

CZECH REPUBLIC

1. Introduction




The Czech business environment has significant strengths. Small and medium-sized enterprises (SMEs) enjoy good access to traditional sources of funding and actively participate in the Czech e-commerce sector – one of the strongest in Europe. On the other hand, Czech SMEs also face major challenges, such as high administrative burden, high regulatory burden and very low rates of internationalisation.

In 2020, SMEs in Czechia were significantly affected by the COVID-19 pandemic and by the policy measures taken in response. SME value added and SME employment declined by 4.9% and 1.4%, respectively¹. The fall in SME value added and SME employment was particularly pronounced in: i) the *accommodation and food services* sector, with drops of 34.9% and 8.0%, respectively; ii) the *administrative and support services* sector, with drops of 15.4% and 4.6%, respectively; and iii) the *transportation and storage* sector, with drops of 13.0% and 1.2%, respectively. The *construction* sector performed comparatively well, with SME value added growing by 4.2% and SME employment increasing by 1.2%.

For 2021, a partial recovery is expected, although it will not fully offset the downturn in 2020. SME value is predicted to grow by 2.4%, whereas SME employment is forecast to decline further by 0.4%. Consequently, both SME value added and SME employment are forecast to remain below their 2019 values, by 2.6% and 1.7%, respectively.

In 2020, SMEs generated 56.9% of overall value added and 67.6% of overall employment in Czechia, slightly higher shares than the respective EU averages of 53.0% and 65.2%. However, SME productivity, measured as value added per person employed, was only EUR 25 500, about two thirds of the EU average of EUR 40 000. The average number of people employed in SMEs was also around two thirds of the EU average: 2.4 compared to 3.7. In 2020, 96.2% of all firms in Czechia were micro firms, exceeding the EU average of 93.3%.

Figure 1: Number of enterprises, persons employed and value added in 2020

	 Number of enterprises			 Number of persons employed			 Value added		
	Czechia		EU-27	Czechia		EU-27	Czechia		EU-27
	Number	Share	Share	Number	Share	Share	€ Billion	Share	Share
Micro	988 379	96.2%	93.3%	1 153 235	31.3%	29.6%	23.2	20.8%	18.7%
Small	31 075	3.0%	5.7%	637 486	17.3%	19.7%	16.9	15.2%	17.0%
Medium-sized	6 544	0.6%	0.9%	696 885	18.9%	15.8%	23.2	20.8%	17.3%
SMEs	1 025 998	99.9%	99.8%	2 487 606	67.6%	65.2%	63.4	56.9%	53.0%
Large	1 497	0.1%	0.2%	1 192 904	32.4%	34.8%	48.0	43.1%	47.0%
Total	1 027 495	100.0%	100.0%	3 680 510	100.0%	100.0%	111.4	100.0%	100.0%

Source: These are estimates for 2020 produced by DIW Econ, based on 2008-2018 figures from the Structural Business Statistics Database as well as provisional data for 2019-2020 from the National Accounts Database and the Short-Term 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 following size-class definitions are applied: micro firms (0-9 persons employed), small firms (10-49 persons employed), medium-sized firms (50-249 persons employed), and large firms (250+ persons employed).

2. Key strengths

Czech SMEs enjoy good access to traditional sources of funding

According to the European Commission's SAFE survey, the success rate of Czech SME applications for a credit line or overdraft is the highest in the EU, with 88% of applicant SMEs receiving the full amount they applied for in 2019².

The wide availability of traditional funding for SMEs is also highlighted by the very low number of SME loan applications rejected by banks – significantly below the EU average³. In addition, the borrowing costs for small loans are 22.5% higher than for large loans, but still almost seven points less expensive than the EU average⁴. Additionally, perceptions among Czech people on the willingness of banks to provide a loan are among the most optimistic in the EU⁵.

This relatively easy access to bank finance for SMEs is thanks to Czechia's strong banking sector and its high liquidity.

At the same time, Czech SMEs have access to other financial instruments, such as state guarantees and favoured loans provided by the Czech-Moravian Guarantee and Development Bank, using state budget and structural funds. The implementation of a number of grant schemes in the Operational Programme Entrepreneurship and Innovation for Competitiveness also helps the country perform well in this field⁶.

Czechia has developed one of the EU's strongest e-commerce sectors

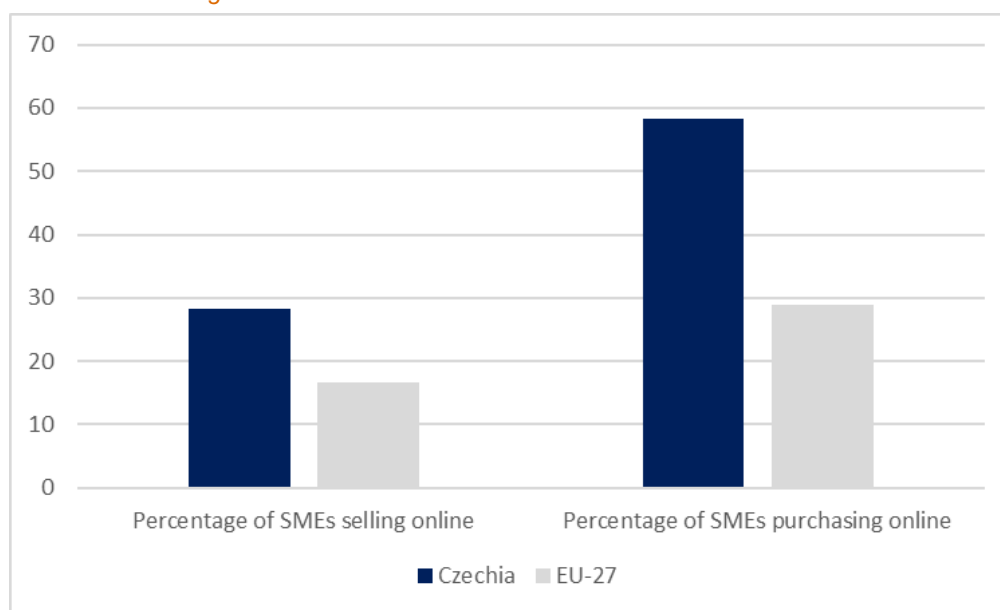
With the largest number of e-shops per capita in the EU, Czechia is a major e-commerce power. E-commerce already accounts for 13.5% of total retail turnover⁷ and the year-on-year growth in online retail sales is projected to be 25% higher than that of 2019⁸.

Turnover from e-commerce is already the second highest in the EU and is projected to grow from CZK 155 billion in 2019 to over CZK 190 billion in 2020⁹.

E-commerce activity has further increased since the COVID-19 pandemic started, as entrepreneurs and companies are forced to take their business online due to lockdown measures¹⁰.

Czech SMEs fully participate in the *e-commerce* sector. According to Eurostat, 58% of Czech SMEs purchase online – more than double the EU average¹¹ – and 28% are selling online, also far surpassing the EU average¹².

Figure 2: Share of SMEs selling online and turnover from e-commerce



Source: Community survey on ICT usage and eCommerce in enterprises, 2019, 2018¹³

In addition, Czech SMEs are quite active in promoting their company and products online¹⁴, with 43.6% of small firms and 57.3% of medium-sized firms using at least one type of social media for that purpose.

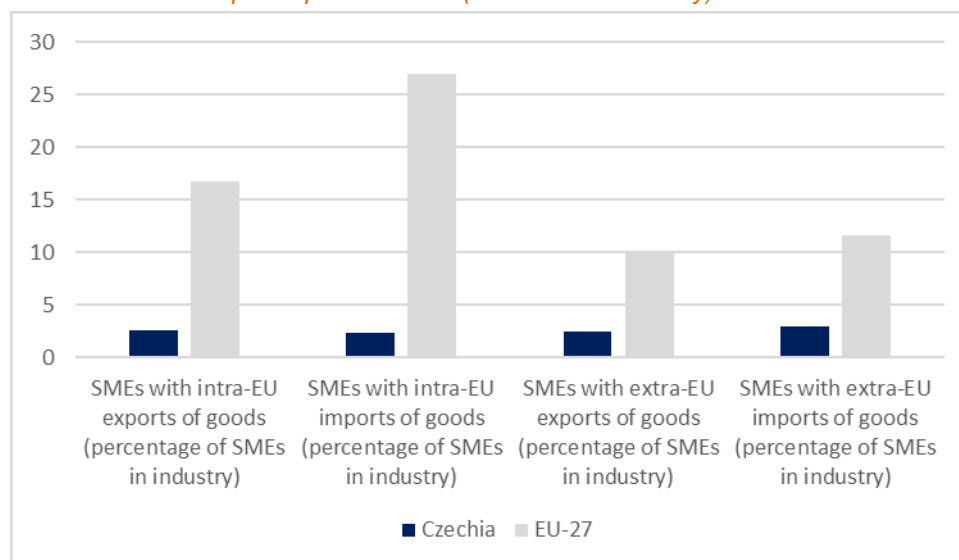
3. Key challenges

The internationalisation of SMEs has long been one of the country's weakest areas, performing significantly below the EU average

Czechia is considered a very open economy, ranking first in the World Bank's Doing Business Index for the 'Trading Across Borders' indicator¹⁵.

However, most export activity is concentrated in large companies, with the number of exporting small and micro firms being especially low¹⁶. Less than 3% of SMEs export or import goods – one of the weakest performances in the EU, both for intra and extra-EU exports. The lack of improvement is noticeable, with these indicators showing barely any growth or even deteriorating in the last decade¹⁷.

Figure 3: SMEs intra and extra EU export/import indicators (% of SMEs in industry)



Source: Comext, *International trade by enterprise characteristics*, 2017¹⁸

Structural economic issues could be at the root of this issue, most significantly the focus of Czech SMEs on activities that result in lower value added and lower profit margins, such as mass assembly for the automotive industry¹⁹.

Czechia provides export support to SMEs via financial instruments such as preferential loans, and insurance and guarantee for export activities, as well as by providing advisory services through the Czech Invest Agency²⁰.

However, stakeholders demand that the government provide more measures that support the creation of R&D-based start-ups and micro firms, as well as comprehensive export support that is more tailored to the needs of these businesses.

The administrative burden and regulatory burden remain high in Czechia, despite long-term government efforts

According to the World Bank's Doing Business report, the country's performance in terms of ease of doing business has steadily declined over the last 4 years, with Czechia performing the weakest among EU Member States in the parameters 'ease of starting a business' and 'dealing with construction permits'²¹.

Indeed, the country performs poorly in several indicators related to the business environment. It takes 24.50 days to start a business in Czechia – double the EU average – and 246 days to obtain a construction permit. In addition, the number of procedures required to start a business is among the highest in the EU²².

Other indicators related to this area also leave significant room for improvement. Each year, Czech SMEs spend 223 hours dealing with administrative burden²³ and 230 hours paying taxes²⁴ – both relatively high figures. The cost of enforcing a contract in Czechia is the highest in the EU²⁵.

In 2020, a government proposal for a comprehensive amendment to the Building Act (*Stavební Zákon*), to substantially reduce administrative burden and the time required to obtain a building permit, was discussed in the Czech Parliament²⁶. It may be adopted in the future.

4. Other key SME-related brief insights



IMPACT OF COVID-19 CRISIS ON SMES

The sectors most affected by the country's spring and autumn lockdowns during 2020, and the related restrictions on their activities, were *retail and services*, especially the *hotel, restaurant and catering* sector²⁷. Several subsidy programmes to support businesses were launched, including the provision of state guarantees for companies' loans and several subsidy programmes specifically targeting the *culture, restaurants, tourism, bus, sports and accommodation* sectors.



SCALE-UP ENVIRONMENT

Despite Czechia's relatively poor performance in entrepreneurship, some Czech SMEs and start-ups are leading the scale-up ecosystem in the Central Europe region. According to the results of the latest Deloitte Technology Fast 50 – 2020 ranking, 21 SMEs from Czechia ranked among the 50 fastest growing technology companies in the CEE region²⁸.



GREEN TRANSITION OF SMES

Czechia performs below the EU average in sustainability. According to Eurobarometer, 86% of SMEs have taken resource-efficiency measures – against an EU average of 89% – and 22% of SMEs offer green products or services – also below the EU average²⁹. Czech SMEs have good access to public support to implement resource-efficiency actions – 41% of them have benefited from public support against an EU average of 38%³⁰. There is substantial financial support from the 'Operational Programme Entrepreneurship and Innovation for Competitiveness 2014-2020' – designed to support the development of sustainability and the green transition³¹.



SOCIAL ASPECTS OF SUSTAINABILITY

The gender pay gap in Czechia remains one of the highest in the EU, with the difference in earnings between woman and men being 20.1%³². Lack of gender balance also affects entrepreneurship, as early-stage female entrepreneurial activity is among the lowest among EU Member States³³.



START-UP ENVIRONMENT

Czechia's start-up environment could be improved, as the country's education in entrepreneurship is one of the lowest-rated in the EU³⁴. Substantial financial support is available for start-up projects through the state agency CzechInvest, which offers incubation and acceleration programmes³⁵. Regional innovation centres also provide support to SMEs.

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- ¹ The data for 2020 are estimates produced by DIW Econ, based on 2008-2018 figures from the Structural Business Statistics Database as well as provisional data for 2019-2020 from the National Accounts Database and the Short-Term Business Statistics Database (Eurostat).
- ² European Commission (2019), *Survey on the Access to Finance of Enterprises (SAFE)*, available at: <https://ec.europa.eu/docsroom/documents/38462/attachments/1/translations/en/renditions/native>
- ³ Ibid.
- ⁴ European Central Bank (2019), *Interest rate statistics*, available at: <https://sdw.ecb.europa.eu/browse.do?node=9691099>
- ⁵ See Note 2.
- ⁶ Agency for Entrepreneurship and Innovation (2020), *SMEs Supporting Programmes*, available at: <https://www.agentura-api.org/cs/programy-podpory/>
- ⁷ Czech e-commerce (2020), *Podíl e-commerce na celkovém maloobchodním obratu*, available at: <https://www.ceska-ecommerce.cz/>
- ⁸ Association for e-commerce - APEK (2020), *Christmas will be online, year-on-year growth in e-shop turnover will exceed 20%*, available at: <https://www.apek.cz/clanky/vanoce-budou-internetove-mezirocni-rust-obratu-e>
- ⁹ Ibid.
- ¹⁰ Marketing & Media (2020), *The pandemic wants e-shops. The number of restaurants and food are increasing at a record rate*, available at: <https://mam.cz/zpravy/2020-03/pandemie-preje-e-shopum-pribyvaji-rekordnim-tempem-nejvice-restaurace-ci-potravin/>
- ¹¹ Eurostat (2019), *Community survey on ICT usage and eCommerce in enterprises. E-commerce sales*. Available at: http://ec.europa.eu/eurostat/web/products-datasets/-/isoc_ec_eseln2
- ¹² Eurostat (2019), *Community survey on ICT usage and eCommerce in enterprises. E-commerce purchases*. Available at: http://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=isoc_ec_ebuyn2&lang=en
- ¹³ See Note 11 and 12.
- ¹⁴ Czech Statistical Office (2020), *Information and Communication Technologies in the Business Sector*, vol. 2019, 2020/01, available at: <https://www.czso.cz/documents/10180/90577049/06200519.pdf/1e5277d9-f01c-456f-a182-9e6fd68e7317?version=1.0>
- ¹⁵ World Bank (2020), *Ease of doing business in the Czech Republic*, available at: <https://www.doingbusiness.org/en/data/exploreeconomies/czech-republic>
- ¹⁶ Ministry of Industry and Trade (2019), *Report on the implementation of the Czech Republic's Export Strategy for 2012-2020*, available at: <https://www.mpo.cz/assets/dokumenty/45705/51811/588544/priloha001.pdf>
- ¹⁷ European Commission (2020), *Comext, International trade by enterprise characteristics*, available at: <https://ec.europa.eu/eurostat/web/structural-business-statistics/data/database>
- ¹⁸ Ibid.
- ¹⁹ The World Bank Group, European Commission (2019), *Assessment of the SME Policy Mix, Czech Republic*, available at: https://www.mpo.cz/assets/cz/podnikani/dotace-a-podpora-podnikani/oppik-2014-2020/aktualni-informace/2019/11/CR-SME-Assessment-Oct-20_.pdf
- ²⁰ Ministry of Industry and Trade (2012), *2012 - 2020 Export Strategy of the Czech Republic*, available at: <https://www.mpo.cz/assets/dokumenty/45705/51811/588544/priloha001.pdf>
- ²¹ See Note 16.
- ²² Ibid.
- ²³ Liberal Institute (2020), *Bureaucracy Index*, available at: <https://libinst.cz/tz-index-byrokracie-2020-v-ceske-republice-stravi-prumerna-mala-firma-papirovanim-223-hodin-rocne/>
- ²⁴ See Note 16.
- ²⁵ Ibid.
- ²⁶ Ministry of Regional Development (2020), *New Building Act*, available at: <https://mmr.cz/cs/microsites/nsz/novy-stavebni-zakon>
- ²⁷ ManpowerGroup Survey (2020), *ManpowerGroup Labour Market Index*, available at: <https://www.manpowergroup.cz/pruzkumy/dopad-epidemie-covid-19-na-business/>
- ²⁸ Deloitte (2019), *Deloitte Technology Fast 50: gold for Prusa Research and FF Trader, bronze for Rohlik.cz and Blindspot Solutions*, available at: https://www.dreport.cz/blog/deloitte-technology-fast-50-zlato-pro-prusa-research-a-ff-trader-bronz-pro-rohlik-cz-a-blindspot-solutions/?utm_source=dcom&utm_medium=web&utm_campaign=fast50_19
- ²⁹ European Commission (2017), *Eurobarometer survey of SMEs and the environment*, available at: http://ec.europa.eu/growth/smes/business-friendly-environment/performance-review/index_en.htm
- ³⁰ Ibid.
- ³¹ Agency for Entrepreneurship and Innovation (2018), *Operational Programme Enterprise and Innovation for Competitiveness. Programme description*, available at: <https://www.agentura-api.org/wp-content/uploads/2018/06/Opera%C4%8Dn%C3%AD-program-EN-2018-WEB.pdf>
- ³² Ministry of Labour and Social Affairs (2020), *Project Equal Pay*, available at: <https://www.rovnaodmena.cz/>
- ³³ Global Entrepreneurship Monitor (2019), *Global Entrepreneurship Report*, available at: <http://www.gemconsortium.org/data/key-aps>
- ³⁴ Global Entrepreneurship Monitor (2019), *National Expert Survey*, available at: <http://www.gemconsortium.org/data/key-nes>
- ³⁵ CzechInvest Agency (2020), *Services and projects for Start-ups*, available at: <https://www.czechinvest.org/cz/Sluzby-pro-startupy>