

# Doing Business in the European Union 2018

## Fact Sheet: Czech Republic



*Doing Business in the European Union 2018: Croatia, the Czech Republic, Portugal and Slovakia* is the latest in a series that aims to expand the benchmarking to secondary cities in all EU member states with a population above 4 million. This edition covers 25 cities from the four member states. The focus of the report is on indicator sets that measure the complexity and cost of regulatory processes, as well as the strength of legal institutions, affecting five stages in the life of a small to medium-size domestic firm: starting a business, dealing with construction permits, getting electricity, registering property and enforcing contracts. Top performing cities are identified and best regulatory practices are highlighted. The report suggests that reform-minded officials need not look far: the region has good, practical models to draw on.

### DOING BUSINESS IN THE CZECH REPUBLIC

*Doing Business in the European Union 2018: Croatia, the Czech Republic, Portugal and Slovakia* goes beyond the capital cities—measured by *Doing Business*—to identify good regulatory practices, uncover administrative bottlenecks and recommend reforms based on examples from each country and 186 other economies measured by *Doing Business*.

In the Czech Republic, the report assesses the business regulatory environment and its impact on local entrepreneurs in **7 cities**: Brno, Liberec, Olomouc, Ostrava, Plzen, Prague, and Usti nad Labem.



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### MAIN FINDINGS

- **Czech entrepreneurs face different regulatory hurdles depending on where they establish their businesses.** Implementation of business regulations as well as efficiency of public agencies vary within the country. Local policymakers can achieve tangible improvements by replicating existing good practices implemented in other cities within the country.
- **Across the five areas measured, the largest variation is in getting electricity.** In most of the Czech cities, new warehouses typically connect to the medium-voltage network. Completing the connection process can take nearly eight months (as in Usti nad Labem), and the cost can be as high as 283.2% of income per capita (as in Ostrava). In Brno and Prague, where low-voltage connections are commonly available, the process can be completed in two months, at a cost of 25.9% of income per capita.
- **Within-country differences also emerge in enforcing contracts, dealing with construction permits and starting a business.** Enforcing a contract takes the least amount of time in Prague—22 months. In Brno, it takes over 5 months more. The construction permitting process is slowest in Olomouc, where it takes nine months, and fastest in Brno. Starting a business can take from just over two weeks (as in Olomouc and Usti nad Label) to almost a month (as in Prague).
- **Across the five areas measured, doing business is easier in the country's three largest cities—Prague, Brno and Ostrava.** Prague ranks first in two

areas (getting electricity and enforcing contracts), while Brno ranks first in dealing with construction permits and Ostrava in registering property. This demonstrates the potential for large cities to achieve regulatory efficiency and quality by capitalizing on economies of scale and investing in administrative modernization. Smaller cities in the Czech Republic could make important gains in competitiveness by replicating good practices already found in the largest centers.

- **All Czech cities outperform the European Union average in registering property, and Prague and Brno do so also in getting electricity.** However, there is still room to improve in dealing with construction permits, enforcing contracts and starting a business. Dealing with construction permits is considerably more burdensome than in most other EU member states, largely because of the multiple preconstruction approvals required. Czech cities also lag behind their EU peers in the building quality control index. In all Czech cities enforcing contracts takes longer than the EU average. For business registration, Czech cities require eight procedures: among EU member states, only Germany requires a higher number (nine).

- **There are opportunities to make tangible improvements by replicating good practices found in the cities measured.** Prague, for example, has among the most efficient processes for electricity connections in the EU and globally. Czech cities could also look to the efficiency of Prague's judiciary, which achieves the fastest times in enforcing contracts despite heavier workloads. Active case management—including the establishment of realistic deadlines for key court events—helps keep cases on track and avoid the use of adjournments. For construction permitting, Czech cities could look to the example of Brno, that through more efficient communication with investors, and more up-to-date infrastructure maps to identify connection points for utilities, makes the process easier and faster compared to its national peers.

- **Despite a number of good practices documented in the report, challenges remain.** While the Czech Republic already follows many good practices, the country also has room to improve in most areas measured—to catch up with the EU's best performers. To speed up the process for starting a business, Czech Republic could follow the example of Croatia or Portugal, where VAT registration is a simple notification. In the medium term it could consider consolidating VAT and corporate income tax registration with the initial company registration with the court—as Hungary has already done. The Czech Republic could make construction permitting faster and

simpler by consolidating preconstruction approvals in a single-window mechanism. And in the long run it could introduce an electronic one-stop shop. To make getting electricity easier, it could look to the example of Lithuania: there, applicants submit a single consolidated form to the municipality, which then collects the clearances from different departments on their behalf. To make registering property easier, the Czech Republic could consider introducing an option to fast-track a property transfer. Today when an application for a property transfer is received, it triggers a 20-day stay period during which nothing can be done with the application and no registration can be performed.

## ABOUT SUBNATIONAL DOING BUSINESS

*Subnational Doing Business* studies capture differences in business regulations and their enforcement across locations in a single country. The reports provide data on the ease of doing business in selected areas, rank each location, and recommend reforms to improve performance at the local level.

- **Offers a new diagnostic tool.** Applying the methodology used in the cross-country global Doing Business report in a number of locations in the same country or region, the projects create micro-level data on various areas of business regulation. This allows the participating locations to compare their business regulations among themselves and with 189 economies worldwide.

- **Motivates regulatory improvements.** The studies uncover bottlenecks, provide policy recommendations and identify local good practices that can easily be replicated without changing the country's legal and regulatory framework. The studies motivate regulatory improvements, mainly through peer-to-peer learning.

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