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Institutional quality

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Abstract:

The paper is divided into two major chapters. The first is assessing quality of governance and the second one concerns conditions of doing business. Institutional quality is measured with public expenditures and competitiveness indices. Evaluation includes wide range of characteristics and results are measured in relation with other economic and institutional indicators as tax burden, index of economic freedom or corruption. Quality of governance (Milan Žák): Assessing and measuring governance quality is based on the data published in the World Bank project Governance Matters together with other, more specific resources. Aggregate governance quality index is based on the evaluation of voice and accountability, political instability and violence, government effectiveness, regulatory quality, rule of law and control of corruption. Specific attention is given to the measurement and evaluation of compliance with so called five principles of good regulation, and to the implementation of the related programme measures in public service in the Czech Republic (making use of EU and OECD methodology SIGMA). Specific problem of institutional quality in the new EU members includes the corruption control. The chapter also covers dynamics of institutional changes in the new EU members. Doing business (Václav Šmejkal): The chapter presents results of World Bank survey undertaken within the project Doing Business, with special regard to the Czech Republic position. Doing business conditions are assessed in terms of regulation burden and its impacts on entrepreneurship and related indicators of tax burden and corruption. The evaluation includes ten key indicators (further divided into partial aspects): starting and closing a business, dealing with licenses, hiring and firing workers, registering property, getting credit, protecting investors, paying taxes, trading across borders, enforcing contracts. The paper includes specific problems of the Czech Republic legislation, and related changes directed to their improvement. Specific attention is given to the opinions of Czech entrepreneurs collected in the field survey.

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1. Quality of governance

Institutional quality is considered one of the most important factors contributing to the increase in competitiveness and shaping long-term economic development. Its direct measurement, however, is difficult, which complicates the comparisons over time and across countries. The most comprehensive approach to evaluation of the institutional environment is the methodology developed by the World Bank. One of the key aspects of the effectiveness of institutions are regulatory mechanisms that influence the economic decision-making of market and non-market agents and the related costs. Consequently, there have been attempts to devise principles of better regulation and to find ways of employing them in law-making. Besides economic efficiency, the importance of adequate control of corruption in the society – a sore point in new EU members – is often emphasized.

1.1 Quality of governance

A number of approaches to evaluate and measure the quality of institutional environment exist. They describe the impact of institutions on the growth performance and competitiveness of the economy.

Composite indicators

The World Bank has been working with the concept of governance quality for more than two decades. Since 1996, it has been monitoring six basic aggregated indicators in the Governance Matters (GM) project. In this approach, governance is understood rather broadly as the traditions and institutions through which power is exercised in a particular country. According to the definition, three basic areas are studied (each of them is described by two indicators): (1) processes of government selection, supervision and change; (2) the ability of the government to formulate and implement suitable policies effectively and (3) the respect by citizens for institutions and the shape of institutions that govern economic and social interactions among citizens.

The quality of political processes is expressed by the indicator of **democracy** which evaluates the quality of political, civil and human rights and the quality of political processes. This indicator also reflects the independence of the media. The indicator of **political stability and use of violence** measures the likelihood that the government will be destabilized or overthrown by constitutional means or violence including terrorism. It also indicates whether - besides the continuity of policies - changes in government also influence possibility of choosing and modifying government and policies.

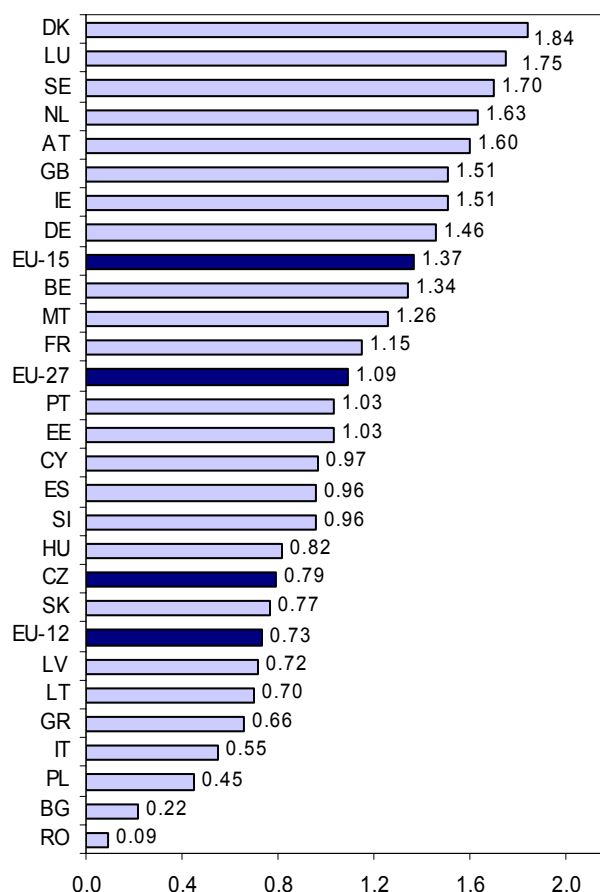
The second pair of indicators describes the ability of the government to formulate and implement suitable policies. The **effectiveness of government** deals not only with the effectiveness and credibility of government policies, but it also reflects the performance of bureaucracy, its independence from political pressures and the quality of public sector services. The indicator of **regulatory quality** evaluates the use of market-unfriendly policies (price controls, undue bank regulations) and their impact on domestic and foreign investors.

Finally, the third pair assesses the quality of institutional interactions. The indicator of **rule and law** includes the willingness of social players to abide by the law, the effectiveness and predictability of courts, the

protection of property, the quality of contract enforcement and of the police and the likelihood of both violent and non-violent crime. The indicator of **corruption control** describes power abuse for private ends, be it grand (political) and petty (bureaucratic) corruption or the extent to which lobbyists can have laws and policies tailored to their needs (state capture).

The **composite index** of governance quality is computed on the basis of the six indicators as their arithmetic mean for the EU-27 countries (see Figure 1). The averages for old and new EU countries (EU-15 and EU-12) are highlighted, too. The comparatively worse results of the new member countries lowered the average quality of governance in the EU after the enlargement rounds in 2004 and 2007.

Figure 1: Composite index of governance quality (2006)



Source: World Bank (2007), own calculations.

Relevant data are available for 1996 onwards. Hence, trends in the monitored EU countries and in the Czech Republic can be traced (Table 1). While the EU-12 was steadily improving in 1996-2006, the EU-15 took a turn for the worse in 2002. The deterioration continued until 2006 and the group ended up with a lower quality than in 1996. This makes it easier for the new member countries to catch up. The gap, while still very wide, is about one-third smaller than in 1996 (from 1.01 to 0.64). The quality of governance in the Czech Republic oscillated throughout the monitored period. It has been gradually losing its

initial advantage over other new members. A detailed comparison of development divided into individual indicators is shown in table 2.

Table 1: Composite indicator of governance quality

	1996	1998	2000	2002	2004	2006
EU-27	1.04	1.11	1.11	1.17	1.12	1.09
EU-15	1.49	1.53	1.51	1.52	1.42	1.37
EU-12	0.48	0.60	0.61	0.73	0.74	0.73
ČR	0.88	0.76	0.70	0.81	0.74	0.79

Note: Unweighted averages of values for groups of countries. Source: World Bank (2007), own calculations.

Table 2: Indicators of governance quality

		EU-15	EU-12	ČR
Voice and Accountability	1998	1.33	0.85	0.96
	2006	1.43	0.89	0.96
Political Instability and Violence	1998	1.24	0.81	0.78
	2006	0.82	0.65	0.75
Government Effectiveness	1998	1.77	0.48	0.72
	2006	1.49	0.70	1.01
Regulatory Quality	1998	1.23	0.67	0.73
	2006	1.39	0.90	0.95
Rule of Law	1998	1.66	0.42	0.83
	2006	1.48	0.45	0.73
Control of Corruption	1998	1.93	0.34	0.43
	2006	1.62	0.34	0.36

Note: Unweighted averages of values for groups of countries. Source: World Bank (2007), own calculations.

The following developments account for the decrease in the composite indicator of governance quality of the EU-15: The quality of democracy has remained almost unchanged but political stability has deteriorated. Adverse development can be observed in other partial indicators as well, namely in the increase in regulatory burden and in the degree of corruption. The only positive change has been the improvement in the legal environment.

In the new member countries, on the other hand, the indicators have improved in all monitored areas save for political stability. The situation in the Czech Republic is somewhat special, however. According to the GM project, the country was equally democratic and less politically stable in 2006 compared to 1998 but it had a more efficient government. The country has been successful in reducing the regulatory burden but the quality of its laws has been deteriorating. Control of corruption remains the most urgent and growing problem (see table 3).

Table 3: Elements of the composite index of governance quality in the Czech Republic

	1998	2000	2002	2004	2006
Voice and Accountability	0.96	0.82	1.02	1.03	0.96
Polit. Inst. and Violence	0.78	0.59	0.97	0.67	0.75
Govern. Effectiveness	0.72	0.77	0.87	0.75	1.01
Regulatory Quality	0.73	0.68	1.16	1.06	0.95
Rule of Law	0.83	0.68	0.73	0.70	0.73
Control of Corruption	0.43	0.26	0.35	0.36	0.36

Source: World Bank (2007), own calculations.

Partial indicators of governance quality

The indicator of **democracy** evaluates the quality and advancement of democratization processes in politics, civil rights, human rights and independence of the media (see Table 4). The EU-15 countries with their established democratic systems are far ahead of the new member countries and the gap hasn't been closing considerably (from 0.35 to 0.24). The development of the relative position of the Czech Republic is alarming. The loss of its comparatively good position demonstrates that the country has not yet quite succeeded in becoming a standard Western European democracy.

Table 4: Democracy

	1996	1998	2000	2002	2004	2006
EU-27	1.22	1.18	1.20	1.26	1.23	1.21
EU-15	1.45	1.33	1.31	1.42	1.32	1.43
EU-12	0.87	0.95	1.03	1.03	1.09	0.94
ČR	0.96	0.96	0.82	1.02	1.03	0.96

Note: Unweighted averages of values for groups of countries. Source: World Bank (2007), own calculations.

The indicator of **government effectiveness** measures the quality of bureaucracy and public sector services. The gap between the EU-15 and the EU-12 has been diminishing over time but not substantially, which implies that government effectiveness remains a serious and perennial problem in new member countries. While developed countries primarily struggle against widespread red tape, the EU-12 are additionally faced with ineffective bureaucracy, bad structure of public expenditures, institutional failure and low quality of public services. The Czech Republic had not advanced considerably until the last year when it put an end to the unfavourable trend of convergence to the EU-12 average.

Table 5: Effectiveness of government

	1996	1998	2000	2002	2004	2006
EU-27	1.13	1.2	1.15	1.26	1.16	1.18
EU-15	1.74	1.77	1.64	1.74	1.56	1.49
EU-12	0.38	0.48	0.53	0.65	0.65	0.79
ČR	0.84	0.72	0.77	0.87	0.75	1.01

Note: Unweighted averages of values for groups of countries. Source: World Bank (2007), own calculations.

Degree and **quality of regulation** are a fundamental institutional characteristic. Accordingly, monitoring of regulatory quality is an essential signal for economic policy that pursues the goal of higher competitiveness. The necessity of regulation is intuitive but it must not stifle private enterprise. The indicator of regulatory burden evaluates the quality of regulatory measures but not the degree of regulation itself (see Table 6).

Significant improvement in the EU-12 countries notwithstanding, a number of problems persist – excessive regulation in some industries, taxation systems of labyrinthine complexity, and market-unfriendly interventions in some markets. The good starting position of the Czech Republic started deteriorating rapidly in the second half of the 1990s. Some improvement was observed as late as after 2000 – privatization of major banks and majority state-owned firms, decrease in the VAT rate and adjustments in some sectors (telecommunications,

energy production). As far as the indicator of regulatory burden is concerned, however, the Czech Republic stayed on the level of 8 years ago. Regulations in the labour, housing and energy markets have been plaguing the economy.

Table 6: Regulatory quality

	1996	1998	2000	2002	2004	2006
EU-27	1.02	0.97	1.03	1.28	1.22	1.20
EU-15	1.41	1.23	1.36	1.58	1.40	1.39
EU-12	0.52	0.67	0.62	0.91	1.00	0.95
ČR	1.18	0.73	0.68	1.16	1.06	0.95

Note: Unweighted averages of values for groups of countries. Source: World Bank (2007), own calculations.

Effective **legal system** is one of the most essential institutional characteristics of modern societies. Definition of elementary formal rules conditions the behaviour of economic agents. The indicator of legal system quality mainly reflects the degree of property protection and contract enforcement.

Despite adverse development in the last four years, the indicator of **rule of law** in the EU-15 attests to their being developed countries with established political and legal systems. The deterioration might be due to some measures against terrorism. The EU-12 countries have been catching up by adopting the *acquis communautaire* both before and after joining the EU. The initial difference of 1.41 plummeted to 0.91 in the last monitored year but it is still far from negligible. The value of the indicator for the Czech Republic has been hovering between 0.68 and 0.84. Unfortunately, the country failed to capitalise on the advantageous position it had at the beginning of transition. The quality of rule and law has been pinpointed as one of the chief institutional problems throughout the transition.

Table 7: Rule of law

	1996	1998	2000	2002	2004	2006
EU-27	1.05	1.11	1.14	1.12	1.11	1.08
EU-15	1.67	1.66	1.67	1.56	1.52	1.48
EU-12	0.26	0.42	0.49	0.56	0.60	0.57
ČR	0.84	0.83	0.68	0.73	0.70	0.73

Note: Unweighted averages of values for groups of countries. Source: World Bank (2007), own calculations.

Unlike old approaches based on the performance of formal institutions, the indicator of **corruption control** assesses informal ones, which boils down to the state and development of moral in the society. Measuring corruption is, therefore, rather a reflection than an indicator of institutional conditions. Corruption erodes the credibility of countries for investors, the efficiency of resources use and, consequently, the economic performance. Corruption environment and corruption practices feed off insufficiently clear separation of state and market, public and private sphere, excessive and ad hoc regulation.

Table 8 reveals that corruption is not a major problem in old EU countries. While considerable differences prevail from country to country (Finland leads with 2.57 and Italy comes in last with 0.31), the EU-15 average is quite high. The situation in the EU-12 is considerably worse. Efforts to eradicate corruption have failed to deliver desirable results. What is more, the development points

to a permanent nature of the problem – corruption is deeply rooted in the societies. Indices of corruption control for the Czech Republic have not changed much in the monitored period, which also true for the EU-12 average.

Table 8: Control of corruption in quality of governance

	1996	1998	2000	2002	2004	2006
EU-27	0.98	1.23	1.18	1.13	1.17	1.10
EU-15	1.54	1.93	1.80	1.71	1.73	1.62
EU-12	0.28	0.34	0.41	0.40	0.48	0.45
ČR	0.58	0.43	0.26	0.35	0.36	0.36

Note: Unweighted averages of values for groups of countries. Source: World Bank (2007), own calculations.

Overall evaluation of quality of governance

The overall evaluation sheds light on the process of convergence of the EU-12 to the EU-15 that is expressed by differences in levels of individual institutional characteristics of quality of governance. The results are aggregated in Table 9. The smallest differences between the two groups are observed in political stability followed by democracy and regulatory burden. In those areas, the process of convergence has proceeded quite successfully as the EU-12 countries are democratic and politically stable. Substantial differences prevail in government effectiveness and quality of legal system throughout the monitored period.

Table 9: Gap between the EU-12 and the EU-15 in quality of governance

	1998	2000	2002	2004	2006
Voice and Accountability	-0.49	-0.43	-0.34	-0.55	-0.49
Political Instability and Violence	-0.38	-0.50	-0.26	-0.16	-0.14
Government Effectiveness	-1.11	-1.10	-1.07	-0.92	-0.70
Regulatory Quality	-0.45	-0.77	-0.59	-0.50	-0.44
Rule of Law	-1.02	-1.02	-0.96	-0.94	-0.91
Control of Corruption	-1.40	-1.37	-1.38	-1.22	-1.17

Source: World Bank (2007), own calculations.

Control of corruption is the worst indicator. It presents a serious problem for the EU-12 countries and its solution is an ongoing project requiring systemic approach. The gap in institutional quality between old and new EU countries was huge in 2006 and the changes were rather negligible in the monitored period. The gap in institutional quality stands out in comparison with the best countries of the EU. In the Czech Republic, the development is alarming because the situation has actually worsened in some areas. Control of corruption, an area with consistently poorest results, is the chief problem. In this respect, the Czech Republic faces similar problems with institutional quality like other new member countries. The progress in government effectiveness and regulatory quality was not sufficient to help the country attain at least the EU-27 level. The only field where the Czech Republic has done better than the average of the EU-27 is the indicator of political stability. Nevertheless, Finland outperforms the Czech Republic as far as political stability is concerned.

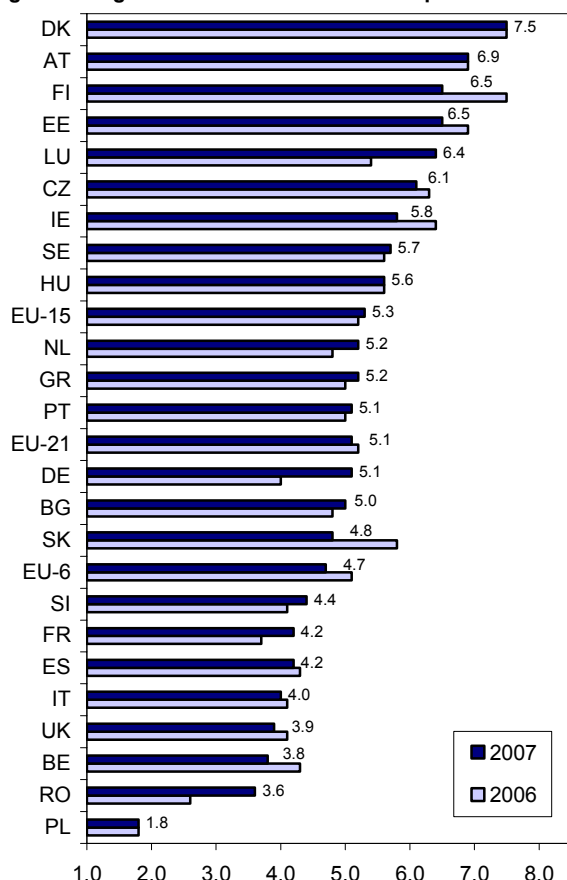
1.2 Principles of effective regulation

In theory or regulation, there is widespread agreement on the rules that regulatory measures should respect. Five principles of **good regulation** set out by the Better Regulation Commission in 2005 include proportionality, accountability, consistency, transparency and targeting. Compliance with those principles needs to be evaluated in international analyses and comparisons. The following indicators elaborated by the World Economic Forum (WEF) and the Institute of Management Development (IMD) are employed and studied from more than 50 viewpoints (see Table 10):

Table 10: Principles of regulation and related indicators

Principle	Indicator	Source
Proportionality	Extent of regulation	IMD
Accountability	Quality of information about policy and regulatory changes	WEF
Consistency	Adaptability of economic policy	IMD
Transparency	Transparency	IMD
Targeting	Easy doing business as a competitive advantage	IMD

Figure 2: Regulation as an obstacle to competition

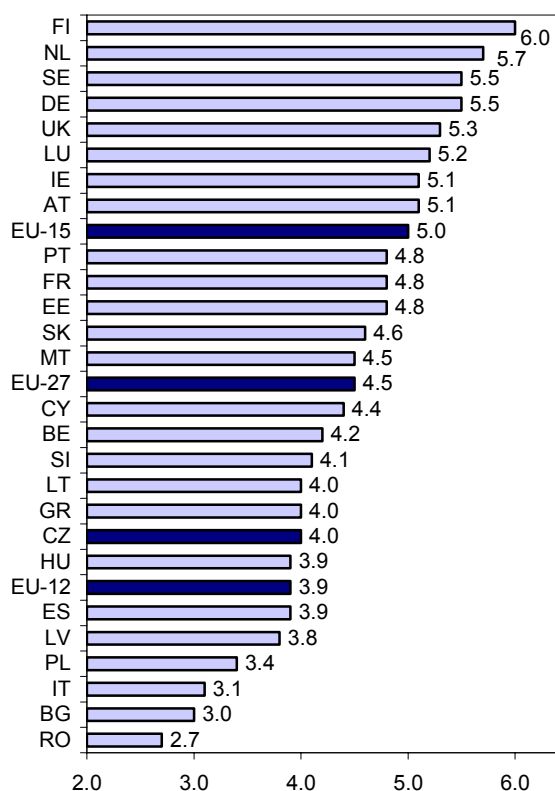


Note: The extent of regulation in the country hampers competition (0 = worst evaluation, 10 = best evaluation). Source: IMD (2006, 2007).

Principle of **proportionality** stipulates that regulation should be introduced if and only if there is need for it. Regulatory measures should be in line with the risks and with identified and minimized costs. They should be pre-

ceded by a comparison of various possible instruments whereby the same objectives can be reached (regulation, guidance or information campaign, self-regulation etc.). In the process of preparation, the interests of small enterprises that are hard hit by regulation should be taken account of. Figure 2 illustrates the impact of regulation on competition, an example of how the principle of proportionality can be evaluated. In this respect, new member countries (with the exception of Poland and, in part, Romania) do not fare badly. The favourable evaluation of regulation in the EU-12 is mostly due to the deregulation process in the early stages of transition that created a more deregulated environment than the one prevailing in the EU-15 countries.

Figure 3: Awareness of policy and regulatory changes



Notes: Awareness of firms as to changes affecting their business (1 = never informed, 7 = always informed). Source: WEF (2006).

According to the principle of **accountability**, which derives from the model of political representation, regulators should be able to defend their decision and they should be monitored by the public. Any proposals need to be published and duly discussed before a final decision is taken. An efficient and transparent system of complaints and appeals should be put in place. In most new EU member countries, the degree of awareness of economic agents as to policy and regulatory changes trails behind the levels in old member countries (see Figure 3). The poor awareness is in part attributable to the legislative whirlwind related to the adoption of the *acquis communautaire*. A myriad of new laws brought turbulent changes that affected a number of areas without being adequately communicated to the public.

The **principle of consistency** says that all regulators should operate on the same basis, that regulation should be predictable and that it should reduce uncertainty and instability for

regulated firms. All new measures have to dovetail with existing ones. Enforcement authorities should operate consistently all over the country. An indicator of adaptability of economic policy to changes in economic environment is used to evaluate the principle of consistency (see Table 11). The awareness has been gradually deteriorating across the EU. New member countries (not counting Romania and Bulgaria) have even surpassed the EU-15 group. The position of the Czech Republic greatly improved in 2006 but the progress turned out to be ephemeral. The Czech Republic is the fifth worst country in the EU.

Table 11: Adaptability of economic policy

	2001	2002	2003	2004	2005	2006	2007
DK	5.00	5.82	5.49	6.07	6.03	6.80	6.58
LU	7.79	6.79	6.84	6.38	5.56	5.61	6.21
IE	7.54	6.53	5.37	5.53	5.88	6.61	5.96
AT	6.60	5.00	4.82	5.33	4.75	5.54	5.95
SE	5.15	4.52	4.14	3.73	3.33	3.61	5.53
EE	5.47	4.98	5.37	5.60	5.25	5.96	5.09
FI	7.53	6.53	6.16	4.86	4.75	4.85	4.65
EU-15	5.66	4.83	4.55	4.42	3.90	4.23	4.54
NL	6.47	5.69	4.13	3.97	4.03	4.11	4.50
HU	5.33	5.56	4.79	3.82	4.09	3.76	4.43
PT	3.52	2.85	4.74	4.06	2.94	3.89	4.40
UK	5.02	4.92	4.15	4.35	3.90	3.89	4.40
GR	5.40	4.00	3.78	3.72	3.01	3.82	4.18
EU-24	5.48	4.75	4.48	4.32	3.91	4.24	4.11
LT	..	..	..	..	..	..	3.77
DE	5.35	2.73	1.49	2.62	2.47	2.99	3.45
SI	4.60	4.69	4.26	2.89	2.63	3.43	3.44
EU-9	5.03	4.56	4.32	4.08	3.92	4.27	3.40
ES	6.32	5.64	5.40	6.00	3.48	3.44	3.38
BE	6.00	3.86	3.70	3.56	2.64	2.95	3.35
BG	..	..	..	..	..	..	3.22
CZ	4.57	4.67	4.00	3.40	3.11	4.57	3.20
RO	..	..	..	..	..	..	3.15
FR	3.30	2.91	4.27	3.31	3.01	2.70	2.77
IT	3.95	4.60	3.79	2.75	2.78	2.69	2.74
SK	6.15	4.32	4.71	6.22	6.00	5.82	2.71
PL	4.07	3.13	2.80	2.52	2.42	2.08	1.58

Note: 0 = government never fine-tunes its policy to changes in economic environment, 10 = government always fine-tunes its policy. Source: IMD (2001–2007).

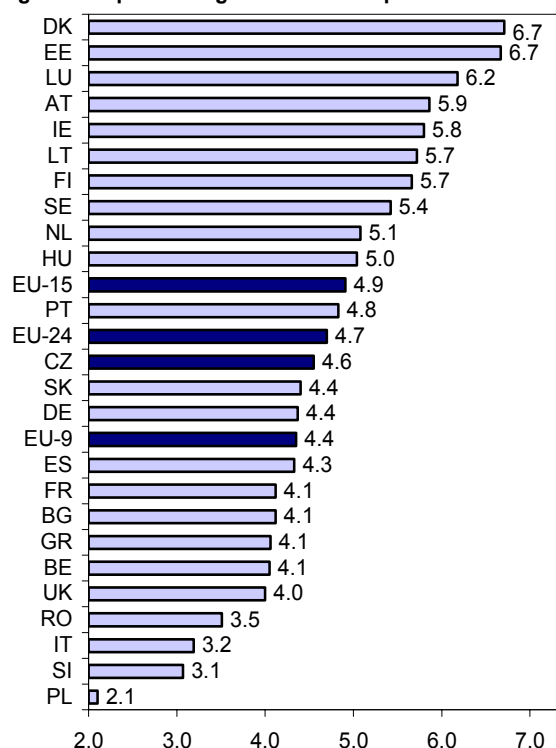
The principle of **transparency** requires that regulation be plain and transparent. Political objectives that include the need for regulation should be defined and presented clearly so that regulated subjects are acquainted with their duties as well as consequences of non-compliance. Evaluation of EU countries (see Table 12) reveals that new members have been falling behind. The situation in the Czech Republic has been below average even in comparison with EU-12 with a slight improvement recorded in 2006.

The principle of **targeting** says that regulation has to focus on solving a specific problem with a precisely defined objective under minimization of side effects. It has to be capable of being adjusted to the given objective under changed conditions. Regulators should only address exceptionally risky activities. Indispensability and effectiveness of regulatory measures should be repeatedly evaluated. Ineffective and redundant measures should be amended or lifted. The way regulation influences enterprise (see Figure 4) is a specific example of how well this principle is applied. In new EU countries, regulation often harms enterprise. An exception is Estonia whose regulatory system is assessed as conducive to enterprise.

Table 12: Transparency

	2001	2002	2003	2004	2005	2006	2007
DK	5.58	7.69	7.03	7.63	7.42	8.29	7.90
SE	4.61	6.49	6.07	6.21	4.90	5.76	7.01
AT	6.24	6.50	6.10	6.41	5.96	6.83	6.67
IE	6.69	6.19	5.78	5.47	5.94	6.43	6.67
NL	6.92	6.88	4.84	5.49	5.91	5.89	6.58
LU	7.05	6.93	6.74	6.28	5.75	5.77	6.36
FI	7.25	8.11	8.05	7.66	7.77	7.82	6.00
EU-15	5.61	5.76	5.52	5.36	5.04	5.37	5.62
EE	5.40	5.49	6.00	5.96	5.82	6.00	5.57
DE	5.69	5.84	4.02	4.16	4.33	4.99	5.33
PT	3.74	3.07	5.61	5.09	3.55	4.44	5.18
GR	4.68	3.81	3.35	3.45	4.25	4.65	4.84
EU-24	5.24	5.28	5.25	4.94	4.74	5.04	4.78
UK	5.26	5.58	5.23	4.70	3.81	4.36	4.77
BE	5.55	4.54	4.90	4.14	4.10	4.16	4.71
FR	4.91	4.37	5.76	4.78	4.43	4.73	4.62
ES	6.00	5.94	5.66	5.88	4.10	3.62	4.03
SI	3.60	3.78	4.26	3.70	3.71	4.34	3.98
LT	..	..	..	..	..	..	3.59
IT	4.00	4.44	3.72	3.05	3.34	2.87	3.56
HU	4.67	3.41	4.97	3.50	4.14	3.84	3.48
RO	..	..	..	..	..	..	3.43
EU-9	4.32	4.10	4.58	3.88	4.01	4.20	3.38
CZ	3.66	4.40	4.33	3.60	2.59	4.40	2.90
SK	5.39	4.29	5.05	4.28	5.57	4.71	2.71
PL	3.23	3.20	2.84	2.21	2.24	1.89	2.51
BG	..	..	..	..	..	..	2.29

Note: 0 = government does not communicate its intentions to the public in clear terms, 10 = government always clearly communicates its intentions. Source: IMD (2001–2006).

Figure 4: Impact of regulation on companies


Note: 0 = regulation harmful to enterprise, 10 = regulation conducive to enterprise. Source: IMD (2007).

Red tape and regulatory burden were studied in a survey of **quality of institutions and business environment** in the Czech Republic (see Box 1). Legislation, that needs to be

simplified and stabilized, is perceived as the chief obstacle to enterprise development. A change is overdue in administrative obligations of entrepreneurs that were identified as the third main problem. The larger the firm, the less strong the perception of regulatory burden. Hence, smaller enterprises are hit disproportionately (see Table 13).

In the opinion of the surveyed business people, legal and institutional environment can be primarily improved by incessant monitoring and reduction of red tape and the regulatory burden that is associated with each legislative measure, further by curbing corruption and also by a change in the thinking of the state so that government intervention into the life of society is curtailed. In addition to effectively combating corruption and non-transparent lobbying in politics, a better performance and accountability of civil servants would help businesses reach an adequate influence on forming the business environment. Table 16 shows the ranking of measures that are considered necessary for the development of Czech businesses.

Table 13: Measures necessary to support enterprise and competitiveness

	Total	< 50 empl.	> 50 empl.
Simplification and stabilisation of legislation	1.37	1.32	1.46
Eradication of corruption and of the economic crime it breeds	1.50	1.45	1.58
Simplification and elimination of administrative duties of businesses	1.60	1.57	1.65
Reduction of taxes and other payments (indirect labour costs)	1.60	1.51	1.76
Improvement in the judiciary	1.61	1.55	1.72
Improvement of bureaucracy (more helpful, less formalistic)	1.78	1.71	1.92
Deregulation, support of competition	1.87	1.79	1.97
Liberalisation of employment and enhancement of effectiveness of the welfare system	1.91	1.79	2.10
Improvement in professional training of future employees	2.16	2.14	2.19
Improvement in transport infrastructure	2.23	2.26	2.16
Easier credit and other sources of free capital	2.33	2.21	2.54
Simplification and acceleration of procedures of entry into and exit from industry	2.36	2.27	2.52
More state funding for businesses	2.39	2.23	2.67
Weakening of the legal standing of trade unions	2.44	2.21	2.81
Enhancement of entrepreneurial self-regulation and lobbying	2.70	2.56	2.93

Note: Averages of all replies of each particular group from 1 (a fundamental problem) to 4 (irrelevant). Source: Survey of CES VSEM 2006.

The most burdensome obligation of businesses is administration and paying taxes (others are listed in Table 14), the chief problem being frequent changes in tax laws, methods, and forms, their extent and complexity. High taxes are only the third biggest problem. The attitude of civil servants to people willing to bear entrepreneurial risk is perceived as very negative. Only two factors score higher - the excessively generous and poorly supervised welfare system that does not encourage people to be responsible for their own lives and the intricate and unstable legal framework for

enterprise. Indirect labour costs prevent businesses from hiring more and so do the virtual impossibility of dismissing employees without explanation and the difficulty in matching requirements of businesses with the qualification and practical training of potential employees on the labour market.

Box 1 – Survey of Quality of institutions and of business environment in the Czech Republic

In cooperation with the Czech Chamber of Commerce, the Confederation of Employers' and Entrepreneurs' Association of the Czech Republic, the Association of Middle-Sized Enterprises and Brain Logistics, s.r.o., the Centre of Economic Studies conducted a survey of quality of institutions and of business environment in the autumn of 2006. 201 surveyed companies responded to 12 questions in three areas – general perception of quality of institutions in the Czech Republic; quality of legislation and administration; regulation, businesses and markets. Each question had several possible replies to which the surveyed businesses assigned values from 1 to 4 depending on how strongly they felt about them (1 – fundamental, to be reformed, eliminated or improved immediately, 2 – very important, the solution should not be postponed, 3 – also important but it can wait, 4 – unimportant and irrelevant). In each question, the surveyed subjects were given an opportunity to express their own opinion about the issue. Firms were classified by five criteria – size (the number of employees 1-20, 20-50, 50-250, 250+), industry (according to the official classification of economic activities by sectors), location of headquarters (in the Czech Republic or abroad), size of the target market (local, national, international), change in productivity in the last 3 years (growth, fall, no change).

Table 14: Administrative burden

	Total	< 50 empl.	> 50 empl.
Administration and paying taxes	1.73	1.68	1.85
Obligations towards the system of social security and health insurance	1.79	1.71	1.97
Obligations towards authorities supervising safety and hygiene at work	1.92	1.92	1.95
Obligations towards the Czech Statistics Office	2.06	2.02	2.16
Obligations towards environmental protection authorities	2.08	2.03	2.19
Obtaining planning permission	2.15	2.06	2.3
Obligations towards the Office of Employment	2.19	2.15	2.24
Reporting to the Land Register Office	2.32	2.18	2.58
Obtaining trade licence	2.64	2.56	2.77
Obligations associated with imported goods (duties, taxes, statistics, certificates of compliance)	2.7	2.75	2.64
The need to register companies and report changes to the Register of Companies	2.71	2.57	2.93
Registration of industrial property	2.74	2.67	2.86
Registration of vehicles	2.79	2.61	3.11

Note: Averages of all replies of each particular group from 1 (a fundamental problem) to 4 (irrelevant). Source: Survey of CES VSEM 2006.

Evaluation of regulation in the CR in the SIGMA

The project of assessment of regulatory mechanisms in new EU countries complements the medium-term revision of the Lisbon process in 2005. Economic growth and employment are now in the focus of attention. To reach those objectives, the Commission introduced three key measures

in March 2005. One of them is the support of consistent use of the above discussed principles of **better regulation** in all member countries. The content of laws should be improved, the legislation process should be more open to the public, the administrative burden should be lowered and the expected impact on all affected subjects should be evaluated with particular consideration for middle-sized and small companies. The activity of member countries themselves is of utmost importance for the objectives to be reached. Therefore, the Commission recommended that countries **create and implement strategies** whereby principles of better regulation would be pushed through, in particular a system of integrated evaluation of economic, social and environmental impacts. **Supplementary institutions** should be created respecting local conditions. This way, measures to improve the legal environment at the level of states became parts of National Reform Programmes.

In an OECD project, regulatory mechanisms in the Czech Republic were evaluated in depth in 2000-2001. The European Commission launched the **SIGMA programme** (Support for Improvement in Governance and Management) to assist new member countries in development of national strategies of better regulation. The goal is to identify defects in preparation, approval and subsequent enforcement of regulation and to single out areas that could be improved. The project also assesses the capability of the Czech regulatory mechanisms to ensure the implementation of principles of better regulation and offers reform suggestions. The assessment focused on the following areas:

- Preparation of governmental strategic and legislative proposals;
- Using the available tools to ensure quality;
- Transparency of the legislative process;
- The involvement of the public in policy formation;
- The way regulation is enforced and the actual compliance.

The evaluation process included a survey conducted in the spring 2006 and a peer review in the autumn of the same year. Direct conversations of evaluators with representatives of bureaucracy and industry regulators as well as with trade associations and interest groups helped identify generally perceived problems in preparation and implementation of policies. The evaluation combined with knowledge of the country's specific characteristics led to the formulation of suggestions that draw on the established practice in other countries¹.

The evaluation did not label the Czech regulation as good or bad because in this respect, there is no agreement about the content of good regulation. The development of **regulatory capacities** was what mattered. The report said that the country was strong in technical and legal quality, constitutionality and agreement of norms with international commitments. However, the effectiveness of passed legislation, i.e. the ability of regulation to reach the required objectives with the lowest possible regulatory burden, appeared quite problematic.

Consequently, procedural changes are recommended that will abandon the purely legalistic approach to formulation of

strategies and proposals of legislation. Instead, a more comprehensive and multi-disciplinary approach based on **quality assessment** (i.e. the introduction of regulatory impact assessment – RIA) will be adopted. A compact strategy of better regulation cannot be carried through without unequivocal **political backing**. A particular member of the government should be put in charge of pushing through the objectives of the strategy.

The current government declared its commitment to the principles of better regulation in its Policy Statement at the assumption of office in January 2007. Among other goals, it pledged to improve the process whereby new laws are passed and to make it more transparent, to involve the public into the legislative process and to introduce an obligatory assessment of regulatory and administrative impact (see the first chapter Rule of Law, Security, Public Control, Anti-Corruption Measures and Human Rights). The interior minister is now responsible for regulatory reform (the Office of the Government used to work cover the agenda previously). In July 2007, the government passed a strategy called **Effective Public Administration and Friendly Public Services** (decision Nr. 757) that is eligible for support from the EU Structural Funds. The document also contains a list of measures to improve the regulatory environment in the Czech Republic.

In July, the government approved an amendment to the Legislative Procedures (decision Nr. 816 effective from 1 November 2007) that introduces an obligatory assessment of impacts of new legislation or regulation according to the RIA methodology (even today, laws are supposed to contain an analysis of the legal and the actual state). In the future, the evaluation should also feature a reference to the evaluation of administrative costs. In the middle of 2007, the government approved an amended version of the obligatory Methodology for Measuring and Identifying of Administrative Burdens that was first used to measure the total administrative burden on Czech entrepreneurs in 2005 (see the government decision Nr. 759/2007).

As soon as its new status² is confirmed, the Council of Experts for Regulatory Reform and Effective Public Administration will evaluate and approve further steps in projects related to the strategy of regulatory reform, which should improve the **institutional framework**. The Council will also supervise the quality of regulatory impact assessment (before regulations are submitted to the government for approval). The capacity and instruments for improving the regulatory process should be enhanced and also employed in the process of creating secondary legislation at ministries, industry regulators or local self-government.

The discussed recommendations and measures concern the executive branch but the situation in the legislative branch is even more complicated as the principles of better regulation are less known there. What is more, requirements for regulatory impact assessment of new legislation can be bypassed by initiatives on the part of parliament members or by interventions in the process of approval. In the future, this danger could be eliminated by introducing similar procedures in the Parliament of the Czech Republic.

¹ Results of those two phases were incorporated into the final report in December 2006 that was verified and sent to the Commission that requested it.

² Its members should be deputy ministers and representatives of other central administrative bodies, representatives of the Association of Regions of the Czech Republic, the Association of Towns and Villages of the Czech Republic. The minister of interior is assumed to chair it.

2. Doing Business

The chapter assesses the conditions for doing business (regulatory quality) in the Czech Republic within the European Union, using findings of the World Bank (WB) research for 2006 carried out within the *Doing Business* project (with data valid in January of the relevant year). Comments on the Czech regulatory practice and suggestions for their future use in an economic analysis are presented. The WB project assesses the conditions for doing business or the quality of regulation of entrepreneurial activities in 175 countries, including 24 European Union member states (excluding Luxembourg, Cyprus and Malta). Conditions for doing business are evaluated especially according to the characteristics and impact of the regulatory burden. The range of monitored indicators is gradually extended (ten indicators were monitored in 2006) and their methodology changes slightly, resulting in somewhat limited comparability of results in time (data for a period starting from 2003 available). The wide span of the project with regard to the number of countries allows extensive international comparisons for groups of countries at various levels of economic and institutional development. The study is structured to examine ten indicators of conditions for doing business, i.e. starting and closing business, granting licenses, enforcing contracts, protecting investors, registering property, getting credit, hiring and firing workers, trading across borders and paying taxes.

2.1 Theoretical and methodological basis for assessing regulatory quality

Conditions for doing business significantly and directly influence the execution and productivity of entrepreneurial activities and subsequently have impact on the overall economic productivity. Results of their quality assessment help to identify the impact of enterprise regulation on the economic and social characteristics of productivity and the related institutional characteristics (such as motivation to engage in corrupt practices). On the other hand, assessment of conditions for doing business helps in planning and implementing related (individual and comprehensive) reforms, which may contribute to increased competitiveness of a country through improving the quality of its institutional environment and boosting incentives to invest and employ. However, this does not mean that better evaluation of conditions for doing business is a reflection of no regulation. For example creating an adequate information system or ensuring enforceability of parties' rights often requires an advanced regulatory framework and significant expenses. Nonetheless, regulation in countries with favourable conditions for doing business represents a smaller administrative and financial burden for companies and makes their operation easier. Higher tax rates in these countries may be connected with a higher quality of public services, which apart from a minimal regulatory burden is also reflected for example in the quality of infrastructure, higher human development index values and a lower degree of corruption.

Leading modern **theoretical approaches** to regulation follow Pigou's concept of regulation as public interest, Coase's contractual solution theory and Stigler's theory of regulatory capture (see WB, 2003, p. 90–92). According to the public interest regulation theory, markets demonstrate frequent failures and governments striving for societal effectiveness are responsible for correcting these failures. Stiglitz draws attention to increased incidence of

market failures in less developed countries requiring more extensive regulation. This concept of the need for regulation is criticized from a number of aspects.

Firstly, the expected extent of market failures and the inability of the competitive environment to solve the majority of alleged problems without regulatory intervention are considered excessive. Private arrangements are often capable of solving this problem even in the case of insufficient effectiveness of competitive forces. If this is not the case, impartial courts may serve this purpose, provided that they are able to effectively enforce adherence to proprietary rights and contractual provisions. Finally, the critics of regulation point out the assumption of competence and good intentions of the government as the regulator as erroneous. According to this concept, regulation is abused for the benefit of entities capable of influencing it. State intervention cannot increase the welfare of the society; on the contrary it contributes to its decrease. Regulation increases corruption in the environment and transaction costs.

Nonetheless, a certain level of regulation is necessary in the real world of market economies and this regulation increases the quality of life and the economic productivity. The enforcement theory (see Djankov et al., 2003) that compares two types of societal costs – private damage costs and state intervention costs – represents an attempt to define the optimal extent of regulation. Private damage occurs as a result of private actors' ability to harm other entities, for example by theft, fraud, overcharging or creating external costs. State intervention is a manifestation of the public servants' ability to harm private entities through bureaucratic bullying or expropriation. As solutions progress from private arrangements within the market discipline to private judicial settlement, regulation and state ownership, the government's decision-making power increases, the authority of private actors decreases, societal loss due to private damage reduces and societal loss due to state intervention rises. Adequate forms of governmental intervention will depend on the type of activity and specific conditions in the relevant country, such as the productivity of the public administration and courts. Minimizing the cost of regulation triggered by its misuse for private gain requires a certain system for supervising regulators.

Two basic principles should apply in enterprise regulation – regulation is only necessary if private solutions cannot prevent harmful acts and feasible if it can be enforced effectively (i.e. when its misuse can be prevented). Countries achieving positive results in conditions for doing business typically simplify and deregulate competitive markets and thus increase their ability to generate private and societal optimum without the need for external intervention. When regulation is considered necessary, maximum effort must be made to simplify it as much as possible. Strengthening property rights and ensuring their enforceability must be the key aspect of regulation. An efficient judicial system significantly reduces opportunities for breaching contractual obligations. Wider use of information and communication technologies increases the effectiveness and reduces the burden of administrative procedures, minimizes personal contact with public servants and thus reduces opportunities for demanding bribes, and improves the access to information for parties involved, thus decreasing their transaction costs.

Box 1 - Quality of regulation (institutional environment) and economic performance

Analyses of the relationship between the regulatory quality and economic performance on the micro and macroeconomic levels are comprehensive, i.e. including various aspects of the regulatory quality, or focus on its individual aspects (such as the labour market, credit markets, etc.). **Eifert, Gelb and Ramachandran** (2005) use microeconomic data obtained from the investment climate research carried out within the World Bank project (World Bank, 2004) to demonstrate the impact of a low corporate environment quality on the overall factor productivity in African countries (in a wider international comparison). The related high regulation costs reduce the labour factor revenue and thus decrease the demand for labour and real wages. **Love and Mylenko** (2003) use the World Bank research data on the quality of corporate environment to assess the importance of public and private credit registers for reduction of financing restrictions and increase in the share of financing through external (bank) resources. This relationship is apparent in the case of private registers (the impact of public registers is insignificant mainly due to their lower information value) and reflects especially in the availability of financing for small and medium-size enterprises. **Arrunada, González-Díaz and Fernández** (2004) explain the differences between European and American forms of organisation (volume structures) and ownership in motor freight transport by institutional differences in labour regulation and taxation laws, which increase the cost of vertical integration in Europe compared to the USA. **Hoang Lan Ha** (2003) presents a (statistically significant) positive relationship between efficiency of judicial systems and development of credit markets in a wider international comparison. Judicial system efficiency is measured according to the speed and simplicity of the system. Countries with better contract enforcement systems exhibit more developed credit markets, greater banking sector volumes and higher shares of credit provided to the private sector. **Pierre and Scarpetta** (2004) demonstrate the perception of regulation on the part of employers and their response to situations when regulation is seen as restricting company operation. The company research results are compared to the actual labour legislation valid in the monitored countries. As a rule, stronger *de iure* regulation reflects in more intense perception of regulation as a limiting factor on the part of firms. However, there are significant differences between enterprises in adverse effects of this regulation – medium-size and innovative firms tend to feel the impact more intensely. Small firms address the regulatory pressure (which increases the cost of hiring and firing employees) through larger numbers of definite term contracts, while medium-size, large and innovative companies increase their investments into education at a workplace. **Pica and Mora** (2004) present the impact of similarity/difference in regulation between individual countries on their bilateral flow of direct foreign investment. This impact is significant and negative. Implementation of DFI is associated with additional fixed costs, which include the cost of managing different regulation. Similar levels of regulation support DFI, and increase wages, output and productivity. Higher productivity is a result of forcing out less efficient local entrepreneurs by foreign entities supported by more efficient allocation of resources. **Loayza, Oviedo and Servén** (2005) explore the impact of regulation on economic growth and relative volume of the informal sector. Regulation (especially on product and labour markets) influences macroeconomic and especially growth performance by stimulating transfer of resources to grey economy whenever it is excessively intense. The negative impact of the degree of regulation on economic growth is reduced or even eliminated by a high institutional quality. At the microeconomic level the authors focus on a mechanism through which dissimilar forms of regulating firms' input and output (negatively) influence growth of productivity. Interventions on the product and labour markets and fiscal regulation complicate input and output and thus negatively affect the Schumpeterian process of creative destruction as a condition for constructive corporate dynamics. **Bolaky and Freund** (2004) study the relationship between openness of economies, economic growth and regulation, concluding that greater openness of economies in countries with high regulation does not have a significant impact on economic growth, while a positive relationship between growth and openness of economies can be observed in countries with less intense regulation. In view of the effect of regulation, the relationship between openness and growth appears stronger compared to the previous studies.

Decreasing regulatory burden, especially the time demands and the cost of regulation, is significantly supported by limiting participation of courts in business matters to cases that cannot be solved by extrajudicial settlement or replacing judicial procedures with administrative procedures. Effective improvement in the quality of conditions depends on the consistency of reforming efforts. Many countries have recently introduced regulatory impact assessment for proposals of new regulatory measures. The requirement for analyzing the cost and benefit effectively helps to remove superfluous and burdening regulatory measures.

2.2 Factors and significance of regulatory quality

The regulatory quality is affected by a number of factors and it is a consequence of local choice or efforts to achieve higher regulatory efficiency to a limited extent only (WB 2003, pp. 84-85). In a wider international comparison, countries with more developed economies on average regulate less and more consistently than less developed countries. Differences in regulation between developed countries are influenced by their history and these differences were previously also reflected in institutional structure of their former colonies. Anglo-American common law was typical for independent judges and juries, low weight of regulation and preference of private settlement of disputes. France developed a tradition of civil law based on the Roman law with state judges, emphasis on codes of law and procedures and preference of state regulation over private solution. Germany and Nordic countries developed their own versions of the civil law also based on the Roman law. Nordic countries and countries with Anglo-American legal systems exhibit the lowest regulation, while regulation is the most intense in countries with the French civil law system.³

Levels of economic development and legal system heritage explain 60 % of differences in the degree of regulation between countries included in the World Bank survey in 2003 (WB 2003, p. 76). The impact of the remaining factors is less prominent and systemic. Political systems play a specific role. In countries with representative government systems, the aim of regulation is mainly to correct market failures, while the tendency towards exploiting regulation by narrow lobby groups is manifested in less democratic regimes. Regulation is less intense in countries with a greater degree of political freedom.

The general comparison according to the positions achieved in individual indicators of conditions for doing business based on the WB survey identifies weaknesses and strengths of EU member states within the entire sample (see Table 1). Baltic countries, especially Lithuania and Estonia were among the new EU member states achieving the best results, while Italy and especially Greece were among the old member states lagging behind the rest the most. In the overall comparison, eight EU member states, seven Nordic European states (including five EU member states plus Norway and Iceland) and nine non-European states were among the first twenty countries. United Kingdom as the best EU member state was surpassed by Singapore, New Zealand, United States,

³ Central and Eastern European countries in transition are seen as influenced by the German law to a great extent as a heritage of the Austrian-Hungarian Empire's impact. The German model includes Baltic economies, which in addition adopt certain qualities from economies of their wealthier Scandinavian neighbours.

Hong Kong and Canada, i.e. by countries with the same Anglo-American common law heritage.

Table 1: Differences between EU-10 and EU-14

	Difference
Closing business	24.64
Granting licenses	22.41
Trading across borders	17.48
Starting business	12.60
Paying taxes	10.15
Enforcing contracts	8.07
Hiring/firing workers	5.10
Registering property	2.04
Getting credit	1.56
Protecting investors	-1.30

Note: Displayed figures reflect differences in averages of percentiles for each of indicators based on EU countries' positions in the world ranking. Higher figure means greater distance of EU-10 from EU-14. Source: Own calculations using the WB data (2006).

As regards to the European Union, the results show that very significant differences between member states in conditions for doing business (regulatory quality) often remain. No significant harmonization among the original member states in this regard can be seen at this point. The position of EU states on average in the wider international comparison is clearly the worst in employment regulation (this indicator also shows the most significant differences between individual member states). High level

of protection of European labour markets therefore undoubtedly contributes to their lower flexibility, especially with regard to (un)employment in more problematic groups. The second worst position of the EU countries of average is in conditions for paying taxes due to relatively high tax rates which in many cases are not matched by the quality of conditions for doing business. Low investor protection and registration of property remain a very significant weakness for the EU. On the other hand, the EU has achieved the best results in conditions for foreign trade and conditions for starting and closing business and also for enforcement of contracts.

Table 1 displays differences in doing business conditions between new (EU-10) and old member states (EU-14) based on their positions in the world ranking. This comparison shows that new EU member states lay behind old EU-14 mainly in conditions for closing a business, due to an excessive length of procedures and a very low level of return for investors and creditors. In trading across borders conditions old and new EU member states also widely differ, however the excellent position of EU-14 in the overall world ranking puts the whole EU-24 very high in the world comparison regardless of the EU-10 relative backwardness (caused mainly by an improper functioning of their state bureaucracies as the legal base as well as all customs duties are unified in the framework of the EU common commercial policy). This burden of cumbersome and lengthy administrative procedures is clearly reflected by EU-10/EU-14 differences in conditions for granting licenses and starting business.

Table 2: Country ranking according to the business conditions indicators, 2005

	Overall ranking	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
		Starting business	Granting licences	Hiring/firing workers	Registering property	Obtaining credit	Protecting investors	Paying taxes	Trading across borders	Enforcing contracts	Closing business
U. Kingdom	6	9	46	17	19	1	9	12	14	22	10
Denmark	7	14	69	15	36	13	19	15	3	1	20
Ireland	10	6	20	83	80	7	5	2	30	24	7
Sweden	13	20	17	94	7	33	46	39	9	2	17
Finland	14	18	35	111	15	21	46	75	2	13	6
Lithuania	16	48	23	119	3	33	60	40	32	4	30
Estonia	17	51	13	151	23	48	33	29	6	20	47
Belgium	20	37	48	23	158	48	12	60	36	21	8
Germany	21	66	21	129	42	3	83	73	7	29	28
Netherlands	22	38	80	86	20	13	99	82	16	31	9
Latvia	24	25	65	123	82	13	46	52	28	11	62
Austria	30	74	50	103	28	21	142	102	15	14	19
France	35	12	26	134	160	48	60	91	26	19	32
Slovakia	36	63	47	72	5	13	118	114	88	59	31
Spain	39	102	53	161	33	21	83	112	25	42	15
Portugal	40	33	115	155	98	65	33	61	27	35	18
Romania	49	7	116	101	114	48	33	131	35	45	108
Czech Rep.	52	74	110	45	58	21	83	110	41	57	113
Bulgaria	54	85	140	100	65	33	33	107	104	52	64
Slovenia	61	98	63	146	97	48	46	84	108	84	35
Hungary	66	87	134	90	103	21	118	118	76	12	48
Poland	75	114	146	49	86	65	33	71	102	112	85
Italy	82	52	104	101	53	65	83	117	110	141	49
Greece	109	140	55	166	94	83	156	108	123	48	34

Source: Own calculations using the WB data (2006).

However, in the case of registering property, the new EU member states have become increasingly liberal and thanks to the bank sector privatization into hands of transnational financial corporations they have almost matched the EU-10 qualities in conditions for getting credit. It is remarkable that in conditions for hiring/firing workers the new EU member states looked better than the old ones in 2005 but thanks to an accelerated pace of labor market reforms in several old EU member states this relative lead was recently lost.

When comparing the Czech Republic or the EU-10 new member states to the EU average, it has to be always realized whether the EU as a whole represents the world's best in that specific criterion or whether it is just a second-rate or even a below the average player. It is obvious that a comparison with selected EU member states, namely those ranked among the best performing, will often be much more inspiring. Last but not least, it should never be forgotten that especially after the recent EU enlargements, first to 25 then to 27 members, any EU-24 average result hides great differences in quality and performance.

2.3 Conditions for doing business in the Czech Republic

The overall assessment of individual conditions for doing business and their elements for the Czech Republic is supplemented with a comparison against the average figures for the EU-24, EU-14 (old member states), EU-10 (new member states) and the United States, which is often used by the EU for comparison when assessing the progress in fulfilling the Lisbon Strategy. In this regard we can conclude that the values for the EU are often better than those valid for the USA only in the number of procedures required for obtaining an approval. Doing business in the EU is therefore subject to a significantly greater administrative and financial burden, though often with major differences at the national level. The subsequent summarising ranking according to individual elements of the monitored indicators allows us to identify the weakest areas of conditions for doing business in the CR and focus greater and more consistent reformation effort on these areas.

When conditions for **starting business** are assessed, the administrative burden according to the number of procedures required and the estimated number of days necessary for their completion is determined. The financial cost of starting business after all related obligations have been fulfilled and the minimum capital investment has been ensured is also defined. A lower burden from the conditions for starting business has a positive impact on the dynamics of founding new companies and thus development of entrepreneurial activities in the formal sector. A significant administrative burden arising from the high number of procedures and days in combination with relatively high requirements for the minimum capital investment is one of the main problems in CR (74th place). The (direct) financial cost of starting business is relatively low. The administrative burden is being gradually reduced in recent years by simplifying recording in the Commercial Register and establishing central registration facilities for entrepreneurs with the possibility of filing forms electronically. Connection to the information system of the public administration authorities will only allow one-off provision of information by entrepreneurs. A more significant systemic reduction in the adminis-

trative burden associated with starting business does not involve mere formal and technical simplification of the procedures carried out in order to speed up the registration process, but requires transforming registration to a purely administrative process. Although courts still play a central role in registering companies in the Czech Republic, they are required to carry it out within five days period, or 15 days in complex cases.

Table 3: Starting business

		CZ	EU-24	EU-14	EU-10	USA
Procedures (number)	abs.	10.0	7.2	6.9	7.6	5.0
	perc.	51.7	26.6	25.2	28.5	
Time (days)	abs.	24.0	23.9	19.7	29.8	5.0
	perc.	28.1	29	22.4	38.1	
Cost (% income)	abs.	8.9	7.4	6.3	8.9	0.7
	perc.	25.2	19.3	16.5	23.3	
Min. capital (% income)	abs.	36.8	43.6	3.9	57.1	0.0
	perc.	63.7	53.6	49.1	60.0	

Source: Own calculations using the WB data (2006).

In the case of conditions for **dealing with licenses**, all procedures required for obtaining the prescribed licences are recorded on the model example of civil engineering. The administrative burden arising from all related acts is determined according to the number of procedures and days and their financial cost. Low demands on the licensing proceedings help to reduce the occurrence of illegal construction and lessen the opportunities and motivation to engage in corrupt behaviour. In the CR (110th place), the burden arising from the number of procedures combined with great demands on time is the worst, while the costs of licensing proceedings are among the lowest. However, the high administration burden in fact makes preparation for construction costly. Preparation of an application for a zoning and planning decision and construction permit with the requirement to obtain consent from all affected state administration bodies and all distribution network owners is the biggest problem. The new Administrative Procedure Code should provide some relief from 2006. More significant changes were brought about only by the new Construction Act, which from 2007 allows combination of the zoning and planning proceedings with the construction permit proceedings to a greater degree, determine fixed deadlines for all types of proceedings and permits implementation of a wider range of buildings based on a notification only. It will however take some time before these legal changes affect significantly the existing situation.

Table 4: Dealing with licenses

		CZ	EU-24	EU-14	EU-10	USA
Procedures (number)	abs.	31.0	16.3	13.9	19.6	19.0
	perc.	96.4	39.9	28.6	55.7	
Time (days)	abs.	245.0	192.7	175.2	217.2	69.0
	perc.	78.9	49.4	42.2	59.4	
Cost (% income)	abs.	14.5	98.1	83.0	119.1	16.0
	perc.	3.5	30.1	29.7	30.6	

Source: Own calculations using the WB data (2006).

Conditions for **hiring/firing workers** are evaluated according to the employment rigidity index, which represents the average value for three sub-indexes – the index of difficulty in hiring employees, the index of working hours inflexibility and

the index of difficulty in firing employees. Another two indicators of the conditions for hiring/firing workers measure the cost of hiring and firing employees. Lower employment regulation supports the flexibility of labour markets and the supply of employment opportunities especially for problematic groups. It also allows employers to optimize the demand for labour according to the development of external economic conditions.

Table 5: Hiring/firing workers

		CZ	EU-24	EU-14	EU-10	USA
Difficulty of hiring index	abs.	33.0	33.5	33.3	31.9	0.0
	perc.	42.5	45.4	45.3	42.8	
Rigidity of hours index	abs.	20.0	57.5	52.9	60.0	0.0
	perc.	8.6	56.6	48.9	61.2	
Difficulty of firing index	abs.	30.0	37.9	37.9	41.3	0.0
	perc.	40.2	51.4	51.3	55.5	
Hiring cost (% salary)	abs.	35.0	28.1	27.0	29.0	8.5
	perc.	94.8	79.0	74.0	84.7	
Firing cost (% salary)	abs.	21.7	31.9	9.3	25.5	0.0
	perc.	24.7	37.4	44.6	32.2	

Source: Own calculations using the WB data (2006).

The burden associated with employment regulation in the CR (45th place) is among the lowest in the EU on average. However, the situation is very different with regard to the rigidity of regulation, which ranks among the best even in the wider international comparison against the cost of employment. The rigidity of regulation is the strongest in the case of hiring employees, weaker in the case of firing employees and the weakest in rigidity of working hours. The cost of employment is very high in the case of hiring employees especially due to employers' payments towards social security, while the burden associated with the cost of firing employees is significantly lower. Despite strong reservations to the new version of the Labour Code on the part of employers, which were due to the continuing rigidity of regulation in favour of employee protection (especially in the case of restriction of terminating employment by a notice served for reasons on the part of the employer), the high cost of hiring employees continues to be the greatest problem in this regard and this problem significantly affects the demand for problematic groups on the labour market. In addition, the demotivating social benefit scheme has a negative impact on the offer of employment especially in low-income groups.

Conditions for **registering property** are assessed according to the number of procedures, number of days required for their completion and the relative cost of related payments. Lower administrative and financial demands on registering property facilitate disposing of assets and using assets in other types of transactions, and reinforce the institution of property rights. The conditions in the CR (58th place) are problematic especially in terms of the related time demands, while the number and the cost of procedures are relatively low. The great demands on time are caused mainly by long periods for entering registrations in the Land Registry of Prague (as the situation in the capital city is the reference value for the WB researchers). In other regions of the country the time limit prescribed by the Administrative code (30 days) is respected. Another problem is posed by the fact that a record in the Land Registry alone does not still prove the

existence of ownership with certainty, despite the number of documents required for filing an application for registration also poses major problems. This is caused by the low level of property registration prior to 1989 and partially also at the beginning of the 90s. Ascertaining ownership of properties with certainty therefore often requires private investigation of the history of the real estate in question and additional contractual assurance of the transfer, which naturally results in higher costs.

Table 6: Registering property

		CZ	EU-24	EU-14	EU-10	USA
Procedures (number)	abs.	4.0	5.2	5.0	5.4	4.0
	perc.	14.1	33.1	31.1	35.7	
Time (day)	abs.	123.0	72.5	46.9	108.0	12.0
	perc.	80.0	43.8	34.9	56.3	
Cost (% value)	abs.	3.0	4.2	5.4	2.6	0.5
	perc.	26.4	36.2	46.7	21.5	

Source: Own calculations using the WB data (2006).

Assessment of conditions for **getting credit** includes the issue of creditor and debtor rights and sharing credit information. The first set of indicators focuses on the effectiveness of the lien and bankruptcy laws for lending financial resources, while the second set of indicators studies the market coverage, extent of information, and the quality and accessibility of credit information through private and public credit registers. High-quality conditions for obtaining credit increase the accessibility of external financial resources within the economy mainly due to the decreased creditor risk. The Czech Republic's position (21st place) is quite positive in the extent and quality of credit information, as well as the intensity of creditor protection. The situation in these areas has improved significantly compared to the 90s. The right of lien is one of the safest methods of securing receivables owing to high-quality legal regulation. The quality of credit information is high and the extent of covering the population and the range of information gradually grow. The interconnection between the banking and the non-banking registers introduced in 2006 has also increased the information value.

Table 7: Getting credit

		CZ	EU-24	EU-14	EU-10	USA
Creditors rights index	abs.	6.0	5.8	5.9	5.7	7.0
	perc.	33.4	42.1	41.4	43.2	
Credit information index	abs.	5.0	4.7	4.9	4.4	6.0
	perc.	29.4	31.1	28.4	34.8	
Private register	abs.	51.0	35.1	45.5	19.0	100.0
	perc.	14.8	34.3	29.0	42.4	

Source: Own calculations using the WB data (2006).

The **investor protection** indicator assesses the power of protection of minority shareholders against abusing corporate assets on the part of the managers. The indicators distinguish between three key areas of investor protection: transparency of transactions, managers' responsibility for operations and options for suing managers by shareholders. Adequate investor protection supports mainly the extent of investment activities in the economy by preventing misuse of entrusted resources or

allows recourse for potential misuse. The situation in the Czech Republic (83rd place) is very uneven. Openness and transparency of transactions is assessed with the worst results, while managers' responsibility for their actions is evaluated with very good results as well as options for suing managers by shareholders. However, the importance and actual impact of a positive level of responsibility and opportunities for suing for misuse of entrusted resources for personal gain is significantly reduced by the low level of openness of information on carried out transactions.

The fact that although formal regulation of protecting creditor rights exists, this regulation is not up to the standard in a number of cases (for example – provisions on contracts on control, reports on associated persons, company mergers and divisions, transfer of assets, the right to purchase subscribed securities, etc., have been adopted incompletely and non-conceptually from the original usually German and Austrian legal regulation) poses a significant problem. The enforceability and effectiveness of investor protection is reduced by the overall unclear situation due to frequent amendments and unsanctioned breaches of information obligations, ineffectiveness of process instruments available to minority investors and non-existence of effective instruments for preventing misuse of economic power by majority owners.

Table 8: Protecting investors

		CZ	EU-24	EU-14	EU-10	USA
Extent of disclosure index	abs.	2.0	5.9	6.2	5.4	7.0
	perc.	87.9	45.1	41.5	50.0	
Director's liability index	abs.	5.0	4.3	4.5	4.1	9.0
	perc.	53.8	60.3	56.9	65.1	
Ease of Shareholder Suit Index	abs.	8.0	6.4	6.1	6.8	9.0
	perc.	17.4	47.9	52.8	41.2	

Source: Own calculations using the WB data (2006).

In the case of conditions for **paying taxes** the number of tax procedures and their demands on time expressed as the number of hours per year required for preparing, filing and paying the three main types of taxes is assessed. The tax burden indicator measures all taxes payable by companies, except for the wage tax and social security payments. A lower burden associated with paying taxes has a positive impact on the fulfilment of tax obligations and therefore the amount of tax revenues, and supports the effectiveness of public expenses for tax administration. In the CR (110th place), the time demands represent the worst burden, the number of tax procedures is relatively low and the overall tax burden is one of the smaller tax burdens in the EU. Therefore, simplifying and clarifying the taxation system and improving the quality of the tax administrator work represent the greatest reforming challenge. Ideally, tax administration should represent a minimum burden for the tax payers and the comfort of fulfilling tax obligations should be improved. However, the procedure for simplifying the taxation system as such in order to achieve a significant reduction in the demands associated with paying taxes remains the key question. The issue of adequacy of the quality of public services provided for the collected taxes (which include the quality of conditions for doing business), i.e. the issue of effectiveness of public expenses or the extent of redistribution considered desirable or acceptable in the relevant society, is more relevant with regard to the tax burden.

Table 9: Paying taxes

		CZ	EU-24	EU-14	EU-10	USA
Payments (number)	abs.	14.0	22.0	16.9	29.3	9.0
	perc.	13.2	27.3	20.4	37.0	
Time (hours year)	abs.	930.0	272.0	222.0	343.0	325.0
	perc.	94.2	46.7	40.0	56.1	
Tax burden (% profit)	abs.	49.0	50.2	52.8	46.6	46.0
	perc.	62.6	58.2	61.5	53.5	

Source: Own calculations using the WB data (2006).

Conditions for **trading across borders** are evaluated by recording all procedural requirements for export and import of a standardised shipment of goods. This indicator includes all official procedures from the agreement between the two contractual parties to delivery of the shipment. The demands on the number of signatures, documents and days required for the completion of all applicable procedures are assessed. A low administrative burden of commercial activities promotes the competitiveness of the production on foreign and local markets. The conditions in the CR (41st place) are more favourable in the case of export where only the time demands achieve worse results, while the number of documents and signatures is among the lowest even in the wider international comparison. The administrative burden in import is greater, though not dramatically. The worst results are again shown in the time demands and the number of documents and signatures follows. The conditions for trading across borders are affected to a certain extent by harmonisation with the EC laws. The differences in comparison with other member states are therefore caused mainly by other than legal circumstances, mainly the quality and promptness of the state administration and availability of assistance services.

Table 10: Trading across borders

		CZ	EU-24	EU-14	EU-10	USA
Export-doc. (number)	abs.	5.0	5.3	4.7	6.2	6.0
	perc.	11.1	19.9	12.2	30.7	
Export - time (days)	abs.	20.0	12.9	10.5	16.2	9.0
	perc.	41.1	20.4	13.1	30.7	
Export – Cost	abs.	713	967	885	1082	625
	perc.	27.6	44.7	40.5	50.4	
Import – doc. (numer)	abs.	8.0	6.8	5.9	8.1	5.0
	perc.	28.7	23.4	16.7	32.7	
Export-time (days)	abs.	22.0	15.1	12.4	19.0	9.0
	perc.	36.2	20.1	13.6	29.2	
Import – cost	abs.	833	1015	942	1118	625
	perc.	25.8	36.8	33.5	41.4	

Source: Own calculations using the WB data (2006).

Conditions for **enforcing contracts** are evaluated according to the number of procedures (requiring interaction between the parties to the proceedings), time demands of the entire proceedings from filing an action to enforcing a payment (including waiting times between individual stages of the proceedings) in the number of days and the cost of proceedings (including all related expenses). A high quality of conditions in enforceability of contracts positively influences the transaction costs of business activities and the level of risk associated with providing a loan. The conditions in the CR

(57th place) are assessed as relatively positive ones. The situation is the best in the cost of debt collection, the number of related procedures is also relatively low but the time demands continue to be a grave problem. Czech entrepreneurs are almost unanimous that slowness of judicial proceedings severely damages the local business environment. Arbitration proceedings before an independent arbitrator or a permanent arbitration court are increasingly used as an alternative solution. The previously highly problematic execution of a legitimate decision has significantly increased as the new legislation allowing the involvement of private judicial executors motivated to achieve the highest possible return on the amount owed for the creditor was introduced.

Table 11: Enforcing contracts

		CZ	EU-24	EU-14	EU-10	USA
Procedures (number)	abs.	21.0	25.5	23.6	28.2	17.0
	perc.	8.6	24.0	18.8	31.3	
Time (days)	abs.	820.0	472.1	416.1	550.6	300.0
	perc.	86.7	38.3	33.2	45.5	
Cost (% debt value)	abs.	14.1	12.3	12.4	12.1	7.7
	perc.	25.8	19.9	21.5	17.7	

Source: Own calculations using the WB data (2006).

Assessment of conditions for **closing business** is specified for the course of bankruptcy proceedings. The time demands are expressed as the average number of years and include all possible delays caused by obstructing parties to the proceedings. The financial demands of the proceedings are expressed according to the cost of proceedings and the level of return on the resources the entitled parties may obtain from the insolvent company from the total amount of their receivables. Fast progress of closing business releases economic resources for their new use and thus promotes their effective allocation, and a high level of return on claimed finance positively influences development of investment activities. The conditions in the CR (113th place) are the worst in the overview of all monitored indicators of conditions for doing business.

Table 12: Closing business

		CZ	EU-24	EU-14	EU-10	USA
Time (years)	abs.	9.2	2.3	1.5	3.6	1.5
	perc.	98.6	30.4	14.9	52.1	
Cost (% of estate)	abs.	14.5	10.4	9.0	12.4	7.0
	perc.	46.4	31.3	26.1	38.6	
Recovery rate (% of investment)	abs.	18.5	56.4	71.0	35.9	77.0
	perc.	63.0	78.9	11.0	64.3	

Source: Own calculations using the WB data (2006).

Bankruptcy proceedings are relatively costly, provide a very low level of return and, most importantly, are excessively lengthy. The related legal regulation is complicated and subject to frequent amendments. Slow progress of the courts combined with obstructions by parties to the proceedings leads to significant delays and thus causes deterioration of the claimed resources. On the positive note, the Insolvency Act, applicable from January 2008, focuses on comprehensive transformation of the bankruptcy law with an emphasis on strengthening the role of creditors, allows acceleration of bankruptcy proceedings by determining binding periods for

individual acts and introduce alternative insolvency solutions through bankruptcy proceedings with the aim to maintain a functioning company.

All in all the CR achieves the worst results in conditions for closing business (especially in the time demands and the closely related level of return), conditions for granting licences (mainly in the number of procedures and the subsequent time demands) and paying taxes (in the time demands). These negative characteristics influence especially developing business activities, releasing the existing resources for new and therefore more effective use, effectiveness of tax collection (and the subsequent higher tax revenues) and additional costs due to delays in licensing procedures or attempts to speed the proceedings up through illegal practices. With regard to individual elements of indicators of conditions for doing business, the cumbersome procedure of company registration, the level of information openness in protecting investors, time demands associated with registering property and the cost of hiring employees are also considered negative. These characteristics reflect in greater opportunities for exploiting entrusted resources for personal gain, slowing down establishment of new businesses, transfer of property and thus increasing the transaction costs for the parties involved, and a lower level of employment especially in low-income and problematic workers.

On the other hand, the CR's position is the most favourable in conditions for obtaining credit, in the administrative burden associated with trading across borders (especially in export) and quite surprisingly in employers' duties and costs. These characteristics positively influence the availability of external financial resources for business and the penetration of foreign markets by local production, and development of foreign competition of local manufacturers. Regulation of employment, however complex, seems to be less burdening than in the majority of highly developed countries. Regarding the types of conditions for doing business in the CR, the worst results are in most cases demonstrated in the time demands associated with the required regulatory procedures (rather than the cost-related burden). Decreasing the time demands would therefore bring significant improvement in the overall standard of regulation and in combination with a reduced number of procedures would weaken the motivation and opportunities for engaging in corrupt behaviour, which has been the Czech Republic's long term problem.

The results of the Czech government's reforming efforts have so far been limited or have not involved any more extensive and in-depth changes to the systemic character, which has been a typical trait of the Czech economic policy on a long-term basis. Rather than focusing on major improvement in the regulatory quality, attention for example to discussion on tax cuts is paid in the media, despite the tax burden in the Czech Republic being one of the lowest in the EU (while social security payments at a level well above the average remain unchanged). Czech entrepreneurs give the worst rating in surveys to the low quality in execution of the state's authority, in particular the executive and judicial functions and their impact on the business sector. Execution of the state's authority, especially in tax administration but also in administrative supervision and decision making, has been subject to continuous criticism. The other recurring criticism refers to the complicated enforceability of justified claims of entrepreneurs through legal proceedings, which is caused mainly by the slowness of the courts' proceedings. In the case of authorities and courts, entrepreneurs see the limited predictability of final decisions

and the differences between individual regions in the CR as a serious problem. In the tax administration the ever changing legal base and its confusing complexity are the most criticized flaws.

Any major improvement in the entrepreneurial environment in the Czech Republic will therefore require effective reforms of the state administration and judicature. On the other hand, entrepreneurs deliver significantly more positive evaluation of the accessibility of loans and information necessary for doing business, the work of state (EGAP, Czechtrade, Czechinvest) and other than state (professional chambers, associations) organisations providing assistance services than in the 90s. The effort of executive authorities to broaden the use of information and communication technologies in dealing with the state and public administration, and the standardisation of regular official procedures (forms, fixed periods, etc.) is also assessed positively.

The contents and formal legal quality of laws regulating enterprise in the in the CR continue to feel the negative effect of transformation from the totalitarian state rigorously controlling the economy to a modern liberal democracy regulating a market economy. Major legal codes

have been subjected to dozens of amendments but no radical modernising transformation. Judicature and interpretation have not been established in a number of cases. The so-called legislation rush, which was necessary at the end of the previous and the beginning of this century due to harmonisation of the local laws with the EC laws, has obviously sped up the reforming processes but at the same time at least temporarily reduced the clarity and stability of the legal environment. What's more, some of the provisions of laws (taxation, industrial, etc.) criticized by entrepreneurs are a natural consequence of the structure of political powers in the country, i.e. the fact that left centre has had the control of the government in the Czech Republic between 1998-2006. Quite understandably, a left-wing government cooperated better with unions rather than entrepreneurial associations. On the other hand, all Czech governments after 1997 have been quite unstable coalitions with only a slight parliament majority, i.e. not positioned to carry out deep and at first painful reforms. It has been mainly the need to react adequately to changes in the integration of the Czech market in the single EU market and in the wider context to the globalisation processes, that have brought certain improvements for enterprises.

3. Conclusion

Viewing the weak points of the Czech Republic following from assessment of competitiveness the especially alarming issue is the long-term poor score of the **framework conditions**. The quality of institutional environment in complex evaluations further reduces the already poor results of other characteristics of competitiveness. While other transition countries have recently improved quality of governance, the Czech Republic has even shown worsening in certain indicators. And yet the role of the framework conditions is very significant, which is evidenced by the ever increasing inclination towards a broader concept of innovation systems, including institutional environment. Unlike the possibility of affecting innovation abilities in the narrow sense, improvement of framework conditions is in full responsibility and competence of economic policy agents. A small piece of good news after a long period of unfavourable development is the return of the Czech Republic to the position occupied by the country in 1997 in terms of corruption perception index.

In regulation of business environment whose quality plays a decisive role in innovation activities, the Czech Republic shows characteristics of a country with continental, Franco-German legal tradition. In addition, the country lacks sufficiently good institutions (as shown among other things by weak fulfilment of the principles of the so called better regulation) to mitigate the excessive state interference and procedural formalism, typical of this legal tradition, with effective performance of judicial power and state administration. Despite the partial efforts at improvement of **business environment** in 2006 the Czech Republic became slightly worse in comparison to the previous period due to a moderate drop in eight of the ten evaluated criteria. The analysis of the current legislation and administrative measures has shown that absolute worsening of conditions occurred in none of the areas, but virtually all of them (except starting of business) only implemented partial changes for the better, and slowly or with considerable problems (such as the effect of the new Labour Code on employers). In comparison to more dra-

matic reforms in a number of countries of the world (including the very region of Central and Eastern Europe) the Czech Republic has thus dropped to lower positions in the overall and the partial hierarchies.

These slow changes of conditions for doing business in the Czech Republic in the course of last year reflect in the **current results** of the World Bank published in September 2007. The Czech Republic occupies 56th position (in comparison to 52nd position in the previous year) even though the results are not fully comparable to last year due to moderate change of the methodology. And yet the region of Central and Eastern Europe is the most frequent reformer, with at least one change introduced by 79 countries of the region.

The overall critical outcome of the international comparison corresponds with the opinions of the **Czech businessmen**, who express ever stronger criticism of the business environment in the Czech Republic in the various surveys and opinion pools. Their criticism is mainly and for a long time already focused on poor quality of performance of state administration, especially executive and judicial, with its subsequent impact on the business environment. Execution of state administration, especially

in the tax area, but also in the areas of state surveillance and decision-making, is another target of permanent criticism. A further area of chronic complaints is the difficult enforceability of legal entitlements, mainly due to the slowness of the courts. Both in the case of authorities and in the case of courts the businessmen complain on the difficulty to predict the final decisions and their cross-regional differences. Another objection corresponding with the above analysed results of WB evaluation targets the complexity and length of proceedings and procedures that the businesses need to undergo.

Concentrated expression of the **drawbacks of the Czech business environment**, identified and analysed in the evaluation published in the yearbook, can be found in the statement of the Economic Chamber of the Czech Republic dated to the last year. The legislative framework for doing business in the Czech Republic is rather vague, often changed by amendments to various acts, overfilled with all sorts of legal regulations, and negatively affected by unprofessional interferences in the course of act passing procedures.

Too hasty passing of legal standards and ambiguous interpretations of many of them cannot contribute to increased legal certainty of businesses. Protracted litigations in the case of disputes following from the condition of the legislation in particular cases threaten further existence of the affected entities. These problems result in devastation of legal awareness of business public, legal uncertainty, lack of trust in the law and in flexibility and transparency of court decisions, and above all extensive complications for businesses themselves.

A similarly critical evaluation – especially considering **administrative burden** of businesses – was issued by the government itself in 2006. The analysis performed by the Office of the Government of the Czech Republic showed that the total annual administrative load of businesses, i.e. their costs of fulfilment of their administrative obligations, amounts to at least CZK 86 billion. The highest administrative burden is represented by the regulations issued by the Ministry of Labour and Social Affairs, the Ministry of Agriculture, the Ministry of Healthcare, the Ministry of Finance and the Ministry of the Environment (together over 80 % of the above amount). The most costly legal regulations for businesses include the legislation stipulating health insurance payments, organisation and performance of social security policies, income tax acts, etc., which also corresponds to the findings of the World Bank. In 2007 the Government of the Czech Republic announced its intention to reduce the administrative load of businesses by 20 % by 2010 (in comparison to the situation in 2005), by means of revisions, amendments or cancellations of the existing regulations and systematic evaluation of the impact of the newly drafted regulations (using the RIA methodology), which should be an obligatory part of the legislative rules of the Government since mid 2007. Business representatives welcomed these initiatives.

The Government of the Czech Republic expressed its intention to improve the **overall business conditions** in a number of its documents, in the most complex manner in the National Lisbon Programme for the period 2005–2008. The Office of the Government of CR prepared a number of materials in the period 2005–2006 for assessment and

reduction of administrative burden of businesses, even including an action plan which should culminate in approval of the amendment eliminating excessive administrative load by a one-off change of all sorts of acts and sub-legislative standards. Partial initiatives were started by individual ministries (mainly by the Ministry of Industry and Trade and by the Ministry of Finance), always at the presence of representatives of business associations (especially the Council for Development of Business Environment as the professional inter-ministerial authority of the Ministry of Industry and Trade). The report of the Government of the Czech Republic on fulfilment of the National Programme of Reforms focused on a number of issues of the business environment, including the results of the international comparisons of WB. These liabilities virtually correspond to the recommendations of the European Commission issued on the occasion of enlivening of the so far not very successful Lisbon Strategy in March 2006.

The basic measures proposed by the **European Commission** include establishment of an administrative job of assistant to future businesses in fulfilment of all necessary administrative requirements (strived at by the Czech Republic with the projects of the Central Registration Point and partly the Czech Point), and further shortening of the period necessary for a company incorporation by one half with the final aim of reduction to maximum one week (attempted by the Czech Republic through change of functioning of the Commercial Register) and also application of the methodology of measurement of administrative costs following from the prepared national regulations (to become part of legislative rules of the Government in the Czech Republic in the course of 2007).

An undoubtedly positive fact is that the long-term criticism on the part of the businesses and similarly critical assessments by renowned international institutions have made the Czech Government deal with drawbacks of regulation preventing **development of entrepreneurship**. On the other hand, there is the regretful fact that quality of business conditions has only been concentrated on re-

cently, due to weakness and instability of the Czech Governments, and with only little emphasis and with insufficiently systematic approach. The results of the above outlined reform efforts are thus still limited, or in other words do not yet include broader and deeper changes of **system nature**, which is a general long-term characteristic of Czech economic policy. And yet examples of the Baltic countries, Slovakia and some Balkan countries show that a stable government, ready to undertake even unpopular reforms to support competitiveness, and thus economic growth and creation of new job opportunities, is able in just a couple of years to change the country scoring not only in international comparisons of the WB type, but also in the eyes of domestic and foreign businesses and investors, with a real positive impact on the economic development of the country.

A more significant improvement of the Czech business environment therefore requires above all effective **reforms of state administration** and judicature and pro-competition oriented economic policy. Even though this is a general formulation of objectives, it accurately reflects the basic requirement for optimum regulation of business enterprising: less regulation (as a consequence of user-friendly economic policy) and radical improvement of the necessary regulation (by reform of state administration and judicature). These steps, however, require a wider political consensus concerning not only their necessity, but also the depth and speed of their execution. The consensus, however, has not yet been reached by the decisive political forces in the country, and the period of weak, insufficiently reform-intensive Czech governments was not even closed by the parliamentary election in June 2006. The roots of the continuing unsatisfactory condition of the domestic business environment may therefore be traced (in addition to the dominant legal tradition) mainly in the condition of the local political scene, the nature of the political parties and their leading representatives, and also in the continuing passive approach of the society, including businessmen, in relation to the many times defined and media attacked drawbacks of functioning of politics and execution of state power in the Czech Republic.

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