



Czech Republic Country Strategy

2021-2026

Approved by the Board of Directors on 15 September 2021

European Bank
for Reconstruction and Development

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Glossary of Key Terms

ABI	Annual Business Investment
CEB	Central Europe and Baltics
CEE	Central and Eastern Europe
E&S	Environmental and Social
COO	Country of Operations
CSO	Civil Society Organisation
DG	Directorates-General
EBRD	European Bank for Reconstruction and Development
EC	European Commission
EE	Energy Efficiency
EIB	European Investment Bank
EIF	European Investment Fund
ETI	Expected Transition Impact
EU	European Union
FDI	Foreign Direct Investment
FI	Financial Institution
GDP	Gross Domestic Product
GET	Green Economy Transition
GEFF	Green Economy Financing Facility
GHG	Greenhouse gas
GVC	Global Value Chain
HICP	Harmonised Index of Consumer Prices
H&S	Health & Safety
HR	Human Resources
ICA	Industry, Commerce & Agribusiness
ICT	Information and Communication Technologies
IFI	International Financial Institution
ILO	International Labour Organization
IPO	Initial Public Offering
LFS	Labour Force Survey
MEI	Municipal and Environmental Infrastructure
MFF	Multiannual Financial Framework
NDC	Nationally Determined Contributions
NPL	Non-Performing Loans
ODA	Official Development Assistance
OECD	Organisation for Economic Co-operation and Development
OSCE	Organization for Security and Co-operation in Europe
PE	Private Equity
PPP	Private-Public Partnership
PR	Performance Requirements
PTI	Portfolio Transition Impact
RRF	Recovery and Resilience Facility
R&D	Research and Development
SME	Small and Medium Enterprise
TC	Technical Cooperation
TPES	Total primary energy supply
VAT	Value Added Tax
VCIP	Venture Capital Investment Program
WB	World Bank
WDI	World Development Indicators
WEF	World Economic Forum

Executive Summary

The Czech Republic is committed to and applying the principles of multiparty democracy, pluralism and market economics in accordance with Article 1 of the Agreement Establishing the Bank. Some challenges remain, however, to protect minorities and to fight corruption.

The Czech economy is in the midst of a deep recession, caused by the unprecedented shock of the Covid-19 pandemic. The Czech economy was growing very strongly during 2015-2019 but GDP fell by a preliminary -5.6 per cent year-on-year in 2020. This is one of the worst GDP declines among all EBRD EU countries of operations. While public debt increased sharply during 2020, unemployment rate stayed at relatively low level due to fiscal stimulus measures and still remains one of the lowest among EBRD EU countries; the recovery will require significant investments and restructuring efforts.

In line with its income level, the Czech Republic is more advanced in transition reforms than other EBRD countries of operations although some transition gaps still need to be addressed. Green transition, in particular, shows significant challenges. Greenhouse gas emissions per capita in the Czech Republic are among the highest in the EU, and emissions of the residential and transport sectors are above CEB peers. The Covid crisis could further delay necessary reforms and significantly postpone investments needed to address green economy gaps, thereby endangering the fulfilment of the country's international commitments. In addition, the Czech capital markets are under-developed; better access to alternative sources of finance will strengthen economic resilience, spur broader productivity growth, and expand financing resources available to aid economic recovery.

Given the severity of the Covid-19 crisis in the country, the purpose of our engagement is to support a sustainable and inclusive crisis recovery. The focused, results-oriented, and time limited re-engagement by the EBRD in the Czech Republic will provide tangible support with an emphasis on the remaining transition gaps and a private sector focus. The EBRD will bring its unique skills, knowledge and products to help reboot the Czech economy. The Bank will target gaps in financing provided by the EU, ensuring complementarity with its Recovery and Resilience Facility (primarily focused on public sector projects), the EIB, and other actors, and would focus on those products which are particular strengths of the Bank's offer, such as equity, capital markets transactions, and structured finance. The Bank will provide value added to the Government through its expertise and help it achieve its reform priorities. The transition qualities where the Bank will contribute the most are Green and Resilient, in particular in relation to climate change adaptation and in line with the commitments under the Paris Agreement. The Bank will also aim to work with Czech counterparts to assist other, less advanced countries of operations in their transition process, including through regional projects, knowledge sharing and cross-border investment.

The period for the Bank's re-engagement is for a maximum of 5 years from the date of Board approval, with a meaningful and consequential review of the country's recovery and the Bank's engagement at the end of 3 years. Such review will identify specific sectors, sub-sectors or products where the Bank's engagement is unlikely to be additional in responding to the crisis going forward, and will provide recommendations by Management on possible adjustments to narrow the scope of the Bank's work for the remaining two years of the engagement, for decision by the Board of Directors.

Accordingly, the Bank will pursue the following strategic priority in the Czech Republic during 2021-2026 temporary re-engagement:

- *Support a green and inclusive economic recovery from the Covid-19 crisis*

Czech Republic - EBRD Snapshot

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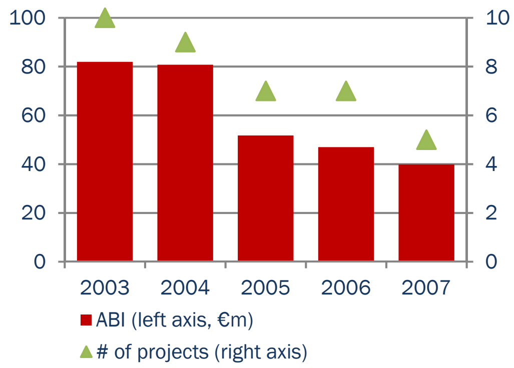
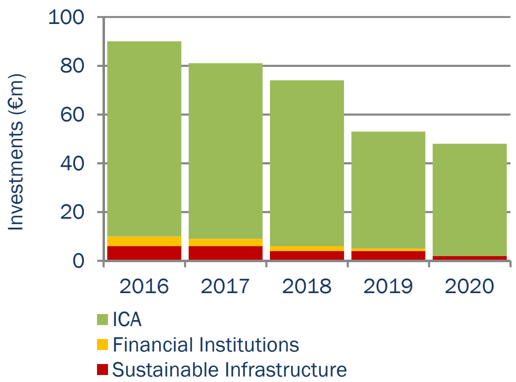
EBRD Investment Activities in Country *(as of year-end 2020)*

Portfolio	€48m	Active projects	15
Equity share	99%	Operating assets	€39m
Private Share[1]	100%	Net cum. investment	€1,201m

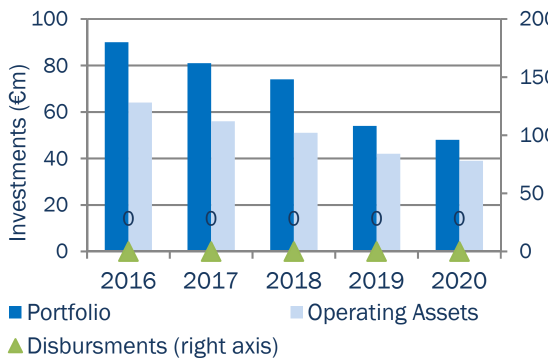
ABI and Operations



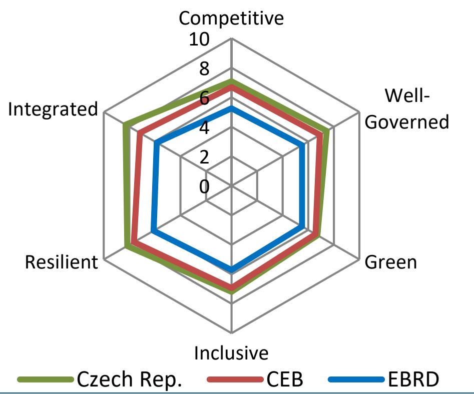
Portfolio Composition



Portfolio Dynamics



Transition Gaps[2]



Country Context Figures

	Czech Republic	Comparators
Population (million)[3] (2020)	10.7	Hungary (9.77), Slovakia (5.46).
GDP per capita (PPP, USD)[4] (2019)	43,004	Hungary (33,950), Slovakia (32,545)
Global Competitiveness Index (WEF) (2019) *(out of 141 economies)*	32	Hungary (47), Slovakia (42)
Unemployment (%, 15-64)[5] (2020)	2.6	Hungary (4.3), Slovakia (6.8)
Youth unemployment (%, LFS)[5](2020)	8.0	Hungary (12.8), Slovakia (19.4)
Female labour force participation (%, LFS, 25-54)[5] (2020)	81.1	Hungary (79.1), Slovakia (79.3)
Energy intensity (TES/10' 2015 USD)[6] (2019)	0.2	Hungary (0.18), Slovakia (0.17)
Emission intensity/GDP (kgCO2/2015 USD)[6] (2019)	0.45	Hungary (0.31), Slovakia (0.29)

[1] Cumulative Bank Investment: 5 year rolling basis on portfolio.
[2] Cf. EBRD Transition Report 2017-2018. [3] National statistical offices. [4] World Bank WDI. [5] International Labour Organisation. [6] IEA.

2. Economic Context

2.1 . Macroeconomic Context and Outlook for Strategy Period

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Czech Republic - Main macroeconomic indicators

	2015	2016	2017	2018	2019	2020
GDP growth (% y-o-y)	5.4	2.5	5.2	3.2	2.3	-5.6
HICP inflation (% avg.)	0.3	0.6	2.4	2.0	2.6	3.3
Government balance (% of GDP)	-0.6	0.7	1.5	0.9	0.3	-6.2
Current account balance (% of GDP)	0.4	1.8	1.5	0.4	0.3	3.6
Net FDI (% of GDP)	0.9	5.5	5.1	3.3	2.4	1.3
External debt (% of GDP)	67.7	73.0	88.1	81.3	77.0	76.7
Gross reserves (% of GDP)	34.3	43.7	67.7	57.3	59.6	63.4
General government gross debt (% of GDP)	39.7	36.6	34.2	32.1	30.3	38.1
Unemployment (%, 15-64)	5.1	4.0	2.9	2.3	2.1	2.6
Nominal € GDP (bn)	169.6	177.4	194.1	210.9	224.0	213.7

The Czech economy is in the midst of a deep recession, caused by the unprecedented shock of the Covid-19 pandemic. Before the 2020 recession, the Czech economy was growing robustly in the previous four years. Despite its strong macroeconomic position, GDP fell by -5.6 per cent year-on-year (y/y) in 2020, which qualifies as a “one in 25 years event”. The GDP decline is comparable with the EU average in 2020, but worse than all EBRD EU countries of operations (CoOs) but the tourism-dependent Croatia and Greece. Other signals, including currency stability, fiscal or financial stability are far from crisis levels.

Prior to Covid-19, the economy had performed well since 2014. After graduating from EBRD in 2007, the Czech economy struggled following the financial crisis of 2009, with GDP growth averaging 1 per cent until 2013. From 2014, strong domestic demand supported by high wage growth amidst a tight labour market has driven economic growth. In fact, capacity utilisation significantly increased, as unemployment rate fell to a record 2 per cent since 2018, the lowest reading in the EU. With income per capita rising, the Czech per capita income relative to the EU-27 average rose from 86 per cent in 2013 to 93 per cent in 2019, higher than the wealthiest EBRD CoO – Slovenia at 89 per cent.

Industry and exports, typically a mitigating factor, failed to dampen the recession in 2020. The troubled automotive sector was one of the key headwinds in 2020, while the severity and length of the Covid-19 restrictions heavily affected domestic demand. Still, labour market fared quite well, as unemployment grew from 1.8 to 3.4 per cent between February 2020 and April 2021. Asset quality remains strong in early 2021, even if credit slowed down with the exception of housing loans. As elsewhere in the region, inflation is picking up, and the central bank’s re-introduction of the cyclical capital buffer signifies phasing out of the direct monetary policy crisis response mode. GDP growth in Q1 2021 came at -2.1% y/y, very much below 2019 volumes, implying a more muted recovery than in CEB peers.

Prior to the Covid-19 crisis, public finances looked very solid. Fiscal surpluses were recorded in recent years on the back of growing fiscal revenues, while public debt edged down to the third lowest in the EU, at 30 per cent of GDP at end-2019. This created decent space for fiscal policy to react to the Covid-19 crisis, which was readily used. Czech Fiscal Council points income tax cuts combined with longer term aging trends to provide a growing debt reaching 55% of GDP in 2024, low compared to the EU average, but historically high for Czech standards.

2. Economic Context

2.2 . Key Transition Challenges

Competitive (7.08)

- *The crisis affected small and medium enterprises (SMEs), potentially widening the gap with larger, internationally-connected firms.*
- **Labour productivity is still behind the EU average**, with the gap at about 23 per cent in 2019. Productivity growth has been slightly below CEB average since 2010, but higher than in Slovenia and Hungary.
- **Despite high economic complexity, SMEs lag behind large firms.** Almost 60 per cent of gross exports are integrated in global value chains (GVCs), but the net gains from GVC participation are lower than the EU average. This is due to Czech small firms being placed unfavourably in global value chains. As such, foreign multinationals account for about 40 per cent of private R&D spending, higher than almost all OECD countries, which illustrates the domestic economy's limited capacity to innovate.
- **Despite its superior overall competitiveness, there are some gaps related to the business environment.** The Czech Republic is lagging behind regional peers in the ease of starting a business and issuing construction permits. Government subsidies, as a share of GDP, are also higher than in peers, which might explain the lagging competition policy index.

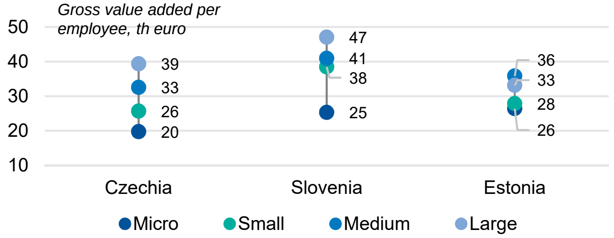
Well-governed (7.44)

- *The Covid-19 crisis proved the importance of up-to-date and accessible e-government services.*
- **While governance is generally better than elsewhere in the CEB region, the burden of regulation and government effectiveness could still be improved.** In particular, regulatory burden is higher than in regional peers. At the local level, fragmentation of public administration exacerbates government inefficiencies and regional inequality, according to the OECD and EC. E-government participation is lagging behind even the EBRD average, which is particularly problematic during the pandemic.
- **Despite sound public finances, tax policy could be more conducive to growth.** The Czech taxation system is characterised by a high labour tax, with the tax wedge being higher than the OECD average mainly due to a larger employer social contribution. Direct taxes are significantly below the EU average as a share of GDP (8.8 per cent compared to 13.4 per cent), while corporate taxes account for a larger share. On the other hand, less growth-constraining taxes, such as property and environmental taxes, are lower by OECD standards. The estimated VAT gap remains higher than some peers.

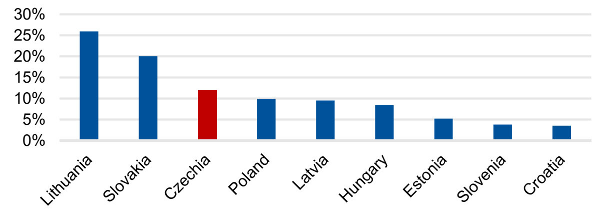
Green (6.71)

- *Green transition has become a central theme in the post-pandemic recovery, and the Czech Republic will face increasing challenges going forward.*
- **Greenhouse gas emissions per capita in the Czech Republic are among the highest in the EU.** To some extent it relates to high industry share, however, emissions of the residential and transport sectors are also above CEB peers.
- **The carbon intensity of the Czech energy sector is nearly twice the EU**, nearly 50% of its electricity and 75% of its heating is produced from coal. The industrial and agriculture sectors are more energy intensive than most regional peers.
- **The Czech energy sector still relies on the operating lignite mines, while renewable energy sources have a relatively small share in the energy mix.** The mining regions' transition to a greener economy will require additional support going forward.
- **A complete legal and institutional framework for supporting renewable energy remains unfinished.** The cancellation of support schemes for renewable energy in 2014 led to lasting scars in the market.

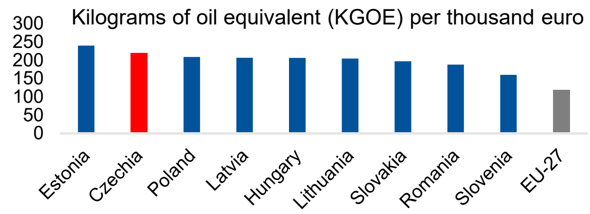
The gap in labour productivity between SMEs and large firms is larger in the Czech Republic compared to peers



The VAT gap was considerable in 2018



Overall energy intensity remains well above EU average



Source: OECD, EBRD's calculations.

Source: Eurostat.

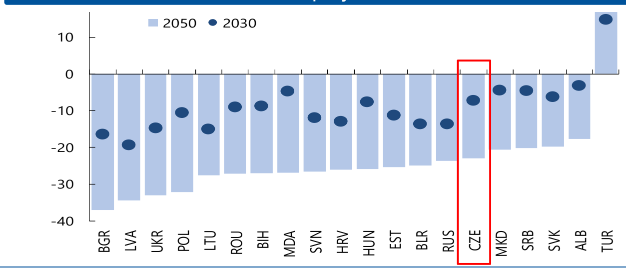
2. Economic Context

2.2 . Key Transition Challenges

Inclusive (7.19)

- *The Covid-19 crisis affected the labour market in the short-term and exacerbated social and regional disparities. The acceleration of digital transformation will affect the competitiveness of older workers in particular.*
- Labour shortages will affect convergence going forward. Population aging will require addressing employment gaps of disadvantaged groups, a process helped by tightening labour markets.
- Employment gap remains relatively high. In 2019, the difference between employment rates of men and women was 15 percentage points (ppt), significantly above the EU-average of 11.7 ppt. Mothers of young children stay inactive for a long time, partly due to generous child benefits and insufficient childcare facilities.
- Women in managerial roles are less present in the Czech Republic compared to the EBRD average. The government has in turn expanded paternity leave, childcare access and job flexibility. Women hold 27% of managerial positions, below OECD avg. of 33% and Poland’s 43%.
- Czech Republic is one of the few OECD countries where only high-skilled employment increased in recent decades, hence ensuring adequate skills will be crucial, also in light of the automation trends in manufacturing. The pandemic is speeding up digital transformation, which will deteriorate the competiveness of older workers, who tend to have weaker ICT skills.
- The Roma population should be supported to better integrate in the labour market.

Labour force is projected to decline



Source: IMF 2019.

Resilient (8.16)

- *The relative shallow capital markets could deter the growth of innovative firms in the recovery phase.*
- The depth of capital markets relative to GDP in the Czech Republic is low (41 per cent) compared to the EU average but higher than its CEE peers (Poland, Hungary and Slovakia). Development of the supply-side (instruments and liquidity) and the demand-side (institutional investor base) is required to support resilience and broader productivity growth. Private sector is still relying predominantly on commercial bank loans, and funding through securities is practically non-existent.
- A wider use of alternative sources of finance, including debt capital markets, could support companies’ development, especially those that struggle with accessing banking finance and investing more in innovation, intangibles, green solutions or expanding abroad.
- Commercial banks have adequate capital and sufficient deposit funding.
- Green capital markets remain under-developed, even though there have been green bond issues from nonfinancial corporates. A green capital market strategy is desirable to analyse barriers to green investments. Banks also lack grant financing and capacity to develop energy efficiency products.

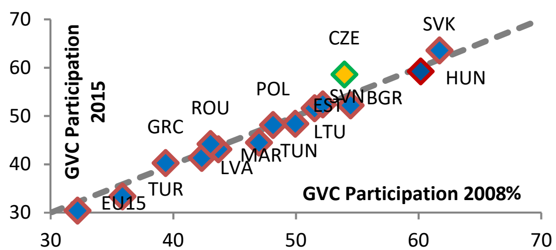
Depth of capital markets relative to GDP is low

Source: New Financial 2020

Integrated (8.29)

- *The Covid-19 crisis heavily affected international trade, a key component of the Czech economy.*
- Czech Republic is one of the most open economies in the EU, with manufacturing being a crucial sector.
- Excellent financial openness, logistics performance indicators, low cost of trading across borders, number of trade agreements all reflect Czech reliance on trade.
- The Czech Republic’s transport system still has gaps, including road quality and TEN-T (Trans-European Transport Network) completion. The transport network disadvantages the Southern- and North-Eastern parts of the country. Investment in sustainable mobility have been modest so far.
- Broadband coverage, bandwidth, mobile internet provision competition and prices are at par with developed market comparators. Nevertheless, due to the structure of local economies, the difference in the share of jobs that could be performed remotely between the region with the highest and lowest potential was the highest in the Czech Republic, according to the OECD.

53% of exports are integrated into global value chains



3. Government Priorities and Stakeholder Engagement

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3.1. Government Reform Priorities

The National Reform Programme of the Czech Republic formulates key measures in the field of economic and social policy to support prosperity and sustainable growth.

Response to COVID-19 pandemic: In an effort to support the economy and minimise the social impact of the pandemic, the government put in place various fiscal stimulus measures, including support for entrepreneurs and employees, tax deductions, loans and guarantees for COVID affected companies, loan repayment holidays, financial support for the tourism sector.

Climate change: In line with EU climate objectives, the Czech Republic is committed to achieve climate neutrality by 2050, through targets set in renewable energy production and energy efficiency improvements.

Capital Market Development: Pursue opportunities to increase the competitiveness of the Czech economy through strengthening the corporate bond market and supporting 'business angel' investors.

Digitalisation: The Digital Czechia programme is a set of strategies to put in place the conditions for the country's long-term prosperity in the digital revolution. This includes advancement of electronic identification, digital public administration and e-government, promotion of e-banking and setting up Digital Innovation Hubs to disseminate knowledge and skills.

Innovation: The Innovation Strategy of the Czech Republic 2019–2030 defines government policy and sets out a strategic framework for all aspects of research, development and innovation in the country. Initial policies include de-bureaucratisation of research, support for innovative high-tech start-ups, tax deductions for R&D, digitalisation of the construction sector.

Business environment: The Czech Republic's long-term priority for the internal market is the completion of the free market in services, in collaboration with other EU states. Further measures are aimed to reduce the administrative burden on entrepreneurs, simplified tax system, and support SMEs.

Tax policy: The government's priority is a transparent tax environment, minimising distortion, reducing the administrative difficulty of tax collection, digitisation and protection of health via the tax policy.

Labour market: Active employment policy, brokering employment, and support for the disabled on the labour market are the first measures under the Strategic Framework for Employment Policy until 2030. Further efforts focus on the reduction of the gender pay gap and the promotion of women's participation in the labour market.

3.2. EBRD Reform Areas Broadly Agreed with Authorities

- The Czech Recovery and Resilience Plan focuses on green transition, digitalisation and inclusion, thus closely aligned with the Bank's Strategic Capital Framework.
- Capital market development is a shared priority. The EBRD will cooperate with the Czech National Bank and the Ministry of Finance to develop and invest in new (green) financial instruments.
- Given the impact of the pandemic on the Czech economy, the Bank will provide support for sustainable and inclusive private sector recovery with a focus on innovation, including innovative financial products as well as supporting digitalisation of the economy and relevant skills upgrades.
- The Bank will support green transition by investments in new private renewable energy generation, the circular economy and resource efficiency. The Bank will explore options to support the private sector provision of Green municipal infrastructure, including through the EBRD Green Cities programme.

3.3. Key Messages from Civil Society to EBRD

- Civil society organisations endorsed the Bank's strategic priority for the Czech Republic focusing on the economic recovery from the Covid-19 crisis. In particular, CSOs consider that EBRD support is needed in the area of fostering the green economy, renewables, energy efficiency and circular economy. In this regard, the EBRD should help promote a long-term decarbonisation process and strategy for the Czech Republic, which should avoid any green washing.
- CSOs suggested that EBRD funding should ensure complementarity with the EU funds currently available for the Czech Republic, in particular from the Recovery and Resilience Facility (RRF) and the Multiannual Financial Framework (MFF) 2021-2027 in order to avoid any duplication.
- Civil society representatives also welcomed the Bank's focus on digitalization, gender and economic inclusion. Moreover, according to CSOs improvements are further necessary in the area of governance, integrity, conflict of interest and public procurement in the country.

4. Defining EBRD Country Strategy Priorities

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What needs to change ? (Country Diagnostic)	Can it be changed ? (Political Economy)	What can the Bank do ? (Bank's additionality)	Strategic Priorities *(2021-2026)*	What We Want to see (Key Objectives)
• Firms with depleted capital as a result of the crisis, need to be recapitalised. • SMEs lag behind large firms, as Czech small firms are placed unfavourably in global value chains. • New firms emerging form economic shifts need finance to thrive and grow. • Financing options for high-growth SME technology companies are scarce, as leading venture capital funds and corporates have limited or no local investment experience or presence. • Capital markets are underdeveloped. • The PE funds market lacks sustainability, professional rigor and institutional quality. • Greenhouse gas emissions per capita are among the highest in the EU. • The carbon intensity of the Czech energy sector is nearly twice the EU average, nearly 50% of its electricity and 75% of its heating is produced from coal. The carbon intensive industry needs to decarbonise to be sustainable. • Commercial banks lack grant financing and capacity to develop energy efficiency products.	• Providing equity and new alternative financing, including through local capital markets, to continue projects/innovation that have lost momentum due to the Covid-19 crisis. • Commitment in line with EU NDCs, to reduce GHG emissions and phase out lignite power plants. • Green and digital investments are a priority both for the government and under the EU Recovery and Resilience Facility and next Multiannual Financial Framework.	• Applicable policy advisory tools for capital market development, including experience on successful introduction of innovative financial products in the region. • The Venture Capital Investment Programme is an important tool to finance innovative SME technology companies. • Strong track records of investing in high-growth corporates through PE funds. • The Bank's 5 year strategy (Strategic Capital Framework) identifies support for green transition and digital transformation as key institutional objectives. • Experience in the promotion and development of renewables in the region through investment and policy advisory. • Dedicated EBRD team to support a gradual phase out of coal, as part of the Just Transition Initiative. • Institutional know-how to fill a gap in market-based financing for private sector infrastructure and PPP investments, in particular through the EBRD Green Cities programme. • Effective instruments under the Green Economy Financing Facility to support businesses and homeowners invest in green technologies.	Support a green and inclusive economic recovery from the Covid-19 crisis	Diversify and deepen financing resources for recovery Support green recovery

PUBLIC

5. Activities and Results Framework

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Priority: Support a green and inclusive economic recovery from the Covid-19 crisis

Key Objectives	Activities	Tracking Indicators (Outcomes)
Diversify and deepen financing resources for recovery	• Provide direct or indirect equity support for Czech companies. Support expansion to other EBRD countries of operations. Promote corporate governance improvements and equal opportunities, including better representation of women on company Boards. Support regional projects that enhance trade and FDI, and deepen regional value chains. • Support innovative and high-growth SMEs early on, including through venture capital funds, private equity funds and the VCIP programme. Policy engagement to strengthen regulatory framework for digitalisation. • Support development of alternative funding sources including through investment funds, advisory, capital market development and provision of initial investment, to introduce innovative funding products or instruments. • Work with relevant counterparties on establishing the framework to support the development of green capital markets/green finance, to facilitate follow up investments. • Promote innovation through support to corporates introducing new technologies, including through investment or infrastructure funds. • Support companies to access the local capital market, including through investment and advisory in preparation for IPOs.	• New instruments introduced or existing ones tailored to support resilience and Covid-19 recovery • Legal or regulatory reform (on Capital Market Development) • Volume of capital market transactions facilitated
Support green recovery	• Invest in energy efficiency upgrades of select corporates, through direct finance, investment funds (including private equity, venture capital, infrastructure funds) and other financial intermediaries to improve their resilience during recovery phase. Consider roll out of the GEFF Facility to support businesses and home owners investing in green technologies. • Provide finance and policy advisory, in alignment with the Paris Agreement, to support the private sector led expansion of renewable energy generation, including through investments facilitated by the regulatory framework to be improved, and the development of more efficient and flexible network infrastructure, for green recovery. • Support the Czech Republic to timely achieve its Nationally Determined Contributions, through financing high impact private sector investments that reduce or avoid GHG emissions. • Explore opportunities to support the role of the private sector in the Just Transition Initiative in the country for a green and inclusive recovery. • Seek opportunities to fill a gap in market-based financing for private sector infrastructure and PPPs focusing on environmental and energy efficiency investments. • Promote green and sustainable urban infrastructure investments through financing and policy engagement under the EBRD Green Cities programme.	• CO_2e emissions reduced / avoided (tonnes/yr) • Renewable energy capacity installed (MW)

Impact Indicator: Economic Complexity Index (Harvard CID);
Energy intensity TPES/GDP (IEA, baseline);
Stock market capitalisation (WDI, baseline)

6. Mapping of International Partners' Complementarity in EBRD Business Areas

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EBRD BUSINESS AREAS														
		Sectors									Cross-cutting Themes			
		Industry, Commerce & Agribusiness					Sustainable Infrastructure		Financial Institutions		Strategic Initiatives			
Indicative annual investment/ grants (€m, 2016-2020 average unless otherwise specified)		Agribusiness	ICT	Manufacturing & Services	Natural resources	Property & Tourism	Energy	Infrastructure	Banking	Non-bank Financial Institutions	Green Economy	Inclusion and Gender	Local Currency and Capital Markets	Small Business
EU (ESIF)*	3,457	● €	○ €	● €		● €	○ €	○ €			◐ €	○ €		● €
EIB	825	● €	● €	● €		◐ €	○ €	○ €	● €		○ €	○ €		● €
CEB	227						○ €	○ €	◐ €		○ €	○ €		● €
EIF	165													● €

€	Area of significant investments	●	Focus mostly on private sector
P	Area of significant policy engagement	○	Focus mostly on public sector

Potential Areas of Cooperation

Green:

Collaboration with the EU on Green Economy Transition to meet EU climate Goals.
Potential co-financing with EIB of sustainable green projects, including green bonds.

Resilient:

Leverage EU RRF funds to support green and digital infrastructure investments.

Competitive:

Selective co-financing opportunities with the EIB, and co-financing equity funds with the EIF.

Well-governed:

Provide policy advisory using EU DG Reform support.

Note: IFI activity mapping based on publicly available information.
Significant IFI investment defined as projects exceeding 5% of annual investment and signed from 2016.
*Based on European Structural and Investment Funds allocated during the 2014-2020 budget period. ** Council of Europe Development Bank

7. Implementation Risks

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Risks to the Strategy Implementation	Probability	Effect
The persistence of the COVID-19 crisis diverts government capacity thereby de-prioritising the implementation of reforms	🔴	🔴
The inflow of significant funds under the RRF and MFF and a liquid domestic banking sector reduces the financial additionality of EBRD's investments	🟡	🔴
Local resistance to increase the share of renewables in the energy mix and to implement the corresponding regulation	🟢	🟡
Limited domestic appetite for new capital market instruments	🟡	🟡

Environmental and Social Implications

Assessment and Management of E&S Impacts: Ensure that direct, indirect, cumulative and transboundary E&S impacts of projects and associated facilities are appropriately assessed and mitigated in accordance with EBRD PRs. Consider environmental and social capacity building to ensure adoption of good international practice.

Labour and Working Conditions: Ensure that clients' HR policies and labour practices comply with EBRD requirements, particularly in respect to labour terms and conditions; contractor management; promotion of equal opportunities, managing impacts of collective dismissal, as well as preventing potential discrimination towards minority (12 officially recognised minorities in the country representing 5-10% of the population), migrant/foreign workers (5% of the population) and other vulnerable groups.

Resource Efficiency and Pollution Prevention and Control: Support capacity building initiatives in relevant sectors; ensuring that alternatives are considered to identify investments that support compliance with EU standards and EU Best Available Techniques (BAT), transition to a low carbon and resource efficient economy (including development of wind and solar energy), strengthen resilience to climate change, encourage circular economy and promote greener and more resilient cities.

Health and Safety: Assist in improvement of occupational and community health and safety in projects.

Land Acquisition, Involuntary Resettlement and Economic Displacement: Ensure that any projects requiring acquisition of land comply with compensation and livelihood restoration requirements of the Bank, with particular attention on informal land users and vulnerable groups such as Roma communities.

Biodiversity Conservation and Sustainable Management of Living Natural Resources: Ensure robust biodiversity assessments of projects in sensitive locations are carried out to avoid encroaching or fragmenting sensitive habitats and Natura 2000 sites and minimise impacts to valuable biodiversity (terrestrial protected area coverage = 22% of the country TC funds to raise awareness concerning good international practices with both public and private sector partners may be required.

Cultural Heritage: Work with clients to ensure appropriate assessment processes to identify and consult with key stakeholders to protect tangible and intangible cultural heritage.

Financial Intermediaries: Ensure that FI partners have adequate E&S capacity and risk management procedures in place.

Stakeholder engagement: Promote meaningful stakeholder engagement with project-affected people and interested parties to ensure the participation of groups who might otherwise might not have a voice.

High Medium Low

8. Donor Co-Financing Assessment

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8.1. Needs Assessment for the New Country Strategy Period

Donor funding might be required to support the economic recovery from the Covid-19 crisis through targeted investments and policy engagement, including for:

- Advisory services targeting growth/innovative SMEs, including digital solutions
- Policy reforms required for capital market development, including increasing access to long term financing
- Technical assistance and guarantees for local banks to develop energy efficiency programmes
- Technical assistance to promote the development of renewables.
- Support for greener transport and MEI through private sector and PPP investments, in particular through the Green Cities programme.

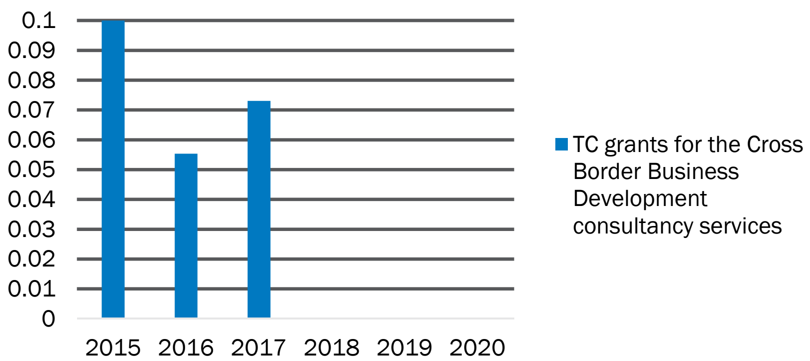
8.2. Potential Sources of Donor Funds

- The **EU** can be an important source of funding in the Czech Republic, most notably via monies allocated through the **European Structural and Investment Funds.** Additional opportunities for funding may also be available under the EU's multiannual financial framework for 2021-2027, including for:
  - Deploying EBRD Financial and Advisory Products under the proposed InvestEU programme, backed by the **InvestEU** Guarantee and Advisory Hub budget, mainly in the areas of sustainable infrastructure research & innovation as well as SMEs;
  - Potential co-financing with **EU Recovery and Resilience Facility** in the green and digital areas; including managing related TC and/or grants for municipal clients or for resource efficiency programmes with financial intermediaries;
  - Funding for technical support to strengthen Czech Republic's institutional and administrative capacity in designing and implementing reforms. Including financial sector/capital markets development through the **Technical Support Instrument managed by DG REFORM**;
  - Funding for initiatives promoting research and innovation in the areas of adaptation to climate change, climate-neutral and smart cities as well as support for breakthrough innovations by SMEs, start-ups and midcap under **HORIZON Europe**.
- As a country more advanced in transition, **the Czech Republic** is expected to contribute with own financing to support investments and policy engagement activities.

Selected Affordability Indicators

GDP per capita (PPP, current. $)[1]	44,296
ODA Country[2]	No

Donor finance 2015-2020 (€m)[4]



1. *Source: WDI (2019 or most recent year)*
2. *Source: OECD (2020)*
3. *2015 data is based on TC commitments, 2016-2020 data is based on earmarks at the project level. The breakdown per transition quality is not available for 2015-2017 data.*

PUBLIC

Annexes

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Annex 1 – Political Assessment in the Context of Article 1

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for Reconstruction and Development

The Czech Republic is committed to and applying the principles of multiparty democracy, pluralism and market economics in accordance with Article 1 of the Agreement Establishing the Bank. The constitutional and legislative framework for a pluralistic parliamentary democracy is in place. The separation of powers and checks and balances in the political system, and guarantees for human rights and fundamental freedoms are largely in line with international and European standards. The media are pluralistic and civil society operates independently. Elections are conducted in a manner deemed by the OSCE to be free and in line with international standards. The Czech Republic has been a member of the European Union since 2004. Some challenges remain in the areas of minorities and corruption.

Free Elections and Representative Government

The Czech Republic has a clear separation of powers enshrined in the Constitution and has a sophisticated set of effective checks and balances. An independent legislature and well-established procedures of legislative oversight are in place and there are established institutional, legal and financial arrangements for elected officials to exercise power to govern free of undemocratic constraints.

The Czech Republic is a parliamentary republic, with the legislative power lying with the bicameral parliament, comprising the 200-seat Chamber of Deputies (the lower house) and the 81-seat Senate (the upper house). Executive power is exercised by the government led by the prime minister and approved by the parliament. The president is directly elected by the public, but has a largely ceremonial role, although the competences include the authority to return legislation to parliament.

The legal framework for elections generally provides a sound basis for the conduct of democratic elections, as assessed by the OSCE Office for Democratic Institutions and Human Rights (OSCE/ODIHR). Elections are competitive and pluralistic; voters have a wide choice of candidates from an extensive spectrum of political parties and candidates are able to campaign freely. The last two elections, the elections to the Chamber of Deputies in 2017 and the presidential election in 2018, were positively assessed by OSCE/ODIHR[1]. However, the ODIHR has recommended further improvements to the legal framework in order to extend voting rights to all voters with disabilities and allow candidates without party affiliation to stand.[2] Furthermore, the OSCE/ODIHR has recommended that the election administration consider restricting elected officials and running candidates from directly serving on election commissions, as well as opening the SEC meetings to the public.[3]

Civil Society, Media and Participation

There is an independent and diverse civil society in the Czech Republic, including a range of voluntary associations, civic groups and social movements. The right to form trade unions is enshrined in law and is respected in practice.

The media environment in the Czech Republic is pluralistic, represents a wide array of political opinions, and operates without censorship. It includes public and private broadcasters. Media ownership is generally transparent. However, the OSCE/ODIHR has recommended that more can be done to strengthen transparency of ownership by legally requiring media companies to publish accurate data on ownership. The OSCE/ODIHR also recommends amending the legal framework to limit media ownership concentration and media cross-ownership by extending the legal framework to print and online media in order to safeguard media pluralism.[4]

There are multiple channels of civic and political participation available in the Czech Republic and the freedom to form political parties and political movements is enshrined in law.[5]

[1] OSCE/ODIHR: Czech Republic Parliamentary Elections 20-21 October 2017, Presidential Election January 2018 Needs Assessment Mission Report 5-7 June 2017.
[2] Ibid., p.1.
[3] OSCE/ODIHR: Czech Republic Parliamentary Elections 20-21 October 2017 Election Assessment Final Report 12 March 2018 p.6.
[4] OSCE/ODIHR: Czech Republic Parliamentary Elections 20-21 October 2017 Election Assessment Mission Final Report 12 March 2018 p.14.
[5] Act on association within political parties and political movements (1991, as amended 2011).

Annex 1 – Political Assessment in the Context of Article 1

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Rule of Law and Access to Justice

Legislative and institutional safeguards for the supremacy of the law are in place. Citizens have the right to a free and fair trial, and are free from arbitrary arrest or detention. The independence of the judiciary is enshrined in the Constitution. A number of justice system reforms that could increase transparency and add further checks on executive power are currently ongoing or in preparation.[6]

The legal and institutional framework to fight corruption is largely in place and a number of relevant reforms have been initiated in recent years. According to the European Commission's 2020 Semester report on the Czech Republic, there have been some improvements in the area of transparency, including with respect to transparency of public procurement. Among the recent anti-corruption measures are the 2018-2022 Anti-Corruption Strategy, adopted in December 2018, and its related action plan approved in March 2019. However, several anti-corruption measures are pending, including the bill on lobbying.[7]

In spite of the progress made in the Czech Republic in in the fight against corruption, corruption remains an issue. According to the European Commission's 2020 Semester report, the transparency of government and the control of corruption fall below the EU average.[8] Transparency International's 2020 Corruption Perceptions Index ranks the Czech Republic 49th out of 180 countries, down from 44th in 2019 and 38th the year before.[9] The Council of Europe's Group of States against Corruption (GRECO) evaluation report for the Czech Republic, published in 2016, states that corruption and weak anti-corruption measures have long been a serious public policy problem.[10] The most recent GRECO interim compliance report published in 2020 concludes that the current low level of compliance with the recommendations contained in the Fourth Round Evaluation Report is "globally unsatisfactory".[11] The European Commission's 2020 Rule of Law Report references ongoing investigations and audits, including high-profile cases, into potential conflict of interest and the irregularities in the use of EU funds.[12]

Civil and Political Rights

Basic freedoms and rights of citizens are enshrined in the Constitution and upheld in practice. The 2009 Antidiscrimination Act provides for equal treatment regardless of sex, race, age, disability, belief, or sexual orientation. Constitutional guarantees against harassment, intimidation, and torture are in place and are upheld in practice.

The OSCE recommends that the Czech Republic should improve the political inclusiveness of women, specifically by creating initiatives to ensure more women are included on candidate lists in elections, especially in winnable positions.[13]

People with mental disabilities are excluded from the voter lists in the Czech Republic, which is at odds with the UN Convention on the Rights of Persons with Disabilities (CRPD). The Roma minority continues to face prejudice and discrimination, particularly in education. The Council of Europe's Commissioner for Human Rights submitted to the Committee of Ministers in 2020 that broader measures were needed in the Czech Republic to improve the inclusion of Roma children in mainstream education.[14] According to the joint report on the Czech Republic by the European Commission against Racism and Intolerance (ECRI) and the Council of Europe, the Czech authorities have shown willingness to take measures to better integrate Roma. For example, the government's Agency for Social Inclusion is providing support to municipalities that are interested in improving the situation of Roma residents.[15]

[6] European Commission: 2020 Rule of Law Report, Country Chapter on the rule of law situation in Czechia, 2020, pp. 2-4.
[7] European Commission: 2020 European Semester Country Report Czechia, 26 February 2020, p. 42.
[8] Ibid., p. 6.
[9] Transparency International (2020): Corruption Perceptions Index 2020.
[10] GRECO (2016): Fourth Evaluation Round: Corruption prevention in respect of members of parliament, judges and prosecutors Evaluation Report p.3.
[11] GRECO (2020) Fourth Evaluation Round Interim Compliance Report Czech Republic p.14.
[12] European Commission: 2020 Rule of Law Report Country Chapter on the rule of law situation in Czechia, 2020 p.8.
[13] OSCE/ODIHR: Czech Republic Parliamentary Elections 20-21 October 2017 Election Assessment Mission Final Report 12 March 2018 p.19.
[14] Council of Europe: Rule 9 Submission by the Council of Europe Commissioner for Human Rights, 22 October 2020.
[15] European Commission against Racism and Intolerance/Council of Europe: ECRI Report on the Czech Republic (sixth monitoring cycle), 8 December 2020.