2008, the Czech Republic has introduced measures responding to almost half of the SBA recommendations in the area. Stakeholders point to the need to improve the implementation of these measures to achieve better effects.

During the reference period for this fact sheet, there was one measure adopted to support young entrepreneurs. The technology programme provides grants to new entrepreneurs, micro-businesses and start-ups that have been in business for no more than three years, to assist them in purchasing new machines and technological equipment. The subsidies vary between EUR 3 700 and EUR 8 400 and cover up to 45 % of eligible expenses.

During the reference period, one measure was announced. The Poradenství SME support programme will make it easier to use consulting services for start-ups and SMEs that have been in business for no more than three years. The programme aims to

increase the number of start-ups and to strengthen the competitiveness of economically-challenged regions. Subsidies ranging from EUR 1 850 to EUR 18 500 will cover up to 50 % of eligible costs.

3.2 'Second chance'



'Second chance' means ensuring that honest entrepreneurs who have gone bankrupt get a Second chance quickly. The Czech Republic's performance was in line with the EU average. This was also the area in which the country has made considerable progress (second only to State aid & public procurement) since 2008.

According to the latest data, starting a new venture after a business failure remained difficult. The time and cost of resolving insolvency did not change from the previous year and stood at 2.1 years and 17 %, respectively, of the debtor's estate. The cost was particularly high compared to the EU average. At the same time, the strength of the insolvency framework recorded above-average results.

Since 2008, the Czech Republic has made good progress in the area, mostly thanks to reducing the time needed to resolve insolvency from 6.5 years in 2008 down to 2.1 years in 2014. Important amendments to insolvency law were made to enable smaller businesses to use the legal possibility of corporate reorganisation. Reorganisation now represents an alternative to bankruptcy for companies employing more than 50 people or having an annual turnover exceeding CZK 50 million.

Despite the progress made since 2008, stakeholders consider insolvency procedures to be complex and time-consuming. Companies in distress usually enter the insolvency process at a late stage, where the magnitude of their problems is significant and when it is very difficult to save their business. The cash flows to creditors are minimal and creditor satisfaction is low. The vast majority of insolvencies are settled through bankruptcy, leading to a definitive closing of the business. Some further

problems with the practical application of insolvency proceedings are expected to be addressed by an upcoming amendment.

Politically, it is not a government priority to help non-fraudulent bankrupt entrepreneurs to go back to business. Public opinion would rather see creditors more satisfied with the outcomes of settlements than non-fraudulent bankrupt entrepreneurs encouraged to return to business. Bankruptcy tends to be viewed as a testament to an individual's inability to run a business rather than as valuable experience that merits them being given a second chance.

The government has so far implemented only one of the SBA recommendations in the area. Bankruptcy discharge is now completed in less than three years. At the same time, legal procedures are not yet completed within the maximum of 12 months, re-starters are not treated on an equal footing with starters and the stigma of failure is not addressed through national information campaigns. Honest entrepreneurs are not automatically discharged after liquidation. There are no fast-track or specific procedures for SMEs, and there are no early warning or helpdesk mechanisms in place to help entrepreneurs avoid entering bankruptcy.

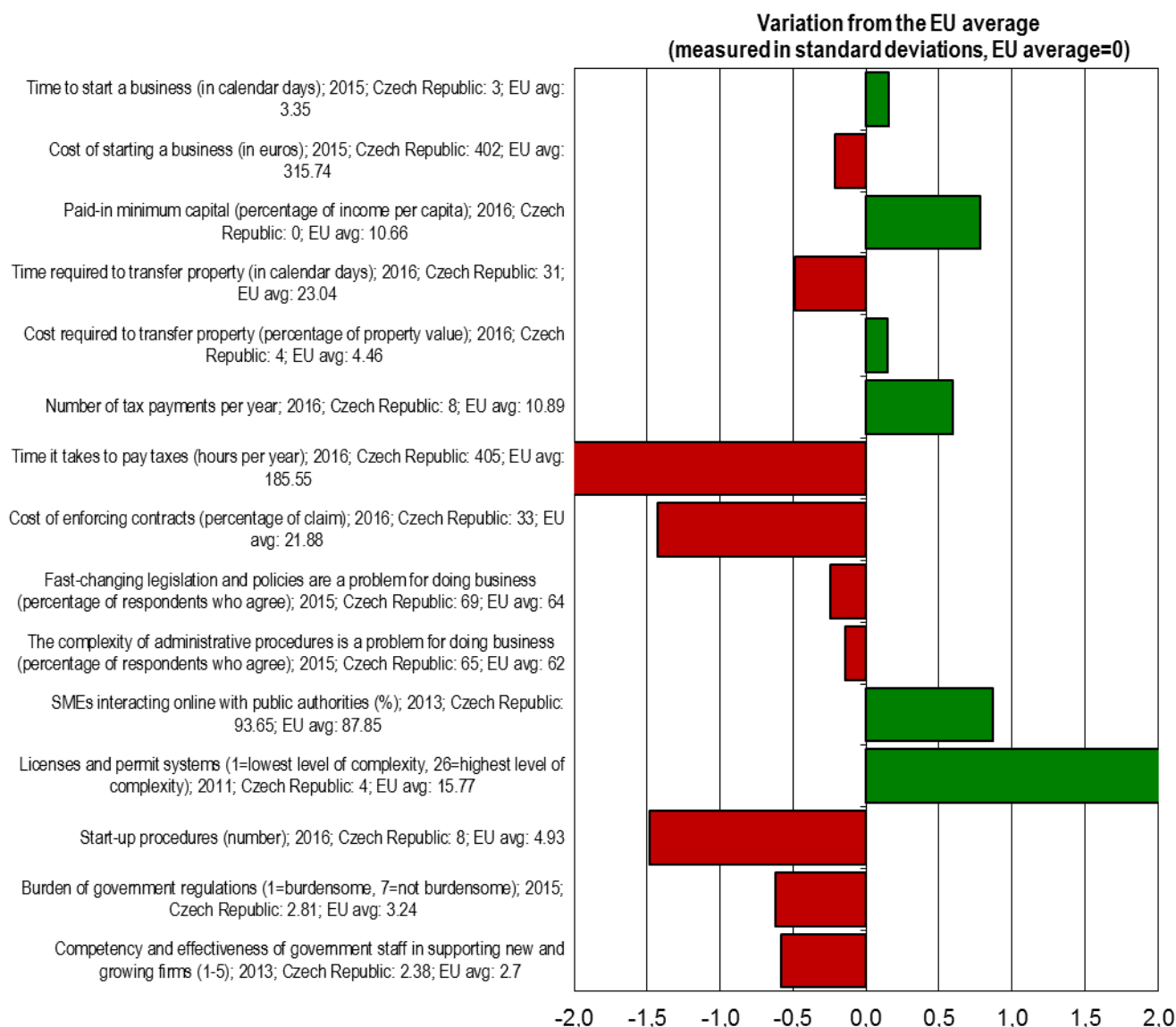
During the reference period of this fact sheet, no new policy measures were implemented, but the government announced an amendment to the Insolvency Act. It will aim to:

- strengthen the supervision of how insolvency administrators carry out their duties;
- increase the transparency of insolvency proceedings, reduce administrative procedures in insolvency courts and

strengthen the delivery of all documents to the data boxes (an electronic solution through which the public administration communicates with legal persons); and

- increase protection against certain aggressive practices in insolvency proposals.

3.3 'Responsive administration'



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

'Responsive administration' means public administration being responsive to the needs of SMEs. The Czech public services offered below-average quality of service, although quite some progress in absolute terms has been made since 2008.

The time needed to deal with fiscal administration and the cost of enforcing contracts were the two main administrative areas where improvements need to be made. Government regulations continued to be burdensome and government staff offered below-average quality of assistance to new and growing firms.

Overall, the performance slightly deteriorated from the year before. The changes in individual indicators did not follow a consistent pattern and were small in magnitude. Notably, of 15 indicators available in this area, six did not change from the year before, two were not updated and two were included in the set for the first time (number of start-up procedures and the competence of government staff for new and growing firms).

The time needed to transfer property went up by one week (from 24 to 31 days). The speed of change in legislation and the

complexity of administrative procedures improved slightly in absolute terms, but neither of them marked an improvement compared to the EU average.

Since 2008, the Czech Republic has made some improvements in the SBA area, e.g. starting a business is now easier, cheaper and faster. The minimum amount of required paid-in capital has been substantially reduced. The process for obtaining business licences has been simplified and various e-government services have been launched. Stakeholders agree that government measures in this SBA area are moving in the right direction but still point to a number of issues.

SMEs in the Czech Republic continue to be heavily affected by the burden of regulations, the complexity of administrative procedures, the impact of rapidly changing legislation and the administrative burden associated with taxation.

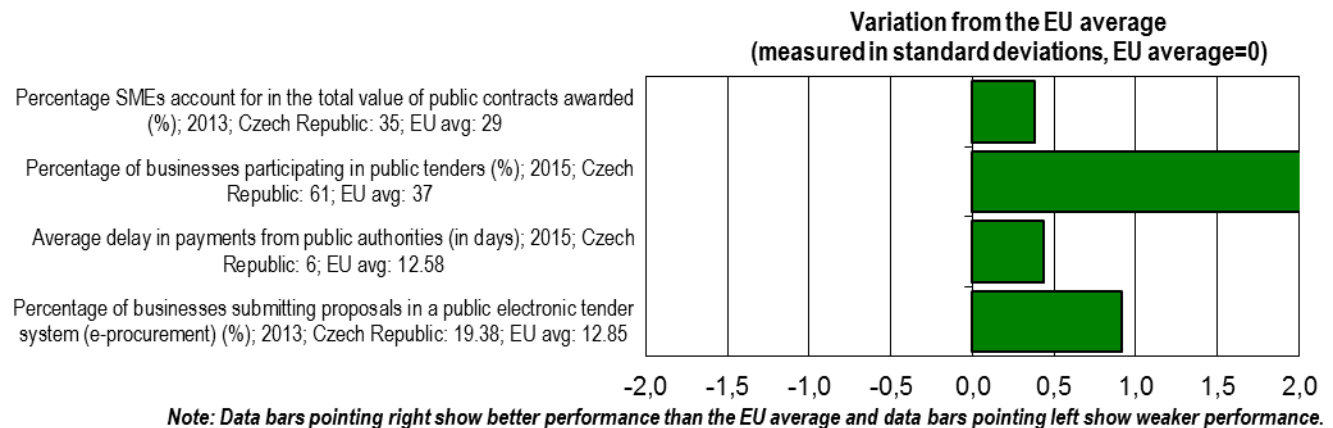
A significant number of measures were introduced in the area during the previous reference period (2014 and the first quarter of 2015), but their results are not yet visible in the available figures.

There was little activity in this SBA area during the reference period for this fact sheet. No new policy measures were implemented and one measure was announced.

The 2016 action plan to support SMEs presents how the government intends to respond to the current needs of small and medium enterprises in the Czech Republic. The priority areas are:

- a favourable business environment for SMEs;
- Access to finance;
- the internationalisation of SMEs; and
- energy savings in SMEs.

3.4 State aid & public procurement



Czech businesses benefited from favourable State aid & public procurement conditions, similarly to previous years. This is not only the best-performing SBA area for the country, but also the one where most progress has been made since 2008. This positive picture is mainly driven by the performance in a single indicator, measuring the participation of SMEs in public procurement. Despite the fact that many SME take part in public tenders, also via e-government facilities, the public procurement area was included in the European Semester country-specific recommendations,²⁰ which call on the Czech Republic to adopt the outstanding anti-corruption reforms and improve public procurement practices. The Czech system would benefit from boosting the professionalisation of public procurers, with emphasis on correct use of award criteria, expanding the aggregation of procurement, including on the basis of successfully rolled out e-procurement, and ensuring that the

remedy system is a reliable guardian of procurement law and is perceived as such.

The numbers of SMEs that participate in public procurement or that get involved through subcontracting, are very high. As many as 61 % of Czech companies participated in public tenders in 2015, slightly down from 66 % two years before. The use of e-procurement is also more widespread among SMEs in the Czech Republic than in the EU as a whole. Public authorities improved their payment culture by more than a week, with the average payment delay going down to six days in 2015 from 14 days in 2014.

The Public Procurement Act (137/2006 Col.), which has undergone several amendments in recent years, has been the main contributor to the long-term progress in this SBA area. The need to reform the public procurement process and make it

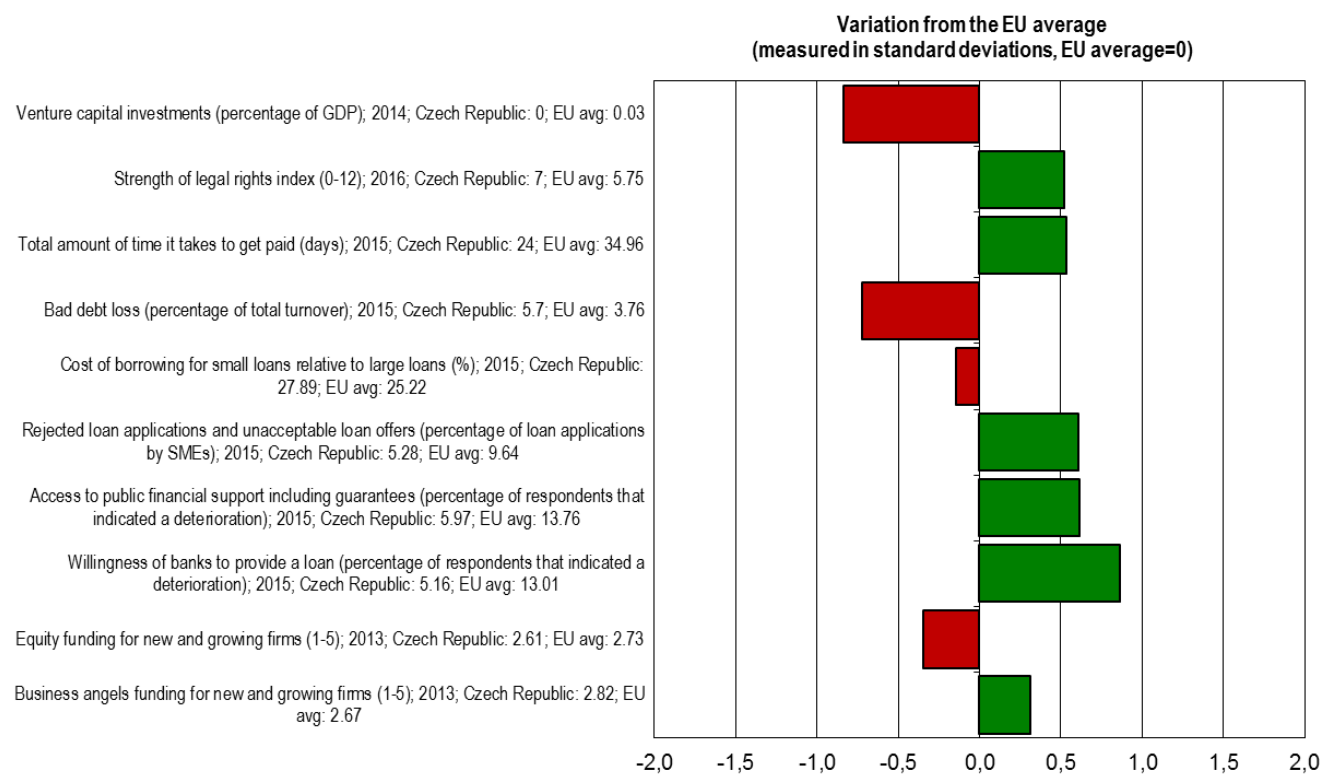
more transparent was felt by both the public and the political establishment. The amendments largely responded to that demand, although from the administrative standpoint the process has become burdensome. In particular cases, SME participation was not possible. Substantial simplification of the public procurement process is currently under way, to make it more suitable for SMEs and small contracting authorities (e.g. municipalities). SME representative organisations are taking part in the consultations.

Since 2008, the Czech Republic has implemented policy actions addressing most of the SBA recommendations in the area. And

yet, stakeholders suggest that their performance can be bettered and additional policy measures could further boost SMEs' participation in public tenders.

During the reference period for this fact sheet, no significant new measures have been adopted or implemented in this SBA area. The government announced that a new Public Procurement Act is in preparation. It aims to enhance SME access to public procurement, further simplify administrative processes and procedures for public procurers, and make it easier to process small orders. The new act will include options for the improved handling of reliability issues with contractors.

3.5 Access to finance



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

Performance in this area was on a par with the EU average. Since 2008, the Czech Republic has achieved positive, yet limited progress in making finance more accessible to SMEs.

The changes in individual indicators followed a mixed pattern. The timing of payments improved to 24 days on average from 40 days in 2014, the proportion of rejected bank loan applications went down to 5 % from 8 % and public financial support became more accessible. At the same time, the willingness of banks to provide a loan deteriorated slightly and losses incurred on bad debts went up to 5.7 % from 3.5 % last year.

There are two new indicators in the area. They cover the availability of equity and business-angel funding to new and growing firms. In both these areas, the Czech Republic delivered results in line with the EU average, although both these types of financing are relatively scarce even EU-wide.

Since 2008, the government has implemented a number of measures to help make access to finance easier for SMEs. Companies with less than 50 employees and, more generally, those with less than 250 employees are able to obtain loans from selected commercial banks secured by guarantees from the stated-owned Czech-Moravian Guarantee and Development Bank. Another state-owned bank, the Czech Export Bank,

specialises in providing loans and guarantees to SME manufacturers and exporters. The Export Guarantee and Insurance Corporation (EGAP) offers a range of financial products to support SMEs. The EGAP is a credit insurance company that insures credit loans connected to exports of goods and services from the Czech Republic against political and commercial risks that are otherwise uninsurable in the regular insurance market.

European Fund for Strategic Investments financing will be made available to SMEs thanks to five agreements put in place with commercial banks and one equity deal signed with a private equity fund.

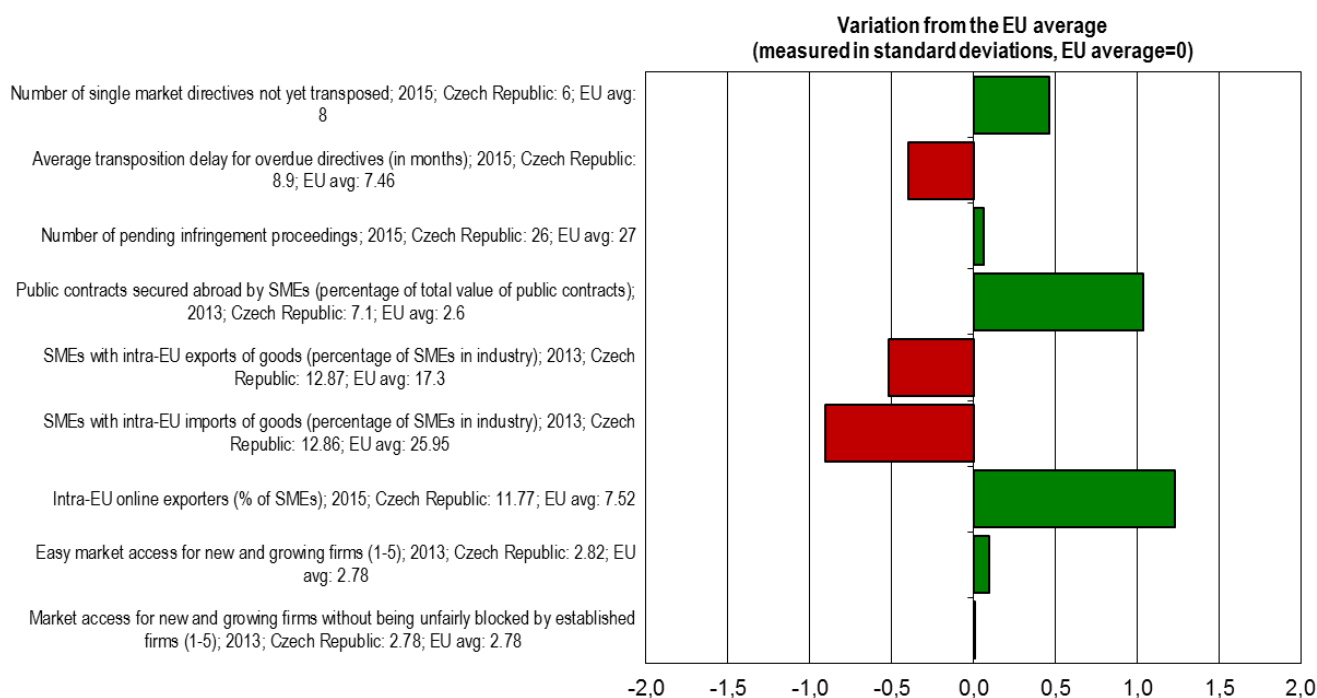
Stakeholders recognise progress in implementing SBA recommendations in the area, providing SMEs and start-up businesses with better access to loans, guarantees and grants, but conclude that the existing facilities need to perform better.

Important challenges that require government action include the provision of risk capital, greater and more effective use of alternative financial instruments to support SMEs, and more effective financial support measures for entrepreneurs.

The new action plan to support SMEs for 2016 aims to address these challenges.

In this current reference period, no additional significant policy measures were identified.

3.6 Single market



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

The Czech Republic performed on a par with the EU average. Figures indicate substantial progress since 2008, while the changes from the previous year were not significant.

The average transposition delay for overdue directives increased by approximately one month, to 8.9 months. The number of overdue directives and infringement proceedings remained largely the same.

The proportion of SMEs doing business on the Single market increased slightly, but remained below the EU average. Part of this change was due to adaptations the World Bank has introduced to the methodology used in producing these figures. In online exports, Czech SMEs were relatively advanced. Almost

12 % of them report having completed online sales to another Member State. The ease of market access for new and growing firms and the degree of competition with companies established on the Single market was in line with the EU average.

Since 2008, a whole series of measures have been implemented to promote and strengthen the position of Czech SMEs in the Single market. These measures cover all but two SBA recommendations. The BusinessInfo.cz portal now includes a special section on 'news for exports', which provides good quality information. The SOLVIT system contact centre is in place and there are the single points of contact in 15 regional towns, all of which effectively deliver important information and assistance. A

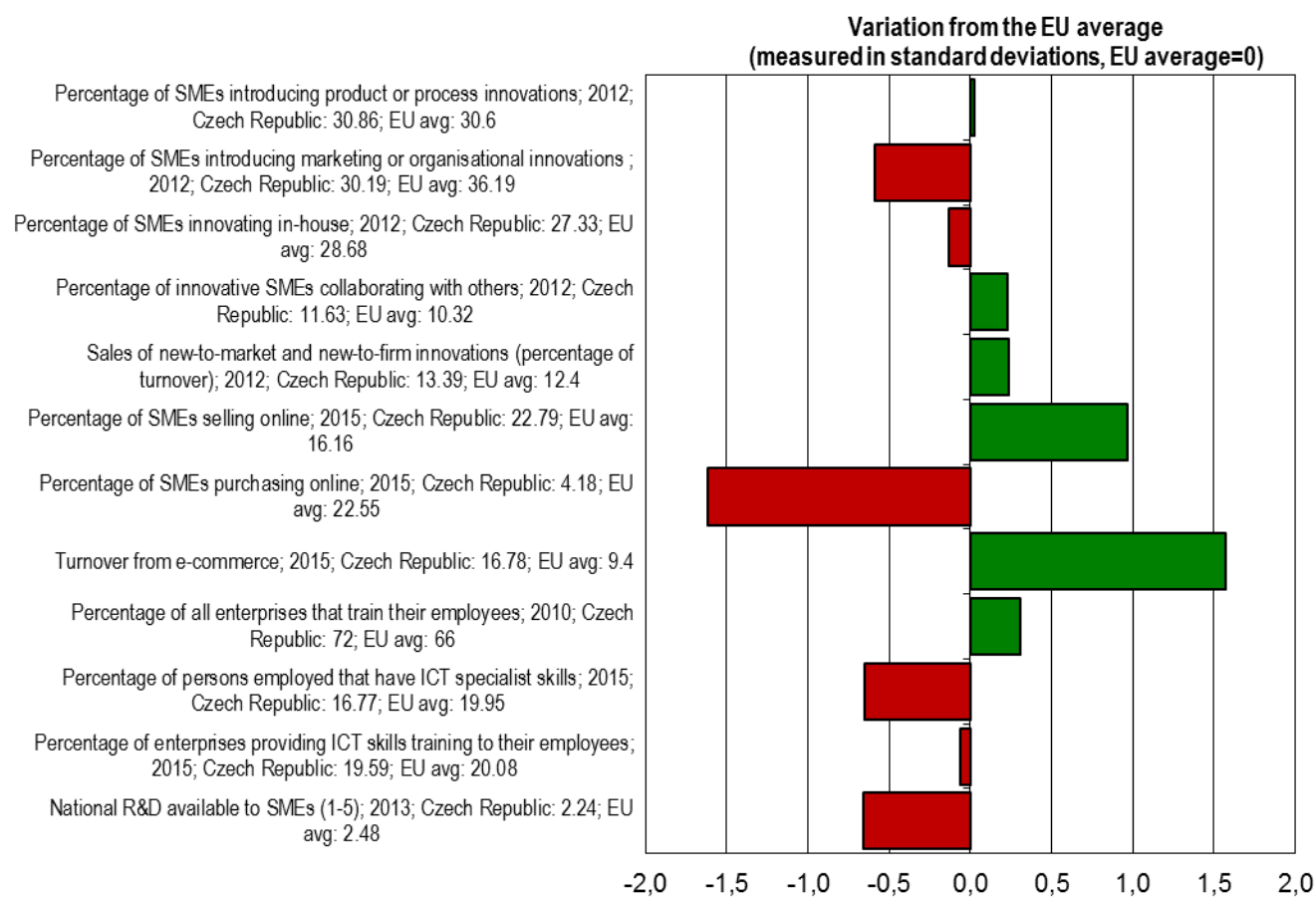
product contact point has also been established to provide businesses with information on Member State product regulations that are not standardised at European level.

Currently, the challenge is how best to promote and encourage SME manufacturers to trade more actively on the Single market.

The announced marketing programme will be looking at possibilities to support the participation of Czech SMEs in foreign fairs and exhibitions.

During the reference period for the fact sheet, no new significant measures in this SBA area were adopted.

3.7 Skills & innovation



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

Results achieved in Skills & innovation were in line with the EU average. The country's performance in this field has deteriorated since 2008, although there was little change compared to the scores recorded last year. Notably, half of all indicators have not been updated since the previous edition of the fact sheets (the first five from the top of the graph above and the percentage of enterprises that train their employees).

The newly introduced indicators measuring the level of ICT competence in SMEs and the availability of R&D to SMEs illustrate below-average performance. At the same time, Czech SMEs invested in the development of their employees' ICT skills to the same degree as was average in the EU. The three e-commerce indicators (SMEs buying online, selling online and

turnover from e-commerce) were subject to methodological changes, and have been made more SME-specific.

Since 2008, a broad range of measures have been implemented to support developments in Skills & innovation. The measures addressed almost all SBA recommendations in the area and included the Technology Agency, programmes coordinated by the CzechInvest State Agency and a wide range of activities implemented by the Centre for Technology of the Academy of Sciences. Successful examples include the achievement of good quality research and innovation in mechanical engineering, including in Czech suppliers to the automotive sector, many of whom currently run their own R&D departments.

Two SBA recommendations in the area have so far remained unaddressed: there was no network of training providers and no specific measures existed for high-growth innovative companies.

During the reference period for this fact sheet, one important measure was implemented. Knowledge transfer partnerships supports building partnerships between SMEs and research organisations to enable the transfer of knowledge, technologies and skills, which would otherwise be inaccessible to SMEs. To facilitate knowledge transfer, post-graduate students carry out assignments in SMEs under the surveillance of an expert. The whole project must be of strategic importance to an SME and must be focused on at least one of the following activities:

- manufacturing process improvement;
- development and/or innovation of new products and services;
- process innovations in relation to the development and introduction of new products and services; and
- business process improvement, including product certification processes.

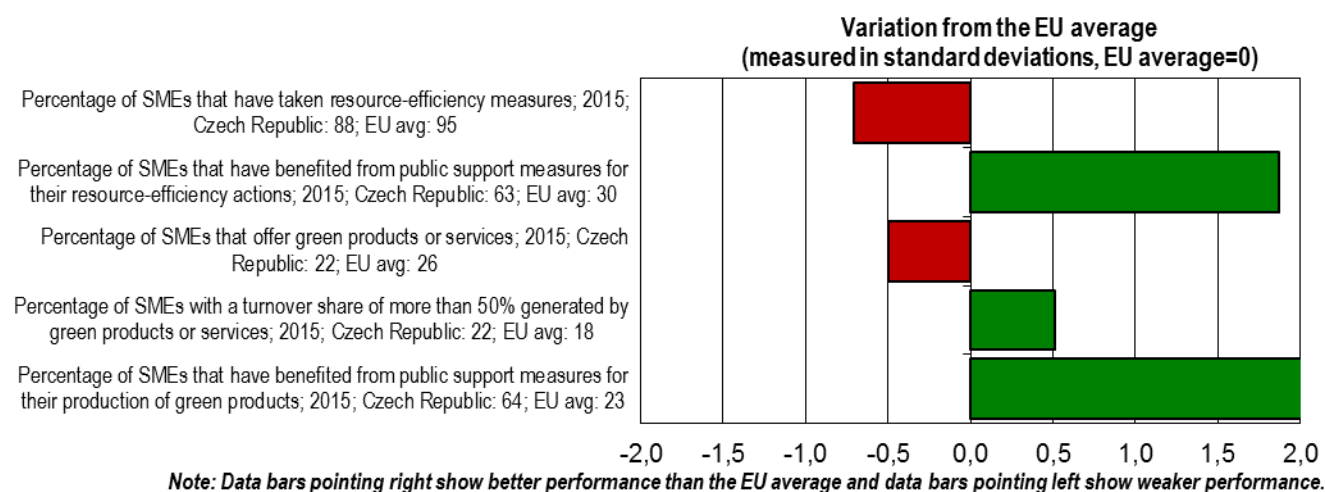
One measure was announced during the reference period for the fact sheet: the Innovation Vouchers SME Support Programme. Under the scheme, SMEs will receive vouchers that will help

them purchase research and innovation-related consulting, expert and support services. The eligible types of service include measuring, testing, computing, consulting, cooperation with post-graduate students, procurement and the transfer of intellectual property.

Stakeholders believe that there is insufficient coordination among the many bodies and institutions involved in running the Czech science, research and innovation system. They would welcome efforts to centralise the management of the system at ministry level. That would help better coordinate, monitor and assess research and innovation programmes and activities, including applied research and SME support programmes.

Another important challenge is to align the priorities of the Czech vocational and technical education system better with current labour market demand for skills and competences.

3.8 Environment



The Czech Republic's performance in the area was above the EU average, although relatively little progress has been made since 2008.

These results follow from the fact that Czech SMEs benefit to a large degree from public support measures as regards resource-efficiency actions and the production of green products. The scores for these two indicators represented 2 times and 2.8 times their respective EU averages. Nevertheless, stakeholders believe that SMEs are not sufficiently aware of the support measures available to them in this area. The two indicators

measuring the proportion of SMEs having taken resource-efficiency measures and the proportion that offer green products or services pointed to below-average performance.

A number of policy measures have been successfully implemented since 2008, addressing three of the seven SBA recommendations related to Environment. The most significant is the Eco-Energy support programme (created under the EU-funded entrepreneurship and innovations operational programme for 2007-2013). The programme helped SMEs to

replace old technologies with newer, more economical solutions or to produce electricity or heat energy from renewable resources. Other measures included support for air quality improvements and for the reduction of air pollutants to make energy production more environment-friendly.

Environmental standards in the Czech Republic have improved significantly since 2008. This is an indication of the positive impact that environmental measures are delivering.

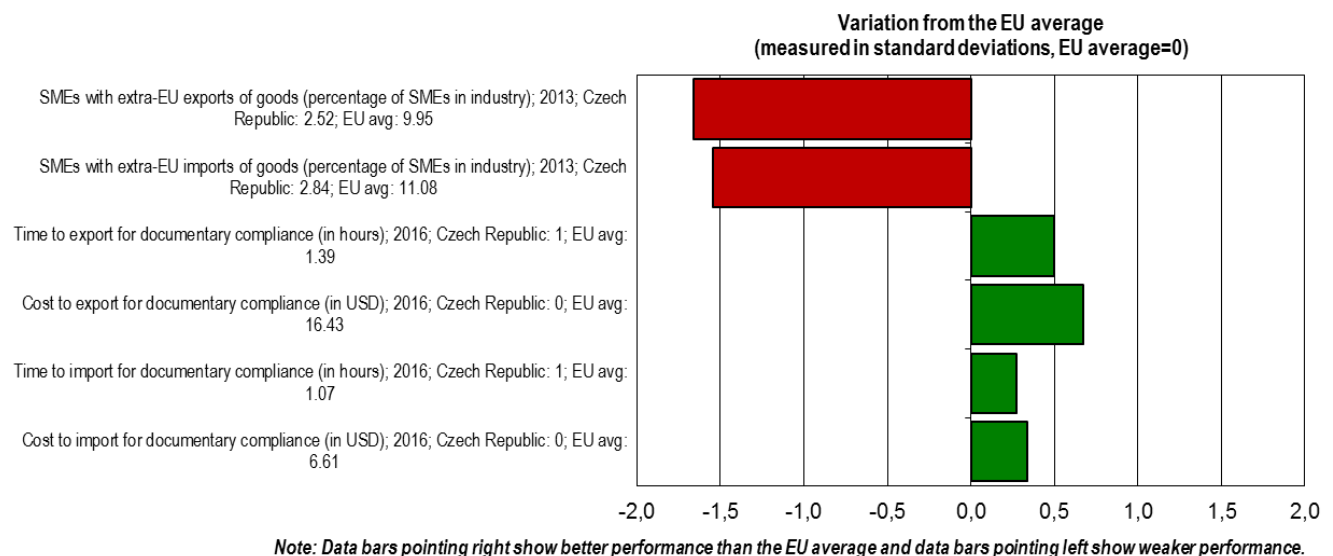
Incentives to make businesses eco-efficient and regulatory incentives for EMAS certification were not sufficiently strong. There were no green public procurement measures in place and there was no support to help SMEs comply with environmental and energy regulations.

During the reference period for this fact sheet, one significant measure was implemented. The Energy Savings SME support

programme aims to reduce SME energy demand/requirements. In particular, the support targets updates boosting energy efficiency and improvements to electricity, gas and heat distribution systems in manufacturing facilities. The programme supports activities that are geared to making better use of energy from waste generated in manufacturing processes. It also supports efforts to reduce the demand for energy and to enhance energy efficiency in manufacturing and technological processes.

The Renewable sources of energy programme was the only important measure announced during the reference period. The programme will support the production and distribution of energy derived from renewable resources. Assistance will be channelled to such SMEs projects that at the same time increase the level of efficiency and have no adverse effect on the electricity system.

3.9 Internationalisation



The Czech Republic's performance stood below the EU average, similarly to the previous year.

The indicators measuring the level of engagement of Czech SMEs in extra-EU trade strongly reflected below-average performance. This is partly explained by the country's geographical location, which naturally privileges intra-EU trade. The significant improvements in indicators measuring time and cost to import and export are mainly explained by methodological modifications. The World Bank has recently made adjustments to the development process of these statistics. In the case of the Czech Republic, these figures for the last year are skewed to reflect international trade with Germany, which is the Czech Republic's main trading partner for both exports and imports.

Since 2008, the Czech Republic has responded to four of the five SBA recommendations in the area. So far, the lack of an

umbrella organisation that would bring together and coordinate internationalisation support for SMEs is the only missing element.

The ongoing implementation of the 2012-2020 export strategy of the Czech Republic is a significant contributor to the progress made in the area. A number of executive authorities are involved in providing support for internationalisation in the Czech Republic²¹ and centralised coordination is missing.

The government provides services to SMEs to support their export activities and economic diplomacy. This assistance is available at contact points at Czech embassies and consulates. CzechTrade Agency provides SMEs with further assistance in the area.

In terms of ongoing challenges, more attention needs to be paid to the US market and Transatlantic Trade and Investment



Partnership (TTIP) developments at institutional level. Small enterprises are not preparing themselves sufficiently well for the changes ahead, nor for the opportunities that may arise from collaborating with US business partners. Stakeholders report that approximately 50 % of all SMEs are not at all aware of the TTIP.

During the reference period for this fact sheet, one important measure was introduced in this policy area: the SME marketing support programme, which aims to help SMEs take advantage of export opportunities and access foreign markets. Services the

programme provides include expert advice and assistance, consulting, marketing and management skills development.

Czech SME stakeholders have a positive view of developments in the area of support for internationalisation. They consider it vital to provide better support to SMEs active in the markets of the Commonwealth of Independent States and to assist businesses better in responding to the difficulties in trading on the Russian market.

4. Interesting initiative

Below is an example of an initiative from the Czech Republic to show what governments can do to support SMEs:

Knowledge Transfer Partnership

The knowledge transfer partnerships support programme for SMEs was introduced in the Czech Republic in 2015. It aims to help businesses to connect and collaborate with research organisations and academic institutions (universities, colleges) more effectively and more extensively.

In practice, this requires the building of enhanced partnerships between SMEs and research organisations or academic institutions, and the use of mediation where necessary. The goal is to provide businesses with access to knowledge, technologies and skills which they would otherwise find difficult to access. Knowledge transfer is achieved by placing master's or doctoral study graduates directly in SMEs. They pursue their work under the supervision of a selected, specialised expert.

To receive support, projects must be of strategic importance to business growth and must focus on at least one of the following activities:

- manufacturing process improvement;
- development and/or innovation of new products and services;
- process innovations in relation to the development and introduction of new products and services; and
- business process improvement, including product certification processes.

Grant funding for projects supported by the programme ranges from EUR 18 500 to EUR 130 500.

References:

<http://www.czechinvest.org/partnerstvi-znalostniho-transferu-vyzva-i>

Important remarks

The European Commission Directorate-General for Internal Market, Industry, Entrepreneurship and SMEs (DG GROW) produces the SBA fact sheets as part of the SME Performance Review (SPR), its main vehicle for economic analysis of SME issues. They combine the latest available statistical and policy information. Produced annually, the fact sheets help to organise the available information to facilitate SME policy assessments and monitor SBA implementation. They take stock and record progress. They are not an assessment of Member State policies. Rather, they should be regarded as an additional source of information to improve evidence-based policy-making. For example, they cite only policy measures national SME policy experts consider relevant. They do not and cannot reflect all measures the government has taken over the reference period. There is more policy information on a database accessible from the SPR website.

SME Performance Review:

http://ec.europa.eu/growth/smes/business-friendly-environment/performance-review/index_en.htm

grow-spr@ec.europa.eu

Small Business Act:

http://ec.europa.eu/growth/smes/business-friendly-environment/small-business-act/index_en.htm

European Small Business Portal:

http://ec.europa.eu/small-business/index_en.htm

Endnotes

¹ The two graphs below present the trend over time for the variables. They consist of index values for the years since 2008, with the base year 2008 set at a value of 100. As from 2014, the graphs show estimates of the development over time, produced by DIW Econ on the basis of 2008-2013 figures from Eurostat's Structural Business Statistics Database. The data cover the 'non-financial business economy', which includes industry, construction, trade and services (NACE Rev. 2 sections B to J, L, M and N). They do not cover enterprises in agriculture, forestry and fisheries or largely non-market service sectors such as education and health. A detailed methodology can be consulted at: http://ec.europa.eu/growth/smes/business-friendly-environment/performance-review/index_en.htm

² Act No. 107/2006, Coll., on Unilateral Increase of Apartment Rent, and Amendment to Act No. 40/1964, Coll., the Civil Code

³ <http://www.stavebni-forum.cz/cs/article/22036/deregulace-najemneho-rezidencnimu-trhu-prospeje/>; last accessed 21.04.2016.

⁴ Tsharakyan, A. and Zemčík, P. (2016), Did rent deregulation alter tenure choice decisions in the Czech Republic?. *Economics of Transition*, 24: 335-360.

⁵ Hypoindex, <http://www.hypoindex.cz/hypoindex-vyvoj/>; last accessed 21.04.2016.

⁶ <http://www.hypoindex.cz/zajem-o-hypoteky-roste-az-94-cechu-by-dalo-prednost-bydleni-ve-vlastnim-byte-nebo-dome/>; last accessed 21.04.2016.

⁷ Czech Statistical Office, <https://www.czso.cz/documents/10180/20533824/csav130704.pdf/d6dd057d-d464-41fe-9d6e-4f12ef538843?version=1.0>; last accessed 21.04.2016.

⁸ OECD. (2016), Czech Republic: Domestic, inbound and outbound tourism, in *OECD Tourism Trends and Policies 2016*, OECD Publishing, Paris.
DOI: <http://dx.doi.org/10.1787/tour-2016-table20-en>; last accessed 21.04.2016.

⁹ Czech National Bank, https://www.cnb.cz/cs/fag/menovy_kurz_jako_nastroj_menove_politiky.html; last accessed 21.04.2016.

¹⁰ OECD (2016), Household spending (indicator). doi: 10.1787/b5f46047-en; <https://data.oecd.org/hha/household-spending.htm>; last accessed 21.04.2016.

¹¹ Sectoral study — Accommodation and Food Service, 2015, Ministry of Labour and Social Affairs; accessible at <https://koopolis.cz/file/home/download/741?key=2c6064cb55>; last accessed 21.04.2016.

¹² Czech Statistical Office, Performance of the Economy and the Labour market in the Czech Republic; accessible at <https://www.czso.cz/documents/10180/20541939/csav062414.docx/30c07cb6-eed6-4ab7-84a6-905471eba823?version=1.0>; last accessed 21.04.2016.

¹³ Bisnode, Czech Rep., <http://www.bisnode.cz/tiskove-zpravy/v-cr-loni-vzniklo-26953-novych-firem-nejvice-od-roku-2007/>; last accessed 21.04.2016.

¹⁴ Czechinvest, Investment and Business Development Agency, <http://www.czechinvest.org/technologie-vyzva-j>; last accessed 21.04.2016.

¹⁵ Czechinvest, Investment and Business Development Agency, <http://www.czechinvest.org/poradenstvi-ci>; last accessed 21.04.2016.

¹⁶ The 2016 SBA fact sheets benefited substantially from input from 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.

¹⁷ The quadrant chart combines two sets of information. Firstly, it shows current 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 the EU-28. Secondly, it shows progress over time, i.e. the average annual growth rates from 2008 to 2016. These are measured against the individual indicators which make up the SBA area averages. This means that the location of a particular SBA area average in any of the four quadrants provides information not only about where the country is located in this SBA area relative to the EU average at a given point in time, but also about the extent of progress made between 2008 and 2016. All SBA principles, with the exception of the 'Think Small First' principle for which there is not enough statistical data available, are calculated as composite indicators following the OECD/JRC Handbook guide. A detailed methodology can be consulted at: http://ec.europa.eu/growth/smes/business-friendly-environment/performance-review/index_en.htm

¹⁸ The policy measures presented in this SBA fact sheet are only a selection of the measures the government took in 2015 and the first quarter of 2016. The national SME policy expert that CARSA Spain (DG GROW's lead contractor for the 2016 SBA fact sheets) contracted made the selection. The experts were asked to select only the measures they considered the most important, i.e. the ones expected to have the highest impact in the SBA area in question. The complete range of measures the experts compiled in producing this year's fact sheets will be published alongside the fact sheets in a policy database on the DG GROW website.

¹⁹ For further information, please visit: <http://download.mpo.cz/get/54367/62090/640890/priloha001.pdf>; and <http://www.mpo.cz/dokument167374.html>, last accessed 17.06.2016.

²⁰ COM(2016) 324 final, http://ec.europa.eu/europe2020/pdf/csr2016/csr2016_czech_en.pdf, last accessed 20.6.2016.

²¹ Ministry of Industry and Trade/MPO, the Ministry of Foreign Affairs/MZV, the CzechTrade Agency, the CzechInvest Agency, the Czech-Moravian Guarantee and Development Bank/ČMZRB, the Export and Guarantee Insurance Company/EGAP, the Czech Export Bank/ČEB