Country Report on State Aid in the Czech Republic

December 2003
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Foreword

The purpose of this paper is to analyze volumes, structure as well as various channels of the state aid granted to the Czech industrial sector. To set the stage and to help understand the context in which state resources have been awarded, industrial policies implemented by Czech governments are described. The paper deals first with the state aid for horizontal objectives, such as SMEs and R&D support and export promotion. Then it focuses on aid for rescue and restructuring, regional aid, and aid for specific sectors which might contribute to an enhancement of competitiveness of Czech manufacturing industry.

Data collected in this study are grouped according to primary objectives of the state aid. Thus, some final beneficiaries may be hidden and the picture is likely to be incomplete. In some cases, state aid may serve both horizontal objectives and specific sectors. For example, some programmes for SMEs development have an important regional component. R&D support, which is considered a horizontal measure, may primarily influence a particular sector. Finally, this paper covers only state aid granted by the central government, potential aid granted by local governments have not been studied. EC funding within the pre-accession assistance through PHARE, ISPA and SAPARD is not covered either.
1. Industrial policies

In the Czech case, it is useful to separate two periods, since there were substantial differences in economic policies implemented by the right wing and left wing governments.

1.1 Industrial policy in 1990-97

The reform policy of the liberal governments, which came into power after the Velvet revolution, was based on three main pillars: macroeconomic stabilization, trade liberalization and privatization.

The aim of macroeconomic stabilization was especially to avoid high inflation, which might have resulted from liberalization of prices. This policy was quite successful. Neither internal state debt nor foreign debt was a problem for the Czechoslovak/Czech economy that time.

Beginning in 1991, foreign trade relations were fundamentally reformed in order to open the economy to international competition. Quotas on imported goods were eliminated and export licensing requirements were removed for a large number of products. In order to bring the domestic price structure close to international prices, subsidies and levies that bridged differences between domestic and international prices were abolished on 1 January 1991.

The monopolistic status of the foreign trade organisations (FTOs) was abolished and all registered enterprises have been able to engage legally in foreign trade.

To facilitate the transitional phase, and pending a tariff restructuring designed to provide domestic industries and agriculture with appropriate protection, several temporary measures were taken. In early 1991, a surcharge of 20% was imposed on all imports of consumer goods. This surcharge was gradually reduced and abolished as of January 1993, in connection with the introduction of the new tax system (value added based).

Czech government has implemented the policy of free trade. At the international scene, it has strongly supported all measures aiming at global liberalization of trade and removal of trade barriers. It has made efforts to create institutional and legislative background for the Czech exporters on international markets. In order to create conditions for the expansion of its trade with the European Community, in coordination with Hungary and Poland, it negotiated Association Agreements with the European Community in the course of 1991. These agreements went into effect in March 1992 and called for the EC eliminate its tariffs within one year of that date. However, in some sectors such as steel, textiles and food products, liberalization was much less complete.

Czechoslovakia also negotiated a bilateral free trade agreement with the EFTA. Thus, with the exception of some sensitive sectors, the access of Czechoslovak exports to western markets was significantly improved.
In order to increase the collapsed trade with the transitional economies in Central Europe, in 1992 Czechoslovakia agreed to participate in a free trade area (CEFTA) that includes Poland, Hungary and the CSFR's two successor states. Tariffs on "non-controversial" goods were to be eliminated rapidly following the free trade area's start-up in March 1993, and all tariffs and quotas on industrial goods were to be eliminated by 2001. At the beginning of 1996 Slovenia became a new member of CEFTA.

During the course of the 1990s, the area of state support for exports was developed within the context of the overall economic reforms and the comprehensive transformation of foreign trade. Main pro-export organisations were established: the Export Guarantee and Insurance Corporation (EGAP) joint stock company in 1992, the Czech Export Bank (CEB) joint stock company in 1995 and the CzechTrade agency in 1997. The systemic approach to the entire area of state support was adopted in April 1999 when the government of the Czech Republic approved a pro-export policy document.

Privatization has been at the centre of government economic policy until the recession in 1996 and the formation of Tosovsky’s government in 1997. State property was privatized by five major ways:

1. Restitutions/Reprivatization (USD 5-6.7 billions)
2. Municipalization (USD 11.7 billions)
3. Transformation of cooperatives (5 billions)
4. Small privatization (USD 1 billion)
5. Large privatization (USD 30 billions): in two waves

Much of the groundwork for important structural changes leading to deep economic restructuring and enhancing competitiveness, such as basic market reforms, was done in the first half of the 1990s. The effectiveness of these early reforms was, however, limited by an inadequate legal and institutional framework for the newly privatized enterprise and a lack of political will to privatize the major state banks. Shortcomings in the microeconomic framework as well as only limited attention paid to microeconomic policy meant that economic restructuring had not been as deep as was necessary.

After the initial output decline associated with the first years of transition, recovery started in 1993 and picked up in 1995-1996 with GDP growth rates of 6.4% and 3.8%. This recovery was interrupted by output stagnation in 1997 (real growth of only 0.3%) and a sharp recession in 1998 and 1999 which has been characterized by successive quarters of year-on-year output decline. Swings in the pace of economic growth throughout the entire period were affected significantly by huge fluctuations in foreign capital inflows, which represented 16.2% of GDP in 1995, but only 2.1% and 4.8% in 1998.

The worsening economic performance in 1997-99 reflected fundamental weaknesses in the Czech enterprise and financial sectors. These weaknesses accumulated over time and meant that there was only limited restructuring of the corporate sector. Restructuring had been hindered by the immaturity and imperfection of the nascent market institutions both formal and informal, and in particular by a weak framework for corporate governance.
and the emergence of unclear ownership rights. The selected way of privatization and hasty liberalization also contributed to the problems. In addition, microeconomic policy in order to address the specific problems was given little attention.

1.2 Industrial policy since 1998

Inefficiencies in corporate governance have led to big problems in some of the largest Czech companies. As a consequence some of these enterprises were suffering from financial difficulties, and in particular a high level of indebtedness. The Social Democratic government after 1998 changed the macroeconomic focus of the reform policy and started to implement active microeconomic policies. In order to help enterprises, which were expected to be economically viable in the long-run and to overcome their short-term difficulties, the Government adopted an ambitious Revitalization Programme. The scheme involved existing owners surrendering a controlling stake to a specialist agency. This agency was supposed to work with creditor committees to restructure debts through a variety of methods - in some cases debts to state-held banks might be capitalized, and the resulting stake eventually sold to a new strategic investor(s). Since the proper operation of these companies following re-privatization was the utmost priority, approaches involving injections of new management expertise as well as capital were given preference.

Opening up the remaining non-financial public enterprises was another priority. It was centered on three related issues: development of a suitable regulatory mechanism for remaining natural monopolies; completing the phased adjustment of regulated prices (mostly in natural monopoly sectors); and privatization of remaining state holdings of equity in these sectors.

For the remaining privatizations to be completed, two lists were prepared; one covered small companies where privatization has been held up for minor technical reasons and was to be completed as soon as possible, and another containing 30 larger, mostly energy related enterprises in need of pre-privatization restructuring. Companies on the latter list were supposed to be privatized on a case-by-case basis.

In April 1999, the Medium Term Policy of the Ministry of Industry and Trade as the key document for the industrial policy was approved by the Cabinet. Principles of this document were further elaborated in conceptual materials, namely in The Strategy of Industrial Policy (approved in April 1999), The Strategy of Foreign Trade (approved in February 1999), the Revitalization Plan and in The Strategy of Consumer Policy for the period 1999 – 2000 (approved in December 1998).

Priorities of medium-term microeconomic policy can be put under the following headings:
- strengthening the framework for corporate governance;
- opening up the remaining non-financial public enterprises;
- a programme to revitalize the largest Czech enterprises;
- incentives for investment;
- harmonization of legal and technical norms with EU standards;
- strengthening the financial sector.

### Table 1: Major components of structural reform policy over the medium-term

<table>
<thead>
<tr>
<th></th>
<th>done</th>
<th>1999</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Strengthening the non-financial private sector</strong></td>
<td></td>
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<tr>
<td>Large enterprise revitalization</td>
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<tr>
<td>Corp. governance</td>
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<tr>
<td>- amend existing bankruptcy law</td>
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<tr>
<td>- revise commercial code</td>
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<td>- introduce new bankruptcy law</td>
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<tr>
<td>Enterprise support</td>
<td></td>
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<tr>
<td>- revised investment incentives</td>
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<tr>
<td>- enhanced RTD programme</td>
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<tr>
<td>- enhanced SME support</td>
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<tr>
<td>Market legislation</td>
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<tr>
<td>- consumer protection</td>
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<tr>
<td>- information freedom/protection</td>
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<td>- electronic signature</td>
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<tr>
<td><strong>Financial sector reform</strong></td>
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<tr>
<td>Banking sector</td>
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<tr>
<td>- open market to foreign bank branch of</td>
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<tr>
<td>- tighten credit provisioning rules</td>
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<tr>
<td>- privatize IPB and CSOB</td>
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<td>- privatize CS and KB</td>
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<td>Insurance</td>
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<td>- open market to private/foreign capital</td>
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<tr>
<td>- remove state monopolies</td>
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<tr>
<td>- privatization of remaining state holding</td>
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<tr>
<td>Capital markets</td>
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<tr>
<td>- basic legislation in place</td>
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<td>- develop and roll-out regulatory guide</td>
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<td>- new rules on listing/reduce listed co.</td>
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<tr>
<td>- re-licensing market participants</td>
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<td>- unify market prices / improve transparency</td>
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<td></td>
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<tr>
<td>- open closed funds</td>
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<tr>
<td><strong>Opening up public enterprise</strong></td>
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<tr>
<td>Sector strategies and revisions to legislative framework</td>
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<tr>
<td>Finalise regulatory framework for natural monopolies</td>
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<tr>
<td>Price adjustment</td>
<td></td>
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<td></td>
<td></td>
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<tr>
<td>- announce time-limited programme</td>
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<tr>
<td>- rollout</td>
<td></td>
<td></td>
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<td></td>
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<tr>
<td>Open to competition and complete privatization</td>
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</tr>
</tbody>
</table>

1) reduce pre-bankruptcy asset-stripping, redefine administrator accountability, strengthen creditor position to allow settlement/workout

2) establishment of Securities Commission, separation of bank and investment business, open closed funds, protect minority investors, etc
The coalition government formed in 2002 aims at putting the industry into a position that would enable it to cope with EU accession and its consequences without any economic or social shock. The prerequisite for this should be a major increase in the competitiveness of the Czech industry. In view of the interconnected character of manufacturing industry and related sectors (energy, transportation, telecommunications, construction industry, industrial services), suitable pro-growth measures would have a significant multiplying effect.

The strategic principles were reflected in the Operational Programme Industry and Enterprise covering the years 2004-2006 and approved by the government in January 2003. In April 2003 this Operational Programme was presented to the European Commission. Together with the National Development Plan it became the basis for negotiating the Community Support Framework. Its aim is to increase the competitiveness of Czech industry and industrial services, with the key priorities defined as follows:

1. **Development of Business Activities and Further Increase in Competitiveness of the Production Sector, with the following specific objectives:**
   - provide support to new activities in the area of production and business services, with special focus on the stabilization of small and medium-sized enterprises,
   - improve the innovative environment, develop innovative infrastructure, accelerate the implementation of research results (including those obtained in cooperation with scientific research institutions) in industrial practice and launch them onto the market, proceed with efficient use of information networks and human potential.

2. **Restructuring of the Industrial Production Basis, with the following specific objectives:**
   - improve the competitiveness of viable Czech companies and help them find partners for participation in important investment projects of a transnational character,
   - improve the infrastructure of industrial areas and zones, improve labour productivity, reduce the ecological burden and facilitate the creation of new jobs.

3. **Enhancement of Energy Efficiency in the Areas of Energy Generation, Transformation and Use, with Special Focus on Energy Savings and the following specific objectives:**
   - provide for a more efficient generation and transportation of energy, decrease the energy costs of energy generation and distribution,
   - provide for a more efficient use of energy in industry and business services, in accordance with EU standards.
Long-term development targets were set for Czech industry. The strategic objective is to generate, approximately by 2010, such industrial potential that will be fully comparable with the average achieved in the EU in the same period in terms of its contribution to GDP, quality and efficiency of production and productivity of labour. This should relate to the current economic standard achieved by the EU, ie the Czech Republic as a whole should no longer be a less EU developed region receiving support from the structural funds. Thus Czech industry will have hurdles the GDP threshold of 75% of the EU average. The objectives are to substantially mitigate the difference between the Czech Republic and the EU in terms of productivity of labour and to create new job opportunities. It would be untenable to increase productivity of labour through increased unemployment and at the expense of jobs.

2. State aid for horizontal objectives

This chapter analyzes various channels of the state aid used for horizontal objectives, such as SMEs and R&D support and export promotion.

2.1 SMEs Support

The law for state support of SMEs which came into practice in the first half of 1992 has become a fundamental systemic measure in the treatment of SMEs. It dealt with the following forms of state assistance for firms with less than 500 employees (later 250): providing capital, providing training, providing consulting and providing information.

It is obvious that providing the necessary assistance requires a functioning infrastructure in the form of specialized banks, assurance agencies, consulting centres, information networks, etc. One of the first steps was setting up the Ceskomoravska zarucni a rozvojova banka (CMZRB) - a bank providing guarantees and finance for SMEs. This joint stock company with strong state influence was based on West European models. CMZRB started to offer such services as:

- short-term guarantees on operation credits,
- short-, medium- and long-term guarantees on investment projects,
- contributions to interest payments,
- financial assistance to repay credits in the first year of using them,
- consultancy on the state assistance programmes.

Such assistance was provided through the following programmes:
- ZARUKA - to assist with collateral,
- START - to assist with start-up (fewer than 10 employees) and development (fewer than 25 employees) of SMEs,
- ROZVOJ - to ease access to capital for promising development projects,
- REGION - to assist problematic regions,
- KONZULT - to assist consulting and information centres providing services for SMEs,
- TRANSFER - to enable access to technologies and know-how,
PARK - to assist setting up science and technology parks, 
REGENERACE - to upgrade historical monument districts.

In state assistance to SMEs the highest priority was given to manufacturing and services.

**Table 2: Structure of Guarantees provided by the CMRZB (in %)**

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<tr>
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</tr>
</thead>
<tbody>
<tr>
<td>Industrial production</td>
<td>73.0</td>
<td>61.6</td>
<td>49.8</td>
<td>41.3</td>
<td>51.8</td>
<td>57.6</td>
</tr>
<tr>
<td>Constructions</td>
<td>1.3</td>
<td>0.5</td>
<td>8.1</td>
<td>15.7</td>
<td>5.0</td>
<td>5.6</td>
</tr>
<tr>
<td>Trading services</td>
<td>11.0</td>
<td>17.9</td>
<td>9.4</td>
<td>13.1</td>
<td>23.8</td>
<td>22.9</td>
</tr>
<tr>
<td>Services to citizens</td>
<td>6.0</td>
<td>9.0</td>
<td>24.2</td>
<td>21.7</td>
<td>1.9</td>
<td>3.9</td>
</tr>
<tr>
<td>Accommodation services</td>
<td>3.0</td>
<td>2.6</td>
<td>3.6</td>
<td>0.3</td>
<td>6.5</td>
<td>7.3</td>
</tr>
<tr>
<td>Transportation</td>
<td>2.0</td>
<td>1.4</td>
<td>0.5</td>
<td>0.0</td>
<td>4.8</td>
<td>2.4</td>
</tr>
<tr>
<td>Health Care</td>
<td>.</td>
<td>.</td>
<td>4.3</td>
<td>4.8</td>
<td>1.8</td>
<td>0.3</td>
</tr>
<tr>
<td>Others</td>
<td>3.7</td>
<td>7.0</td>
<td>0.1</td>
<td>3.1</td>
<td>4.4</td>
<td>0.0</td>
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<tr>
<td>Total</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Source: Annual Reports of CMRZB.

The structure of financial contributions by the CMZRB to interest payments is shown in Table 3.

**Table 3: Structure of Financial Contributions Provided by CMZRB to Interest Payment**

<table>
<thead>
<tr>
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</thead>
<tbody>
<tr>
<td>Manufacturing</td>
<td>67.4</td>
<td>41.2</td>
<td>45.7</td>
<td>43.2</td>
<td>34.7</td>
<td>56.5</td>
</tr>
<tr>
<td>Constructions</td>
<td>1.5</td>
<td>2.4</td>
<td>7.0</td>
<td>7.5</td>
<td>5.3</td>
<td>5.1</td>
</tr>
<tr>
<td>Trading services</td>
<td>10.0</td>
<td>19.2</td>
<td>14.3</td>
<td>12.1</td>
<td>32.8</td>
<td>23.4</td>
</tr>
<tr>
<td>Services to citizens</td>
<td>10.0</td>
<td>11.0</td>
<td>14.8</td>
<td>19.4</td>
<td>6.3</td>
<td>3.2</td>
</tr>
<tr>
<td>Accommodation services</td>
<td>4.1</td>
<td>16.1</td>
<td>8.0</td>
<td>5.2</td>
<td>9.3</td>
<td>7.0</td>
</tr>
<tr>
<td>Transportation</td>
<td>1.0</td>
<td>3.3</td>
<td>0.3</td>
<td>0.3</td>
<td>1.2</td>
<td>3.6</td>
</tr>
<tr>
<td>Health Care</td>
<td>.</td>
<td>4.7</td>
<td>8.2</td>
<td>10.4</td>
<td>7.5</td>
<td>1.2</td>
</tr>
</tbody>
</table>
Others   6.0   2.1   1.7   1.9   2.9     0.0
Total 100.0 100.0 100.0 100.0 100.0  100.0

Source: Annual Reports of CMRZB.

It is interesting to observe that SMEs supported by the CMRZB followed the same structural pattern as the whole economy, characterized by shifts from industrial production to services. In this respect, it should be stressed that the only criteria implemented by the CMRZB were viability of business plans and adherence to principles of programmes in question. Therefore, structural adjustments we have been witnessing have been reactions to the market situation.

The total amount of resources used by the CMZRB for SMEs, which is shown in Table 4, has substantially declined since 1995. This clearly demonstrates reductions in governmental spending, especially in 1997, as officially announced within the adjustments in economic policy in spring 1997.

Table 4: State support to SMEs through CMZRB

<table>
<thead>
<tr>
<th>Year</th>
<th>CZK mil. in Current Prices</th>
<th>CZK mil. in 1992 Prices</th>
</tr>
</thead>
<tbody>
<tr>
<td>1992</td>
<td>785</td>
<td>785</td>
</tr>
<tr>
<td>1993</td>
<td>1108</td>
<td>1000</td>
</tr>
<tr>
<td>1994</td>
<td>1400</td>
<td>1046</td>
</tr>
<tr>
<td>1995</td>
<td>1500</td>
<td>1019</td>
</tr>
<tr>
<td>1996</td>
<td>1000</td>
<td>623</td>
</tr>
<tr>
<td>1997</td>
<td>900</td>
<td>515</td>
</tr>
</tbody>
</table>

Source: Annual reports of CMRZB

To give a complex picture of the Czech state aid for SMEs, it is necessary to include other programs, fiscal incentives and support to agriculture. Thus, the total amount of financial resources from the state budget devoted to assist SMEs has been higher. In 1997, CZK 8.5 bn from the state budget was spent in order to support more than 22,000 business plans. (This figure does not include projects supported by the Ministry of Labour and Social Affairs where a number of projects are not reported.) More than 60% of financial resources went to the most problematic regions with the highest unemployment rates.

Current programmes are more sophisticated and also definitions of SMEs are more elaborated.

An entrepreneur is considered a small or medium-sized entrepreneur provided that:
a) he/she employs fewer than 250 employees,  
b) the assets he/she reports in the balance sheet do not exceed CZK 980 million,  
or the net turnover for the last closed accounting period does not exceed CZK 1,450 million

An entrepreneur is considered a small entrepreneur provided that:

a) he/she employs fewer than 50 employees,  
b) the assets he/she reports in his/her balance sheet do not exceed CZK 180 million,  
or the net turnover for the last closed accounting period does not exceed CZK 250 million,

A small or medium-sized entrepreneur is a small-scale entrepreneur provided that:

a) he/she employs fewer than 10 employees and  
b) the assets he/she reports in his/her balance sheet do not exceed CZK 180 million, or the net turnover for the last closed accounting period does not exceed CZK 250 million

The following wide variety of programmes awarding state aid for SMEs is available in the CR:

1. Programme of Guarantees for Small and Medium-Sized Entrepreneurs

GUARANTEE

The objective of the programme is to provide subsidised bank guarantees for bank loans, lease plans, and risk and development capital in order to facilitate the implementation of the investment-based entrepreneurial projects of small and medium-sized entrepreneurs, and to provide guarantees for bids in public commercial competitions and guarantees for operating loans in order to enhance the competitiveness of these entrepreneurs. Under the programme, entrepreneurs will gain access to subsidised guarantees for the remainder of a bank loan or lease contract for the implementation of a business plan. The maximum subsidy is 9% p.a. The cost of a subsidised guarantee paid by the entrepreneur, reduced by the subsidy, is between 0.1% p.a. and 1.3% p.a. of the value of the guarantee. The maximum amount of a subsidy for a guarantee for an operating loan is CZK 3.5 million over a period of three years.

2. Programme of Loans for Small Entrepreneurs

CREDIT

The objective of the programme is to provide subsidized investment-oriented loans to small entrepreneurs for the implementation of their entrepreneurial plans.

3. Programme of Subsidised Loans for Starting Entrepreneurs
The objective of the programme is to provide subsidised loans allowing first-time entrepreneurs to set up a business and to develop it in its initial stages. Under this programme, starting entrepreneurs can gain access to loans for the implementation of their entrepreneurial plans. Loans may be granted to entrepreneurs-natural persons up to a maximum of CZK 0.5 million. In the case of commercial companies with a single member or founder, loans may be a maximum of CZK 0.5 million, or CZK 1 million where there is more than one member. The maximum repayment period is six years as of the date a loan has been granted.

4. Programme of Support for Small and Medium-Sized Entrepreneurs

The objective of the programme is to improve the competitiveness of small and medium-sized entrepreneurs on the domestic and foreign markets. The aid is intended for small and medium-sized entrepreneurs as part of the preparation of conditions for joining the EU’s common market.

4.1 Subsidy for Obtaining a Certificate
Under this Programme, small and medium-sized entrepreneurs gain access to a certification subsidy equal to 50% of the fee for certificate issue and of the cost of professional consulting services. The subsidy will be granted to cover fees, payment for consulting and training services, and legal, environmental, energy and other audits.

4.2 Subsidy for the Payment of Interest
The subsidy will amount to five per cent interest on a bank loan intended for the implementation of an entrepreneurial plan. The total value of the subsidy may not exceed CZK 5 million.

4.3 Subsidy for a Certificate of Conformity to the ČSN TEST Standard
The programme will allow entrepreneurs to receive a subsidy for obtaining a certificate of conformity with the ČSN TEST (Czech State Norm Test) standard in the amount of 50% of the cost of the fee for the issue of the certificate. The subsidy will be paid only after a certificate is issued and after documents showing the cost of certification are submitted. The maximum amount of the subsidy is CZK 30,000 per tested product. The maximum amount of this subsidy is CZK 200,000 per aid recipient per calendar year.

5. Programme of Support for Small and Medium-Sized Entrepreneurs Establishing Cooperating Associations

COOPERATION
The objective of the programme is to support the establishment and development of the associations of small and medium-sized entrepreneurs (‘associations’) cooperating with the aim of strengthening their position on the market.
On the date an application is submitted, an association must comprise at least 15 small and medium-sized entrepreneurs with a registered office in the Czech Republic.
The subsidy is a maximum of 50% of the cost of a project realized by an association; the maximum amount of the subsidy is CZK 1.5 million.

6. Programme of Support for Small-Scale Business in Small Municipalities
VILLAGE
The objective of the programme is to increase employment and the attractiveness of small-scale entrepreneurship in small municipalities, thus helping to improve the local economic and social situation.
Under the programme, entrepreneurs engaging in entrepreneurship in municipalities with a population of up to 2,999 will gain access to a subsidy equal to 5% interest on a bank loan intended for the implementation of a entrepreneurial plan.

7. Programme of Support for Small Entrepreneurs in heritage reserves and zones
REGENERATION
The objective of the programme is to increase employment and the attractiveness of small entrepreneurial activity in the areas specified in the special list, thus helping improve the local economic and social situation.
Under the programme, entrepreneurs engaging in entrepreneurship in heritage reserves will gain access to a subsidy equal to 3% interest on a bank loan intended for the implementation of an entrepreneurial plan.

8. Programme of Support for Small and Medium-Sized Entreprises Creating Conditions for the Employment of Citizens from Disadvantaged Groups of the Population
SPECIAL
The objective of the programme is to create employment opportunities for citizens from disadvantaged groups of the population. The programme is intended to supplement other programmes for the support of small and medium-sized entrepreneurship.
Under the programme, entrepreneurs will receive a subsidy for every newly hired employee from a disadvantaged group of the population in the amount of CZK 4,000 for every demonstrated month during which such a person is employed for a period of four years.
Considered ‘newly hired’ will be employees with whom an employment contract is signed after the date of submission of an application for aid. The total sum of the subsidy may not exceed CZK 3 million.
9. Programme of Support for Small and Medium-Sized Entrepreneurs through the Provision of Export-Related Information, Consulting, and Educational Services

MARKETING

The primary objective of the programme is to facilitate the access of Czech small and medium-sized entrepreneurs to foreign markets and to reduce the difference between the extent and quality of information, consulting and educational services available to Czech SMEs and their counterparts in the European Union.

The programme will allow small and medium-sized entrepreneurs (SMEs) to increase their turnover and profits through access to opportunities which exist on the worldwide market. Further, the programme will help Czech SMEs integrate into the EU’s common market.

9.1 Marketing Information

The programme will allow entrepreneurs to obtain a subsidy for marketing information in the amount of 60% of expended costs. The maximum value of this subsidy is CZK 100,000 per year.

Further, the subsidy is intended for the acquisition of directories of business contacts, tender conditions, statistics, specialized articles, and other informative materials needed to make qualified decisions about activities on foreign markets.

9.2 Marketing Education

The programme will allow entrepreneurs to obtain a subsidy for marketing education in the amount of 60% of expended costs. The maximum amount of this subsidy is CZK 20,000 per year.

9.3 Marketing and Promotional Materials and Internet Marketing

The programme will allow entrepreneurs to obtain a subsidy for the creation of promotional materials in the amount of 60% of expended costs. The maximum amount of this subsidy is CZK 150,000 per year.

Under the programme, entrepreneurs will be able to receive a subsidy for the creation of an Internet site, including corporate graphic design or product design, in the amount of 60% of expended costs. The maximum amount of this subsidy is CZK 50,000 per year.

9.4 Export and Marketing Consulting

9.5 Subsidy for Presentations, Exhibitions, and Trade Shows

10. Programme of Support for the Design Activity of Small and Medium-Sized Entrepreneurs

DESIGN
The programme is based on the fact that design activity significantly improves competitiveness of industrial production, helps create jobs, has a positive effect on the environment, contributes to an increase in the material culture of a society, and ultimately helps in shaping the lifestyle. The objective of the aid is to provide subsidies for the production of quality design work.

Under the programme, entrepreneurs will obtain a subsidy for design services in the amount of 50% of the fee for the creation of a design up to a maximum of CZK 80,000. A recipient may receive a subsidy under this programme only once in the course of a year.

11. Programme of Support for Consulting and Innovative Entrepreneurship for Small and Medium-Sized Entrepreneurs

CONSULTING

The objective of the programme is to allow persons preparing to engage in entrepreneurship and small and medium-sized entrepreneurs in the Czech Republic to obtain low-cost specialised business consulting, information and services of entrepreneurial innovation centres for innovative SMEs. This programme is funded from the central government budget and Phare funds.

Services provided under this programme will be aimed especially at new entrepreneurs, creating new employment opportunities, improving the management and financial stability of SMEs, and developing innovative SMEs.

Under the programme, applicants can receive only one subsidized service, provided in the form of an initial consultation. The total amount of subsidized services, i.e. the initial consultation and subsequent consulting services, may not exceed CZK 30,000 per year in the case of subsidies from the central government budget, or CZK 20,000 per programme in the case of subsidies from Phare funds.

12. Subsidy Programme for enterprises in the areas hit by floods in 2002

RECONSTRUCTION

The aim of the subsidy programme is to develop favoured conditions for activities recovery of the small and medium-sized enterprises, except agricultural and forestry basic industry, which were hit by the flood in the areas defined by the Resolutions of the Government of the Czech Republic Nos. 798 and 809 of 21 August 2002 in accordance with the Act No. 12/2002 for state subsidy at reconstruction of the territory hit by the nature calamity or other disaster.

The programme enables to grant the entrepreneurs damaged by the flood directly the financial subsidy in the amount of from 2 to 7 per cent interest of the bank loan assigned for realisation of a business project.
The total amount of subsidy must not exceed 10 million CZ.

The programme will allow to provide small and medium enterprises hit by floods with an intensive guarantee for a rest of the credit up to 90% of the credit principal and not repaid interests not exceeding 30% of the rest of the credit principal, eventually for leasing.

The programme also enables to provide a credit in amount from 1 million CZK to 10 million CZK with the fixed interest rate 2 per cent p. a. valid for the whole repayment period and with the repayment period up to 6 years.

Total amounts of state aid awarded to SMEs in various forms may be seen in the following tables.

**Table 5: Total amount of subsidies provided through CMRZB in 1997 – 2001**

<table>
<thead>
<tr>
<th>Indicator</th>
<th>1997</th>
<th>1998</th>
<th>1999</th>
<th>2000</th>
<th>2001</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of Subsidies</td>
<td>771</td>
<td>818</td>
<td>623</td>
<td>571</td>
<td>529</td>
</tr>
<tr>
<td>Amount of Subsidies (CZK million)</td>
<td>750</td>
<td>1,020</td>
<td>539</td>
<td>578</td>
<td>463</td>
</tr>
<tr>
<td>Amount of Subsidied Loans (CZK million)</td>
<td>4.134</td>
<td>8.337</td>
<td>4.440</td>
<td>4.229</td>
<td>3.837</td>
</tr>
</tbody>
</table>

Source: [www.cmrzb.cz](http://www.cmrzb.cz)

**Table 6: Projects supported by CMRZB guarantees, loans and subsidised interests and the respective applicants 1997 – 2001**

<table>
<thead>
<tr>
<th>Indicator</th>
<th>1997</th>
<th>1998</th>
<th>1999</th>
<th>2000</th>
<th>2001</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of Projects</td>
<td>984</td>
<td>1,115</td>
<td>1,252</td>
<td>1,394</td>
<td>1,368</td>
</tr>
<tr>
<td>Total Costs of the Projects (CZK billion)</td>
<td>9</td>
<td>18</td>
<td>14</td>
<td>14</td>
<td>13</td>
</tr>
<tr>
<td>Applicants – Natural Persons (Percentage of the Number of Projects)</td>
<td>45</td>
<td>37</td>
<td>38</td>
<td>35</td>
<td>37</td>
</tr>
<tr>
<td>Applicants – Legal Persons (Percentage of the Number of Projects)</td>
<td>55</td>
<td>63</td>
<td>62</td>
<td>65</td>
<td>63</td>
</tr>
</tbody>
</table>

Source: [www.cmrzb.cz](http://www.cmrzb.cz)

Nationwide as well as regional programmes supporting SMEs development are being approved by the government every year. Simultaneously, financial volumes are being determined.

The Czech-Moravian Guarantee and Development Bank disburses subsidies through guarantees and contributions for payment of interest on loans provided especially by Komercni banka, a.s., Ceska sporitelna, a.s., and Ceskoslovenska obchodni banka, a.s. in close cooperation with these banks.
**Regional programs**

Similarly to EU member states, the Czech Republic aims at supporting business activity in the weakest regions. Since 1992, funds from the state budget have been set aside for this purpose on an annual basis. In 2002, CZK 200 million was allocated for implementation of regional programs of support for small and medium enterprises (budget chapter of the Ministry for Regional Development). Combined with additional financial resources, a total of **CZK 309.1 million** was drawn to support 301 projects. In structurally affected and economically weak regions, implementation of the projects created 902 new employment opportunities. The average sum of state budget funds necessary for creating one new job totaled CZK 342,100.

### 2.2 Support for R&D

Basic principles for R&D policy, proclaimed in October 1990, include active legislative and financial support of all functions of R&D in society, respect for academic freedom and introduction of a system of grants complementary to the formerly strictly institutional financing of R&D policy.


Governmental Principles of R&D, adopted in May 1994, included the creation of an effective system of state support for R&D including conditions for advancing and enhancing university-level R&D and the declaration of intent to increase the volume of state funding of R&D up to 0.7% of GDP. They can be characterised as follows: minimal intervention by the state in the creative work, support for competition among actors in this field, support for a closer co-operation of research institutes and universities and integration of research and teaching activities, transparency and control, additional sources of financing, such as tenders and research grants, and only a temporary support for some selected programmes, projects and institutes.

Governmental principles of R&D, approved in April 1997, acknowledged the importance of R&D as a contribution to the world knowledge, but especially for the Czech economy and, for the first time, stress a high priority of this sphere.

In June 1998 the government approved the most important document in the area of R&D after the „Velvet Revolution.“ All interested bodies at the level of Government, Parliament, Academy of Sciences, universities and R&D associations took an active part in the preparation process. The so called „Principles of Science Policy for the Beginning of the Next Millenium, are based on the recognised idea that a precondition of the country’s prosperity -- given to limited resources of raw materials – is strengthening of
R&D activities and their linking to industrial innovations. This document contains ten chapters dealing with legal and financial aspects but also with ethics of R&D and communications with the public. It is the fact, however, that this crucial document comes into being with an eight-year delay. Currently, the world is already dealing with innovation enterprising. It this point it should be stressed that in order to bridge this gap, the Association of Innovative Enterprising (see later paragraphs) has initiated elaboration of an innovation strategy for the CR.

In 1989 the state R&D expenditures amounted to about 21 bn Kcs. This sum was divided between state research institutes and R&D departments of state enterprises. After the „Velvet“ revolution, R&D expenditures followed the same pattern as the number of workers. In 1993 it reached only 4 bn CZK, the share on GDP being only 0.43 % (without expenditures of R&D departments of privatised state enterprises). The crucial deficit was not in wages, but in investment which lead necessarily to a deterioration of equipment.

Czech government dealt with the problem of R&D financing principally in 1994. The goal to reach a 0.7 % share of R&D expenditures on the GDP was proclaimed (the OECD average is about 0.8 %). However, due to only a very moderate increase in R&D expenditures in 1995 (4.8 bn CZK) and a relatively high growth of GDP (11.96 bn CZK), the share further decreased to only 0.4 %. In 1996 the situation was more promising, as the R&D expenditures grew by 30 % (6.2 bn CZK). During 1998 -- despite the repeated proclamation of the government to the R&D community and the EU -- it became clear that the 1994 promise to increase the share of R&D expenditures would not be fulfilled. The 1998 state budget allocated to this sector only 0.48 % of GDP and resources of industries represent further 0.6 %. The proposed state budget for 1999 suggests only 97 % of the 1998 amount (9.6 bn CZK compared to 12 bn anticipated by the Governmental Council for R&D). According to Vice-Chairman of the Council this would mean stopping all new projects supported by grants. Two negative consequences would result from this reduction. Firstly, CR would not fulfil its obligations to the EU stemming from the fifth EU programme: even the reduced membership fee of 320 mil CZK (about one fourth of the regular fee paid by developed programme participants) would not be guaranteed. Secondly, this insufficient state support would harm especially R&D activities at universities (in the EU countries this important area represents about one third of state expenditures while in the CR only one fifth).

The state supports the R&D in three ways: direct subsidies to universities and institutes of the Academy of Sciences, indirect subsidies via the Grant Agency (which is oriented almost exclusively towards basic research conducted at universities and within the Academy of Sciences and support of applied research via sectoral/ministerial programmes.

State R&D financing in 1997 (1996) is characterised in Table No. 7

<table>
<thead>
<tr>
<th>Table No. 7: R&amp;D Expenditures from the State Budget in 1997 (ths. CZK)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chapter</td>
</tr>
<tr>
<td>---------</td>
</tr>
<tr>
<td></td>
</tr>
</tbody>
</table>

19
### Expenditures

<table>
<thead>
<tr>
<th>Expenditures</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Office of the Government</td>
<td>4 177</td>
<td>1 750</td>
<td>2 427</td>
<td>167.1</td>
</tr>
<tr>
<td>Security and Information Services</td>
<td>6 000</td>
<td>4 800</td>
<td>1 200</td>
<td>x</td>
</tr>
<tr>
<td>Ministry of Foreign Affairs</td>
<td>13 912</td>
<td>0</td>
<td>13 912</td>
<td>115.8</td>
</tr>
<tr>
<td>Ministry of Defence</td>
<td>91 300</td>
<td>90 000</td>
<td>1 300</td>
<td>114.1</td>
</tr>
<tr>
<td>Ministry of Labour and Social Affairs</td>
<td>21 212</td>
<td>1 600</td>
<td>19 612</td>
<td>117.8</td>
</tr>
<tr>
<td>Ministry of Interior</td>
<td>43 380</td>
<td>24 680</td>
<td>18 700</td>
<td>110.1</td>
</tr>
<tr>
<td>Ministry of Environment</td>
<td>352 700</td>
<td>40 000</td>
<td>312 700</td>
<td>115.4</td>
</tr>
<tr>
<td>Grant Agency</td>
<td>843 055</td>
<td>207 000</td>
<td>636 055</td>
<td>109.7</td>
</tr>
<tr>
<td>Ministry of Industry and Trade</td>
<td>930 700</td>
<td>0</td>
<td>930 700</td>
<td>281.2</td>
</tr>
<tr>
<td>Ministry of Transportation and Telecommunication</td>
<td>108 205</td>
<td>38 205</td>
<td>70 000</td>
<td>178.6</td>
</tr>
<tr>
<td>Ministry of Agriculture</td>
<td>465 000</td>
<td>5 000</td>
<td>460 000</td>
<td>113.1</td>
</tr>
<tr>
<td>Ministry of Education</td>
<td>1 728 800</td>
<td>350 000</td>
<td>1 378 800</td>
<td>115.4</td>
</tr>
<tr>
<td>Ministry of Culture</td>
<td>103 400</td>
<td>41 000</td>
<td>62 400</td>
<td>196.1</td>
</tr>
<tr>
<td>Ministry of Health Care</td>
<td>661 000</td>
<td>71 000</td>
<td>590 000</td>
<td>105.4</td>
</tr>
<tr>
<td>Ministry of Justice</td>
<td>10 900</td>
<td>450</td>
<td>10 450</td>
<td>118.5</td>
</tr>
<tr>
<td>Czech Institute of Geography and Regional Register</td>
<td>17 800</td>
<td>400</td>
<td>17 400</td>
<td>115.8</td>
</tr>
<tr>
<td>Academy of Sciences</td>
<td>2 135 000</td>
<td>300 000</td>
<td>1 835 000</td>
<td>124.6</td>
</tr>
<tr>
<td>State Institute for Nuclear Security</td>
<td>16 650</td>
<td>0</td>
<td>16 650</td>
<td>117.0</td>
</tr>
<tr>
<td>Total</td>
<td>7 553 191</td>
<td>1 175 885</td>
<td>6 377 306</td>
<td>121.2</td>
</tr>
</tbody>
</table>

Source: Governmental Council for R&D

### 2. 3 Export promoting policy

Export promoting policy of the liberal government may be seen as the most elaborated (also the most "tolerated") part of the economic policy affecting industry. In principle, it was based on five pillars:

- exchange rate and monetary policy,
- liberalization of trade,
- foreign policy and creating favourable environment for Czech exports,
- financial support,
- information services.

In view of the fact that much of Czechoslovak export potential laid in manufactured goods, whose export is often supported by means of export credits, in 1991 the
Government of the CSFR adopted Resolution No. 721/1991, setting up the Export Guarantee and Insurance Corporation (EGAP). EGAP, a public joint stock company, was more or less the equivalent of institutions such as HERMES in Germany, COFACE in France and GRE in Switzerland.

The new institution has been operational since June 1992, with offices in both the Czech and Slovak Republics. It had three objectives: to provide export credit insurance and insurance of banking and financial instruments covering commercial and political risks; to take good differences in domestic and foreign interest rates; to offer export consultancy services.

In compliance with Act No. 58/1995 Coll., on insuring and financing export with state support, as amended, EGAP is fully owned by the state. The Czech Republic exercises its shareholder's rights through central authorities of the state (Ministry of Finance, Ministry of Industry and Trade, Ministry of Agriculture and Ministry of Foreign Affairs).

EGAP undertakes activities of three types:

- Covering commercial risks in short-term export contracts.
- Covering high political risks involved in exporting to certain countries for short-term contracts
- Covering both commercial and political risks in the medium and long term horizon, required above all by exporters of machinery and capital goods.

It should be stressed that EGAP treated all exporting enterprises (i.e. locally owned, joint-ventures with foreign capital, etc.) alike. EGAP has developed its own country risk rating system, reflecting the specific character of the Czech Republic's economic relations with individual countries, which resulted in their classification into groups of categories.

EGAP's policy of premium rates corresponded to the extent and frequency of insured export contracts, the number and value of claims and took into account macroeconomic indicators, in particular changes of interests rates. The increasing volume of EGAP transactions in the insurance of export buyer's credits and the company's positive economic results made it possible to reduce premium rates, as a contribution towards strengthening the export promotion aspects of EGAP operations.

Graph 1: EGAP: The Development of Share of Insured Bank Credits in Total Czech Export During the Years 1993 – 2001 (%)
Insurance with state support

In 2002, a total of 178 new insurance contracts were concluded in the insurance with state support, worth a total of CZK 16.3 billion, with the premium written amounting to CZK 269 million. The number of the concluded insurance contracts fell by 29.8% with a simultaneous decrease in the average value of an insurance contract to 65.6% of the amount reached in 2001.

The biggest share in the total volume of the insurance (app. 31.4%) fell to the insurance of medium-term supplier credits in 2002. It was followed by the insurance of buyer credits (18.2%), the insurance of bank guarantees (17.4%) and by the pre-export financing with the share of approximately 13.5%. More than 10% were represented by the insurance of the production risk or the insurance of the risk of cancellation of the contract by the foreign buyer.

Table 8: Newly concluded insurance contracts with state support (in CZK millions)

<table>
<thead>
<tr>
<th>Year</th>
<th>1999</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
<th>02/01 (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value of insurance contracts newly concluded in the current year</td>
<td>26 141</td>
<td>33 775</td>
<td>35 095</td>
<td>16 251</td>
<td>46.3</td>
</tr>
<tr>
<td>Number of new insurance contracts</td>
<td>321</td>
<td>267</td>
<td>252</td>
<td>178</td>
<td>70.6</td>
</tr>
<tr>
<td>Total premium written</td>
<td>710</td>
<td>918</td>
<td>1 091</td>
<td>269</td>
<td>24.7</td>
</tr>
</tbody>
</table>

Source: www.egap.cz
**EGAP’s relations with State budget**

Outstanding commitments of EGAP reached CZK 82.8 billion as at 31 December 2002 and the insurance capacity set down in the state budget at the amount of CZK120 billion was used from 69%.

The outstanding insurance commitments is the sum of the value of insured export credit risks under issued insurance contracts at their nominal value, including interest and contractual fees, and from reinsurance activity, reduced by the value of risks which had expired, and further by the value of insurance promise contracts in the amount of 50% of their nominal value. EGAP is obligated to keep insurance funds and provisions at any time at the minimum of 9.5% of the amount of the outstanding commitments, reduced by the outstanding commitments covered by the passive reinsurance.

The outstanding commitments reduced by the amount covered by reinsurance treaties reached a total of CZK79.8 billion as at 31 December 2002. The insurance funds and provisions designated for their cover amounted to CZK10.158 millions as at 31 December 2002 so the outstanding commitments as of this date were covered up to the level of 12.7%. It means that the existing outstanding commitments were fully covered from own resources and EGAP thus was not entitled to claim any portion of a predetermined appropriation established in the state budget in the amount of CZK 400 million.

**The Czech Export Bank** (CEB) was founded in May 1994. In February 1995, a bank licence was officially issued, which determined its activities. The CEB was a joint-stock company, with founding capital of 1.5 billion crowns. In addition to EGAP, which owned one third, its shareholder was the state via various ministries: the Ministry of Finance, the Ministry of Foreign Affairs, and the Ministry of Agriculture.

The CEB functioned as a bank as defined by the law on banks and in accordance with the law on insurance and financing of export with state support. It was supposed to become a full-fledged bank, but with respect to a very low activity at the beginning, it had a long way to go.

The CEB was designed for export financing and government support and was the only bank that could obtain subsidies and thus provide relatively inexpensive means for financing export contracts. For these loan activities, the CEB required certain conditions that were determined by the law as well as regulations: OECD consensus. One of these conditions was advances, i.e. a minimal advance payment of 15% and the requirement of exporter participation. EGAP stipulated participation on seller's credit of 10% and on buyer's credit of 5%. The law further limited CEB by requiring that everything CEB finances must be insured by EGAP, and also required that at least 60% of the value of exported and financed goods originate in the Czech Republic.

CEB’s mission is to support Czech exports; therefore, its principal goal is not to generate maximum profits, but a maximum volume of state-supported export. Despite this distinction from the commercial banking sector and the fact that the provision of state-
supported financing is governed by a special Act (Act No. 58/1995 Coll.), CEB is a standard part of the Czech banking network, whose activities are fully subject to current banking regulations, primarily, Act No. 21/1992 Coll. on banks, as amended, and to related measures adopted by the Czech National Bank, and also to the Public Support Act, No. 59/2000 Coll., as amended by Act No. 130/2002 Coll. CEB must also observe international obligations of the Czech Republic.

CEB is using the following portfolio of instruments:

CEB’s Guarantees (for officially supported exports)
Bank guarantees are used to secure an obligor's payment to the creditor. They are written promises by the bank to satisfy the creditor in accordance with the terms of the guarantee in the event that the obligor fails to honor the specified obligations

Bid Bonds
A guarantee that insures the obligation of a winning bidder to enter into a contract. The bidder, under the terms of the tender, deposits a bond - in the form of a bank guarantee to the benefit of the tender organizer - which provides for compensation to the organizer should the winning bidder fail to sign a contract or fail to honor the bid conditions when entering into the contract.

Performance Bond
insures the obligation of the bidder to duly perform the contract. With a performance bond, the bank can provide a guarantee during the term of the delivery or it can additionally cover the period of technical warranty of the goods supplied. It may be used to insure the supplier's compliance with the contract terms or simply to guarantee compliance with specific technical standards set out in the contract. Performance from this type of guarantee involves reimbursement to the importer of an agreed portion of the purchase price.

Advance Payment Guarantee
insures the obligation of the seller to return the advance payment in case of failure to supply the goods on time or in their entirety. The bank agrees to return all or part of an advance payment made to the exporter by the importer (a deposit of part of the purchase price provided prior to the signing of a contract) in the event that the exporter fails to honor the contract terms in their entirety or in part and the exporter does not itself return the advance. CEB agrees to return the deposit to the importer along with interest imputed for the period from the date of the advance to the date of return, if applicable. The guarantee agreement may contain a clause that reduces the advance proportionately as the contract is performed.

Setting up the Info Centrum (co-financed by the Ministry of Industry and trade), as well as Czech Centres operating abroad (under the Ministry of Foreign Affairs) were positive developments in the field of information services. The Info Centrum was created in 1993 by transformation of the previous Research Institute for External Economic Relations into an institution with state contribution. For example, in 1995, the state contribution
was 15 mil. CZK, meanwhile the planned income from sale of products and services was 3 mil. CZK. The Centre had to guarantee all exporters equal access to information. Besides economic information it offered territorial information and information on tenders and projects (sources were the World Bank and EBRD).

In 1997 another transformation took place: the Czech Trade Promotion Agency - CzechTrade - was established as a government agency of the Ministry of Industry and Trade. The Agency’s main task has been to assist in the development of trade and international co-operation by

- participating in creating export strategies, drawn up by respective state authorities and their specific departments
- participating in working out principles of export promotion strategies of CR government policies and their continual up-dating
- participating in defining foreign trade priorities of the CR on the choice of territorial export interests of CR
- monitoring the CR economic environment coherent with foreign trade.
- gathering information about the economy and about the entrepreneurial sector in CR; about contractual and autonomous measures of the foreign trade policy of CR; making available lists of foreign trade orientated institutions, with contacts for producers, exporters and importers
- analysing Czech foreign trade developments and monitoring the main trends of international trade and the world economy.

CzechTrade activities are carried out in cooperation and in coordination with the Ministry of Trade and Industry.

Czech Centres were created from previous cultural departments of some embassies. Their purpose was twofold: to collect information for Czech exporters abroad, and disseminate information on Czech products, to promote and help improve image of Czech products oversee. That time, the whole export promotion was facing the problem of unclearly defined responsibilities. Three ministries should play certain role in export promotion: Ministry of Industry and Trade, Ministry of Economy and Ministry of Foreign Affairs.

2.5 Investment Support

The general aim of Czech policy was providing progressively more transparent rules and procedures for foreign direct investment, without use of any particular discrimination or incentives. The government was promoting the so-called policy of national treatment and therefore there were no special tax concessions for foreign investors. The only benefit specific to FDI, which was available since 1996, was tax relief for the import of investment goods for joint ventures. Simultaneously, municipal authorities were encouraged to develop investment promotion activities, in particular, through the creation of industrial zones, streamlining regulations on planning permission and by improving local infrastructure. A package of investment incentives was adopted by Tosovsky “stabilisation“ government at the beginning of 1998. A number of investment incentives was introduced for both domestic and foreign companies. These included the classic
range of instruments: tax holidays, concessional property and real estate deals, and retraining grants. A new body responsible for the implementation of incentives Czechinvest started to operate.

After the 1998 elections, the new social democratic government reduced the minimum investment threshold for access to the incentive package from original CZK 25 to CZK 10 million. The reason was that the higher threshold had prevented smaller, mainly local investors from being eligible for support under the programme.

Since then, incentives in the manufacturing sector pertain to investment projects exceeding a value of $10 million ($3 million in high-unemployment regions) and entail corporate income-tax relief for 10 years for new firms (five years for existing firms), provision of cheap serviced sites in industrial zones, and job-creation and training grants for local employees. Eligible investments must also meet some additional criteria, including a minimum share of expenditure on hi-tech machinery and full compliance with national environmental standards.

Since their inception in April 1998, these incentives, together with the improving environment for doing business, have attracted greenfield investments valued at $5 billion over the first four years from over 100 predominantly foreign corporations and have created almost 40 000 new jobs in the manufacturing sector. A great majority of these projects appears to have been successful, with only a couple of firms deciding to leave. According to CzechInvest, about 90% of FDI firms have re-invested their earnings in the Czech economy. In recent years, such reinvestments averaged $1 billion per annum and accounted for 20-25% of FDI inflows reported in the balance-of-payments statistics.

The volume of incentives-driven investment projects located in disadvantaged regions exceeds the national average by four times, but the picture at the regional level is uneven, with central districts of Bohemia and Moravia outperforming the most depressed northern districts by a wide margin. The superior ability of central districts to attract FDI inflows is clearly linked to their good accessibility. The two most disadvantaged districts (Usti and Ostrava) have suffered from lack of modern road infrastructure.

In 1999, CzechInvest and the Ministry of Industry and Trade designed a programme promoting development of industrial zones across the Czech Republic. This programme provides government subsidies to municipalities in two forms:

Subsidies may be granted for infrastructure development covering the cost gap of non-profitable infrastructure such as access roads, rain water drainage, levelling, demolition and ecological damage and the removal or transfer of existing infrastructure. Transfer of land owned by the Czech state (specifically the Czech National Land Fund) to applicant at a discount.

Subsidies are awarded after review by a panel of representatives from the Ministries of Industry & Trade, Labour & Social Affairs, Regional Development, Agriculture, Environment, Transport & Telecommunications, as well as by the National Land Fund, the Association of Cities and Municipalities, and the Czech-Moravian Guarantee &
To qualify for a subsidy the applicant must either (1) prove that an investor eligible for investment incentives has made a commitment to an investment project in the applicant’s industrial zone, or (2) present a plan for the development of an industrial zone of strategic importance, i.e. a minimum of 10 hectares, with good transport facilities and sufficient available labour.

Other criteria taken into consideration include the location’s attractiveness to potential investors, location in an economically challenged region, proportion of costs for infrastructure and the applicant’s readiness to start the building process.

In 1998 the programme began with state support of CZK 137.4 million (cca. USD 4 mil.) and created 147.5 ha of developed industrial zones under municipality ownership. In 1999 the government awarded CZK 167.5 million (cca USD 4.5 mil.) to 18 Czech municipalities, which resulted in 336 hectares of fully serviced industrial land becoming available in locations throughout the country. Seven of the newly created industrial zones attracted their first investor during 1999, with investment commitments totalling USD 284 million and g 2,900 direct new jobs.

The state budget for 2000 allocated CZK 393.3 million (ca. USD 11 million) for the second phase of the programme. 34 municipalities received subsidies for infrastructure construction in their industrial zones and a total area of 598 ha of fully serviced sites was created.

Based on the outstanding success, the programme was enlarged for the period 2001-2006. It includes four sub-programmes:

**Preparation of industrial zones**
the main goal is preparation of competitive industrial zones, in which the investment (in the areas of manufacturing industry, strategic services and technological centers) will be realised.

**Regeneration of industrial zones**
the main goal is preparation of industrial zones for achievement of new investment by utilization of former industrial land. This sub-programme contributes to the process of industry reconstruction in the Czech Republic and environmental reclamation.

**Construction and reconstruction of production halls**
the main goal is to stimulate construction and reconstruction of production halls located in the industrial zones, which will be leased to high-tech companies. This sub-programme facilitates the creation of new employment opportunities in the areas of manufacturing industry, strategic services and technological centres. Equally important objective is to attract direct foreign investment into manufacturing sectors by facilitating the ability to start production quickly.
**Accreditation of industrial zones**

the main goal is improvement of skills and professionalism of administration staff of industrial zones to increase their effectiveness.

In 2002, investment support became available also for strategic services and technological centres, including business customer contact, hi-tech service and repair, software development, and R&D centres. If a project meets specific objectives pertaining to the value of investment, employment, export orientation and location, the government provides a 50% corporate tax relief for up to 10 years, arranges for university cooperation and provides subsidies amounting to 50% of eligible business costs, 35% of special training costs per employee and 60% of general training costs. The threshold for support is much lower than in the manufacturing sector at CZK 50 million ($1½ million). The actual amount available to each project is calculated as a percentage of the eligible investment expenditure (wage costs during the first two years of the project, capital outlays on buildings, machinery and equipment, including expenditure on intangible assets up to a predetermined limit). The percentage varies according to location from 20% in Prague to 46-50% in the other regions of the Republic. Additional incentives are available for structurally disadvantaged regions with declining industries and high unemployment levels. Each project has to be examined by the Czech competition authority that has to certify its compliance with EU rules on state aid.

The volume of incentives-driven investment projects located in disadvantaged regions exceeds the national average by four times, but the picture at the regional level is uneven, with central districts of Bohemia and Moravia outperforming the most depressed northern districts by a wide margin. The superior ability of central districts to attract FDI inflows is clearly linked to their good accessibility. The two most disadvantaged districts (Usti and Ostrava) have suffered from lack of modern road infrastructure.

The Czech Republic has outperformed its principal regional competitors for FDI inflows. Responding to the relative weakness of the manufacturing sector, Czech policy makers attracted considerable inflows of foreign capital and know-how through such incentives as well as the privatisation and restructuring programmes (described below). Overall, some 60% of the cumulative FDI inflows have benefited the service sector (mainly trade, banking, transport, telecommunications and energy industries) while the remaining 40% have moved into the goods-producing sector (mainly automotive, chemical and refining industries).\(^1\) The Czech Republic has encouraged fuller ownership changes in state-controlled public utilities than other countries in the region.

### 3. Aid for rescue and restructuring

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1. In contrast, the share of the service sector is much higher in Czech direct investment abroad at 86%; Czech investors usually target trade service firms and financial services in tax havens. The stock of outward investment amounts only to 3.5% of inward FDI.
When social democratic government came into power in 1998, it started systematically prepare an ambitious programme for rescuing some major companies in troubles. For this purpose a specialized agency, so called Revitalization Agency, was set up.

### 3.1 Consolidation Bank and Czech Consolidation Agency

Konsolidacni banka (Consolidation Bank) was established on 25 February 1991 by the Czechoslovak Ministry of Finance as a specialised bank for legal entities. At the beginning, the bank operated with a limited banking licence, and its task was to resolve some of the problems related to the centrally-planned economy. After its establishment, Konsolidacni banka (KOB) assumed the claims from permanently revolving stock loans (i.e. TOZ – a special type of loan provided in the pre-1989 economic system). These claims were for more than 6,000 clients and worth a total of CSK 110.8 billion. In 1992, the bank purchased additional non-performing claims of CSK 15 billion from the period before 1990.

With the separation of Czechoslovakia and the creation of the independent Czech Republic on 1 January 1993, the original federal bank was divided into two independent entities (Czech KOB and Slovak KOB). On 23 February 1993, Czech KOB started its operations. As the successor organisation in the Czech Republic, the bank continued with its original activities, i.e. the management of claims acquired and purchased from commercial banks.

Up to the year 2000, KOB had also been a bank specialised in the financing of development projects. KOB was the main government agent for providing assistance and investment in public interest projects, e.g. transportation, communication, water system infrastructure and ecological concerns. However, in an effort to consolidate the transformation institutions in the Czech Republic, all of KOB’s development activities were transferred to CMRZB at the end of 2000.

In the year 2000, KOB had also contributed significantly to the pre-privatisation clean-up of large Czech bank portfolios, allowing these banks to dispose of their non-performing assets. As a result, assets from Komercni banka (KB) in a nominal value of CZK 60 billion were transferred to the newly created subsidiary KONPO, s.r.o. In addition, a guarantee between KOB and KB was concluded at the end of 2000 securing up to CZK 20 billion of classified assets in KB’s balance sheet as of 31 December 2000. KOB was also involved in the sale of the Investicni a postovni banka (IPB) to CSOB. With the development of KOB’s financial group, the accumulation of non-performing assets had continued. At year-end 2000, the nominal value of assets managed by the financial group represented almost one-fifth of the Czech Republic’s GDP.

During 2000, KOB was also involved in financial transactions for the Czech Government or, based on Government resolutions, the implementation of projects and operations in the area of development and restructuring.
Within the consolidation of so called transformation institutions aiming at separation of two different activities (consolidation and development), KOB started its transition into an institution specialised in the management and work-out of bad and non-performing assets, a large portion of which are on KOB’s balance sheet. Ceska financni’s merger with KOB on 30 June 2000 was also related to this consolidation process. On the basis of a government resolution, this company was purchased from the Czech National Bank. Also on 30 June 2000, KOB’s Financial Group was created. Besides KOB, the group contains the following members: Konpo, s.r.o., PRISKO a.s., Ceska financni, s.r.o., Revitalizacni agentura, a.s. and SANAKON, s.r.o.

Based on a special at, on 31 August 2001 KOB was transformed into a non-banking, financial institutional called Ceska konsolidacni agentura (CKA). It was assigned with the mission to actively, promptly and in a transparent manner resolve most doubtful assets and with the target of maximizing the proceeds for the state (i.e. minimize the losses to be covered from the state budget). As a non banking institution it is not allowed to receive deposits from clients and does not provide new loans. In the course of completion of KOB activities, CKA is authorized to use all tools that were available to KOB. The liabilities of CKA are guaranteed by the state.

The Board members are appointed, at the suggestion of the Ministry of Finance, by the Czech Government; the Supervisory Board of CKA is elected by the Chamber of Deputies of the Czech Parliament. The Board of Directors is a statutory and management body and decides all matters related to CKA. Executive powers of the Board of Directors are limited under the law by the nature of the relevant operation; some operations are approved by the Supervisory Board, the Ministry of Finance or the Government.

CKA should aim at achieving maximum recoverability as soon as possible and with minimum administrative costs. In case of companies, which are able to prove their viability and meet their liabilities, CKA uses the restructuring strategy or the repayment strategy. In case of companies determined by the Government, with respect to which it is in the interest to realize their sale to a strategic partner, CKA seeks a strategic partner. Methods of solution of low quality assets consist of the sale of ownership, assignment of receivables, realization of collateral and solution by legal proceedings and execution. In case of low quality assets CKA implements bankruptcy proceedings and liquidation. Its main criterion in the designing of a particular debtor solution strategy is the anticipated amount of the proceeds from such operation and other possible costs incurred in the administration of the given debtor.

The assignment of receivables to third parties is performed either on an individual basis or in packages.

The portfolio of CKA has doubled in recent years as it received a huge volume of bad loans associated with the sale of the state-controlled KB to Société Generale of France and of the illiquid IPB to the Belgian-owned CSOB as well as with the government’s revitalisation programme. The CKA resumed sales of large packages of receivables to
specialised private-sector institutions, and made some progress in the wholesaling of smaller claims to private investors. Its remaining assets have a face value of some CZK 300 billion (about $9 billion) or 15 per cent of GDP. Ultimately, the firms that cannot service their debt held by the Agency will exit the marketplace through liquidations or takeovers.

This exit process should be partly managed by the government that selected a small number of larger debt-laden firms to be restructured through direct sales of CKA-held claims to strategic investors, followed by debt-equity swaps and reorganisation by new owners. Such claims have been excluded from block sales. The experience with this approach has been mixed to date -- while CKA managed to conclude a few transactions, the majority of the firms selected for participation in this programme remain in a state of agony. Thus, a continuous sale of packages of receivables to highest bidders seems to be the best option available.

The first large block of bad loans was sold in 2000 to the highest bidder for 11 % of book value while the second one, sold in 2002, netted 18 % of the book value. The recovery rate is increasing, but it has remained significantly below the 50 % threshold associated with similar sales by the Korean Consolidation Agency in late 1990s (this Agency was chosen as a model for CKA). The third block sale was to include mainly overdue receivables of bankrupt firms at a small fraction of their book value. Another 3-4 block sales are planned over the next two years -- the CKA portfolio would thus be reduced to 15-20 per cent of its present size and include mainly complicated transactions that involve lengthy court litigation. If the economic performance of industry is to improve appreciably, the remaining block sales ought to be completed as soon as possible. The successful bidders are likely to sell the CKA receivables and equity stakes promptly, accelerating the exit of heavily indebted firms or their recovery.

The main risks to the CKA programme to rapidly dispose of its portfolio are posed by the growing debts of Czech Railways and overdue liabilities of public hospitals that could be transferred to the Agency in the future. Another potential source of bad debt transfers to CKA is the distressed Union banka.

Companies of the CKA group use similar approaches, since they are integral parts of the CKA’s strategy.

Graph 2: CKA: Due from customers 1993 - 2002 (gross amount), CZK billion
3.2 Revitalization Agency

In order to help enterprises, which were expected to be economically viable in the long-run and to overcome their short-term difficulties, the Government adopted an ambitious Revitalization Programme. The scheme approved by the government in 2000 involved existing owners surrendering a controlling stake to a specialist agency. This agency was supposed to work with creditor committees to restructure debts through a variety of methods - in some cases debts to state-held banks might be capitalized, and the resulting stake eventually sold to a new strategic investor(s). Since the proper operation of these companies following re-privatization was the utmost priority, approaches involving injections of new management expertise as well as capital were given preference.

A time-limited agency was established and criteria for eligible companies were set. They required that the firm: employ over 2000 people; have local supplies of over CZK 1 billion (USD 300 million); have total classified debts to state financial institutions of over CZK 3 billion; and positive operating profits. The last of these criteria was mandatory and at least two of three other conditions must also be satisfied. It was envisaged that between 8 and 15 large enterprises might be involved.

Till now, the authorities completed financial restructuring of three large industrial firms and subsequently sold them to foreign investors. In all cases, the new owners have

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2. The truck maker *Tatra Koprivnice* was sold to the US-based SDC financial group, the tractor producer *Zetor* to a Slovak entity (HTC holding), and the integrated steel mill *Nová Hut* to an LNM holding controlled by Ispat International, the 8th largest steel producer in the world. The prospects for the sale of the second state-controlled steel mill (*Vikovice Steel*) and its principal supplier of coke (*OKD*) are unclear, while a domestic group owns the remaining integrated steel mill.
started to turn around the companies by aggressive cost-cutting, involving massive layoffs and termination of unprofitable operations. Following a considerable and lengthy effort by the authorities to revitalise the Skoda engineering group, the Consolidation Agency was unable to find a strategic partner and decided to sell its equity stake to the closely-held Appian Group of the US. Since its inception in 2000, the state-sponsored revitalisation programmes have been modestly successful, with loss-making sales of seven large companies to outside investors contributing to the overdue industrial restructuring at a considerable cost to the taxpayer.3

In the population of medium-sized and large manufacturing corporations, the share of vulnerable firms (loss-making corporations employing over 100 workers) in output and employment declined until 2001, remaining, however, at dangerously high levels of 25-27% in recent years. This favourable trend was reversed in 2002. The continued existence of a large non-viable subsystem explains why the productivity level of Czech industry lags significantly behind that of Hungary, a transition country of comparable size and population. Both economies experienced strong inflows of foreign direct investment to manufacturing but Hungary has been much more aggressive in forcing non-viable firms to exit the marketplace by instituting strict bankruptcy procedures and imposing hard-budget constraints on firms.

Significant restructuring still remains to be done. After a clean up of the banking sector, the problematic medium-sized and large enterprises with heavy debt burdens are mainly those active in the industrial sector, especially manufacturing.

3.3 Regional policy

In the first half of the 1990s, the Czech government did not implement any explicit policy anticipating and/or avoiding regional economic problems. Its policy in this regard represented in fact ex post reactions to severe problems or long lasting microregional disproportions in economic development. The only state contribution resembling "classic" regional policy of developed market economies was the aforementioned REGION programme assisting SME’s sector.

The responsibility for a homogenous regional development laid with the Ministry of Economy. It has created a division of regional policy and territorial planning, but its main activity consisted of analytical work.

In 1994 the government made an exceptional decision to assist the most handicaped districts (Bruntal, Znojemo, Novy Jicin, Louny) in buiding and developing their infrastructure.

An active (ex ante) regional policy might have resulted from a greater regional autonomy

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3. One of the remaining firms withdrew from the programme, one went bankrupt, and one was taken over by a private investor prior to any restructuring.
which still had to await political decisions on the nature of the regional units. Proposals ranged substantionally (from the creation of 10-12 regions to only three regions - Moravia and Silesia, Prague, and the remainder of Bohemia). The final decision was made in 1998 representing 14 regions (NUTS 3 level).

The **Regional Development Strategy** of the Czech Republic was approved by the Government in July 1999. The preparation consisted of two levels: the regional one and national (the central government level).

Development Strategies for each of 14 regions were prepared in advance. The Regional Development Strategy is a basic strategic document of regional policy in the Czech republic for period to the year 2010.

Special programmes for two most affected regions (North-west Bohemia and Ostrava in North Moravia) were approved by the Cabinet. The programme for North-west Bohemia consists of the **Regional Programme of Development of North-west Bohemia** (approved in May 1999) and of the **Programme Supporting Employment in Northwest Bohemia Region**. The programme for Ostrava region consists of the **Regional Programme of Development of Ostrava Region** and **The Strategy of Development- the Ostrava Region** (both programmes were approved by the Cabinet in June 1999).

### 4. Conclusions

Analysis of the state aid development in the CR has been quite difficult since at the early stages of transformation this field was not systematically dealt with, various types of aid were granted without sufficient transparency and monitoring of state aid was lacking. The situation started to change with EU accession negotiations, which were opened after December 1997. These negotiations substantially contributed to the understanding of the importance of a clearly defined competition policy and monitoring of awards of state resources. In order to be able to close the competition chapter, it was necessary to translate a competition discipline into the pre-accession preparation. Companies as well as public undertakings had to adjust to operating in accordance with antitrust rules and without distortive forms of state aid, authorities had to learn to apply and enforce these rules and bodies granting state resources had to understand and implement necessary procedures including ex ante notification. The Lisbon European Council in March 2000 demanded all candidate countries reduce the level of state aid, shift emphasis from support to individual companies or sectors to horizontal objectives, mainly employment, cohesion, environment and research.

Czech Republic adopted the legislation on state aid in 2000 and charged the Competition Office with applying and monitoring the rules. This act No. 59/2000 Coll. covers all kinds of aids including state aid schemes or advantages in favour of undertaking or sectors of production provided by the CR, a ministry, other administrative body, a body of regional administration or granted from public budget, thereby distorting or threatening to distort economic competition. This act regulates the procedure for
assessing the compatibility of the state aid with the obligations undertaken under the Europe Agreement.

The relative volume of state aid granted by Czech government is compatible with other candidate countries. In 2000, expressed as a percentage of GDP it represented 1.5% (the average for candidate countries being 1.3% and EU average 0.8%). The situation looks different using per capita terms. The EU average in purchasing power standard reaches 185 per capita, while the average for candidate countries is lower: 105 per capita. The corresponding figure for CR is 174 (almost the same as Slovenia with 173 and below Hungary with 190).

Aid for horizontal objectives equaling 17 % of total aid is lower than the EU average (24 %) and represents less than one half of the average for candidate countries (39%).

The share of manufacturing sector on the state aid is below the average of candidate countries (42 % compared to 46%, but above the EU average of 35 %). The dominating instrument in the CR are grants (63%) with is the same share as in the EU average but significantly higher than the average of candidate countries (25%). Tax exemptions are the most favoured instrument in candidate countries (on average 51 %), while their role in the CR is only marginal (8 %).

Looking at the sectoral structure, manufacturing in the CR is followed by transport (26 %), services (19 %) and coal (11%). The respective figures for EU are 46 %, 3 % and 11 %, and for candidate countries 22 %, 4 % and 12%.

CR with 20 % and especially SR with 35 % dominate the steel sector with total aid of candidate countries reaching 5 %.

For 2003, it is assumed that total subsidies to enterprises will increase from 2.7 % of GDP in 2002 to 3.2 %. In contrast, expenditure on research and development will remain confined to 0.6 per cent of GDP and fixed capital spending will decline to 3.4 per cent of GDP. Transfers to the Czech Consolidation Agency for debt reduction purposes were postponed to later years. Currently, outstanding liabilities of CKA for bank cleaning purposes are estimated at around 10 per cent of GDP, in addition to a similar amount that has already been disbursed.
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## Appendix

### Table A: The Number of Economically Active Small and Medium-sized Enterprises

<table>
<thead>
<tr>
<th>2002</th>
<th>Number of entreprises</th>
<th>The share of the number of SMEs in the total number of enterprises in the Czech Republic</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Small and medium-sized juristic persons with 0-249 employees</td>
<td>Physical persons running their own business</td>
</tr>
<tr>
<td>Industry</td>
<td>24 906</td>
<td>129 328</td>
</tr>
<tr>
<td>Construction</td>
<td>6 660</td>
<td>69 107</td>
</tr>
<tr>
<td>Trade</td>
<td>51 175</td>
<td>187 143</td>
</tr>
<tr>
<td>Entertainment</td>
<td>3 453</td>
<td>38 919</td>
</tr>
<tr>
<td>Transport</td>
<td>7 102</td>
<td>34 783</td>
</tr>
<tr>
<td>Finance</td>
<td>1 085</td>
<td>22 894</td>
</tr>
<tr>
<td>Services</td>
<td>36 218</td>
<td>153 532</td>
</tr>
<tr>
<td>Agriculture</td>
<td>3 900</td>
<td>43 600</td>
</tr>
<tr>
<td>Total</td>
<td>134 499</td>
<td>679 306</td>
</tr>
</tbody>
</table>

*Shares calculated by the MIT with the use of the CSO data*

### Financial Sources of Support in 2002

In 2002, assistance allocated to small and medium enterprises included funds from:

- the budget chapter of the Ministry of Industry and Trade
- CZK 800.0 mil. – nationwide programs of support for small and medium enterprises implemented by the Czech-Moravian Guarantee and Development Bank,
- CZK 30.0 mil. – program CONSULTING,
- CZK 50.0 mil. – program SMALL LOANS,
- CZK 70.0 mil. – program MARKETING,
- CZK 10.0 mil. – program DESIGN,
- CZK 20.0 mil. – programs TECHNOS and PARK,
• CZK 368.0 mil. – programs of research and development,
• CZK 1,277.0 mil. – program of construction of infrastructure in industrial zones,
• CZK 48.0 mil. – official participation in trade shows and exhibitions,
• CZK 20.0 mil. – program supporting subcontractors,
• CZK 20.0 mil. – program supporting energy savings and renewable energy sources,
• CZK 90.0 mil. – Sectorial and Operating Program INDUSTRY,
• CZK 100.0 mil. – program RECONSTRUCTION,
The budget chapter of the Ministry for Regional Development
• CZK 200.0 mil. – regional programs supporting small and medium enterprises,
• CZK 144.0 mil. – regional program supporting development of industrial enterprises in the NUTS II regions Northwest and Moravia-Silesia and the regional program REGION II,

state budget contribution for EU Multiyear Program for Business and Enterprises, small and medium enterprises in particular:

• CZK 7.0 mil. (EUR 227,000) – operations of Euro Info Centers (budget chapter of the Ministry for Regional Development),
• CZK 1.0 mil. (EUR 36,000) – (budget chapter of the Ministry of Industry and Trade),

The sum disbursed from the state budget totals CZK 3,255.0 mil.,
Table B: Overview of funds used to support small and medium enterprises in 2002 [CZK million]

<table>
<thead>
<tr>
<th>PROGRAMS</th>
<th>STATE BUDGET</th>
<th>PHARE</th>
<th>KFW CREDIT LINE</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>SME programs (ČMZRB)</td>
<td>1,583</td>
<td>50</td>
<td>347</td>
<td>1,980</td>
</tr>
<tr>
<td>NUTS 2</td>
<td>144</td>
<td></td>
<td></td>
<td>144</td>
</tr>
<tr>
<td>RECONSTRUCTION</td>
<td>60</td>
<td></td>
<td></td>
<td>60</td>
</tr>
<tr>
<td>RENEWAL 2002</td>
<td></td>
<td>16</td>
<td></td>
<td>16</td>
</tr>
<tr>
<td>MIT – TECHNOLOGIES +PARK</td>
<td>30</td>
<td></td>
<td></td>
<td>30</td>
</tr>
<tr>
<td>MIT – ČEA</td>
<td>19</td>
<td></td>
<td></td>
<td>19</td>
</tr>
<tr>
<td>MIT – foreign trade shows</td>
<td>48</td>
<td></td>
<td></td>
<td>48</td>
</tr>
<tr>
<td>MIT – research</td>
<td>368</td>
<td></td>
<td></td>
<td>368</td>
</tr>
<tr>
<td>MIT – MARKETING</td>
<td>64</td>
<td></td>
<td></td>
<td>64</td>
</tr>
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<td>Subprograms Transfer and Quality</td>
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<td>Industrial zones</td>
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<td>SOP Industry</td>
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<td>EU Multiyear Program for Business and Enterprises, including EIC</td>
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<td>Total</td>
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Source: Information provided by individual ministries and institutions