Audit Report

20/13

Investment Incentives

The audit was included in the audit plan of the Supreme Audit Office (the "SAO") for 2020 under number 20/13. The audit was managed and the audit report drawn up by SAO Member Mr. Adolf Beznoska.

The audit's objective was to examine whether the system of providing investment incentives targeted at foreign and domestic entities had been generating the claimed benefits and whether evidence existed of those benefits.

The audit was conducted at the audited entities between June and December 2020.

The audited period was the years 2017–2019 and also, where relevant, the preceding period and the period up to the date of the audit.

Audited entities:
Ministry of Industry and Trade (the "MoIT");
The CzechInvest Business and Investment Development Agency ("CzechInvest").

The ***Board of the SAO*** at its 4th session held on 22 February 2021

issued Resolution No 11/IV/2021 approving

the ***Audit Report*** as follows:

Investment Incentives

The purpose of investment incentives is to promote economic development and create jobs in the Czech Republic.

955
Investment incentives promised from 2000 to September 2020

more than
CZK 75 billion
Volume of investment incentives drawn between 2000 to 2019

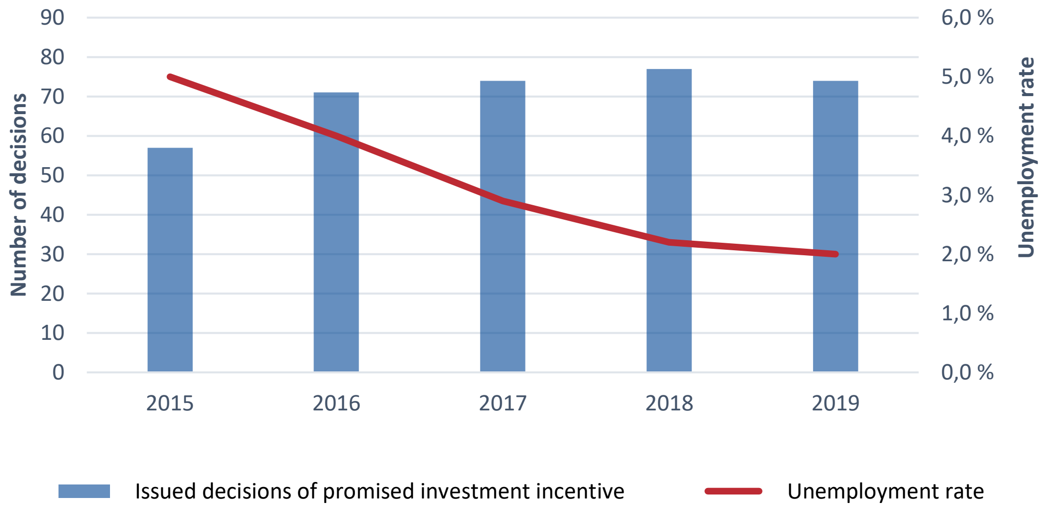
85%
Share of investment incentives drawn as income tax rebate in total volume drawn

The vast majority of investment incentives were received in the processing industry.

96%
Investment incentives in the processing industry since 2012

4%
Investment incentives in technology centres and centres of strategic services since 2012

The unemployment rate was falling, but the number of promised investment incentives was not.



I. Summary and Evaluation

The SAO examined the practice of the MoIT and CzechInvest Agency in providing investment incentives to domestic and foreign entities, the investment incentives' benefits claimed and their evaluation.

In the Czech Republic investment incentives have been provided since 1998 and this practice has been regulated in the investment incentives act[1] (also as the "Act") since 2000. The MoIT promised 955 investment incentives between 2000 and September 2020. The investment incentives' beneficiaries drew more than CZK 75 billion between 2000 and the end of 2019[2]. Most funds (more than CZK 64 billion) were drawn as income tax rebate investment incentives.

Although the unemployment rate in the Czech Republic was declining between 2015 and 2019, the number of the investment incentives promised was not and was rising until 2018. The SAO holds that the need for granting investment incentives in a period of low unemployment rate was not supported by evidence.

The vast majority of investment incentives were granted by the MoIT for investment projects in the processing industry, an industry to which no duty to generate higher value added was applied[3]. In September 2019[4] the Act conditioned the granting of investment incentives on the generation of higher value added. After this more stringent rule was adopted, the interest in investment incentives reported a major drop.

Acting on the requirement of the European Commission[5], the MoIT has been since 2014 outsourcing evaluation reports on the investment incentives granted. These reports did not include anything about the fulfilment of the specific sub-objectives defined. As a result, the SAO holds that these reports failed to give any overall picture about how the investment incentives had contributed to the defined objectives in terms of developing the Czech economy and creating jobs in the Czech Republic.

The overall assessment is based on the following audit findings:

1. The Investment Incentives Act took effect on 1 May 2000. Eight years later, the MoIT proposed to the Czech government, in reliance on an analysis by the Prague University of Economics and Business, that investment incentives granted under the Act should be

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[1] Act No 72/2000 Coll., on investment incentives and amendments to certain acts (the Investment Incentives Act).

[2] This amount does not include the income tax rebate investment incentives granted for 2019 because these incentives may not be claimed by beneficiaries until next taxable period, and the MoIT had not yet had available any 2019 income tax rebate data by the time of the SAO's audit.

[3] Please refer to Chapter IV(2) of this Audit Report and to Section 3 of Government Decree No 221/2019 Coll., on the implementation of certain provisions of the Investment Incentives Act, for a general and a detailed higher value added specification, respectively.

[4] Act No 210/2019 Coll., amending Act No 72/2000 Coll., on investment incentives and amendments to certain acts (the Investment Incentives Act), as amended, and Act No 435/2004 Coll., on employment, as amended.

[5] Commission Regulation (EU) No 651/2014 of 17 June 2014 declaring certain categories of aid compatible with the internal market in application of Articles 107 and 108 of the Treaty.

terminated. The Czech government did not approve the proposal and the Act was not repealed.

2. From 2000 investment incentives had only been available to the processing industry. Since 2012 investment incentives have been available also to technology centre and centres of strategic services. Yet most interest in receiving investment incentives was shown in the processing industry without any duty to implement investment projects as part of activities that generated higher value added.

3. The condition to implement investment projects as part of activities that generate higher value added had not become part of the Investment Incentives Act until 6 September 2019.

4. Within one year of when the duty to generate higher value added was introduced, that is, between 6 September 2019 and 10 September 2020, CzechInvest received 11 investment incentive applications. In previous years, CzechInvest was receiving 75 applications a year on average.

5. Prior to September 2019 the Act did not permitted that the MoIT could respond to low unemployment rate when granting investment incentives. If the applicant fulfilled the statutory conditions, and if the approval from the Czech government was obtained (in the case of strategic investment projects[6]), the applicant obtained the promise. Since 6 September 2019 any investment incentive has been subject to governmental approval and the government has defined in a decree[7], taking account of several aspects including the unemployment rate development, for what types of investment incentive the MoIT may give promise.

6. The amount of the investment incentives drawn was each year monitored by the MoIT. The highest amounts were drawn in 2008, 2012, 2014 and 2017, when beneficiaries drew more than CZK 5 billion.

7. The investment incentive evaluation reports by an outside company were published by the MoIT by the dates as required by the European Commission. However, the SAO holds that the evaluation reports did not include any assessment of how specifically the investment incentives granted had contributed to the fulfilment of the set objectives. For example, no information was provided as to the number of the jobs actually created.

8. The sources of the data for the evaluation reports included questionnaires that the outside company had sent to the beneficiaries of the investment incentives. Contrary the Act, the MoIT did not request the beneficiaries to provide data on the progress of their investment projects and on the actual amount of aid they had drawn. The MoIT had left this matter entirely for the outside company. Not all beneficiaries provided the data.

[6] Strategic investment project had been exactly defined in Section 1a(1)(d) of the Investment Incentives Act until 5 September 2019 whereas the definition applicable since 6 September 2019 is incorporated in Section 5 of Government Decree No 221/2019 Coll.

[7] Government Decree No 221/2019 Coll., on the implementation of certain provisions of the Investment Incentives Act.

9. Between 2000 and 2020, the beneficiaries planned to make investments with investment incentive support in the amount of CZK 700 billion and the plans counted on creating 137,000 new jobs. In reality, however, beneficiaries were only obliged to meet the minimum investment volume amount or the minimum new jobs as laid down in the Act or Government Decree No 221/2019 Coll., rather than accomplish the values the beneficiaries had planned.

10. The evaluation prepared in 2020 showed that large Czech enterprises had prevailed in the 289 investment incentive beneficiaries from the period between 2014 and 2019.

11. The evaluation also showed that the MoIT failed to assess how investment incentives impacted the entrepreneurs which had received no incentive aid.

12. With the arrival of the aid-receiving companies, additional state budget expenditures were generated in regions. The MoIT failed to monitor the amount of these expenditures and failed to include them in the state budget expenditures on investment incentives.

13. In a selected sample of 16 investment incentives, the SAO found no formal errors on the part of either CzechInvest or the MoIT.

II. Information on the Audited Area

In the Czech Republic investment incentives have been in place **since 1998**, when Czech Government's Decree No 298[8] of 29 April 1998 was passed, which had provided for the granting of investment incentives to be adopted in legislation. **Since 1 May 2000** the granting of investment incentives has been regulated in **the Investment Incentives Act,** which sets out the forms of investment incentives, the conditions and practices for granting investment incentives and the related execution of state administration.

Investment incentives are designed for domestic and foreign investors of any size and legal form in the Czech Republic. **The beneficiary** is a legal entity or private individual that is issued a **decision of promised investment incentive** by the MoIT.

The Investment Incentives Act falls within the competence of **the MoIT, which**, in cooperation with other authorities and entities concerned, assesses applications and **issues decisions of promised investment incentive**. The MoIT supervises compliance with the maximum permissible public aid limit as laid down in the EU's rules. The MoIT is the **provider of investment incentives** in the form of material aid for the acquisition of tangible and intangible fixed assets **for strategic investment projects.**

The **CzechInvest Agency,** a state contributory organisation subordinate to the MoIT, is the entity authorised by the Investment Incentives Act to receive intents for investment incentive and to make assessments of the intents received.

[8] Resolution of the Government of the Czech Republic No 298 of 29 April 1998, *on the proposal for investment incentives for investors in the Czech Republic*.

Other bodies and entities affected by the Act are the Ministry of Labour and Social Affairs, the Ministry of Finance, the Ministry of Agriculture, the Ministry of the Environment and community authorities.

The Act provides that investment incentives are public aid in the form of:

1. Income tax rebates
2. Transfers of land (including the related infrastructure) at a discounted price
3. Material aid for creating new jobs
4. Material aid for employee retraining or training
5. Material aid for the acquisition of tangible or intangible fixed assets for strategic investment projects
6. Exemption from real estate tax in preferential industrial zones[9].

In 2000 investment incentives started to be **only limited to the processing industry. In 2012** the Act made investment incentives available **also to technology centres[10] and centres of strategic services[11]**.

If the MoIT's decision of promised investment incentive promises material aid, an **agreement of granted material aid** is entered into between the beneficiary and pertinent state body. If the investment incentive takes the form of material aid for the **acquisition of tangible or intangible fixed assets**, the beneficiary enters into an **agreement with the MoIT**, which also is the payer for that aid. For **material aid for creating new jobs** and material aid for employee retraining or training, the beneficiary enters into **an agreement with the General Directorate of the Labour Office of the Czech Republic** and the investment incentive is paid from the budget of the Ministry of Labour and Social Affairs.

Investment incentives are a **form of public aid.** They are classified under regional investment aid, except for investment incentives in the form of material aid for employee retraining or training, which fall under the category of education and training aid. The **map of regional aid** for the Czech Republic was approved in the **European Commission**'s decision of 4 February 2014. For the period 2014–2020, the European Commission passed a **maximum public aid share at 25% of eligible costs** for all NUTS 2 regions (except Prague, which is excluded from regional public aid because of its high level of development) as from 1 July 2014.

[9] These are the Ostrava-Mošnov strategic industrial zone, the Holešov strategic industrial zone and the SPZ Joseph strategic industrial zone near Most. These three strategic industrial zones were approved as preferential industrial zones in the Resolution of the Government of the Czech Republic No 537 of 8 July 2015, *on the proposal for "preferential industrial zones" established under Act No 72/2000 Coll., on investment incentives and amendments to certain acts, as amended*.

[10] The focus of technology centre is applied research, development and innovation of technically or otherwise advanced products, technologies and production processes.

[11] Centre of strategic services may take the form of a software development centre with emphasis on developing new software or upgrading existing software, a data centre with emphasis on storing, sorting and management data, a repair centre with emphasis on repairing high-tech devices, or a centre of shared services with emphasis on taking the management, operation and administration of internal operations over from the controlling or controlled entity or from contracting parties the objects of business of which do not cover those internal operations.

Compared to the other V4 countries, the Czech Republic has the lowest permitted level of public aid:

V4 Country	Level of Public Aid
Czech Republic	25%
Slovakia	25–35%
Hungary	25–50%
Poland	25–50%

Public aid grants as investment incentives are permitted by the European Commission on the basis of the **block exemption**[12], which is regulated in Commission Regulation (EU) No 651/2014. As a result of this Regulation, the MoIT had to make *the Plan for Evaluating State Aid under the General Block Exemption Regulation: Investment Incentives in the Czech Republic* (the "**Evaluation Plan"**), which was approved for the period until 31 December 2020 by the European Commission in its decision of 10 December 2014. **The Evaluation Plan defines:** the goals of aid; evaluation questions; indicators for outputs, results and impacts; the methodology guidance for the making of the evaluation reports; the data collection method; the timetable for submitting each evaluation report; the determination of the evaluator; and how evaluation should be published.

The Evaluation Plan provides that investment incentives should be evaluated by an entity independent of the MoIT. In accordance with this requirement, the MoIT made a contract with a private outside company on 11 November 2015 and commissioned that company to prepare and make evaluation reports in accordance with the Evaluation Plan.

III. Scope of Audit

The **MoIT**'s practices audited in the sample were the practice in issuing decisions of promised investment incentive, the practice in observing the public aid rules, and the practice in laying down the duty to preserve the assets and jobs supported through investment incentives. **At the system level**, the audited practices were the practice in examining how each beneficiary complied with the defined conditions; the evaluating of investment incentives on the basis of a request from the European Commission; and the fulfilling of the investment incentives' goals and their impact on the labour market and state budget.

[12] Since 2008 investment incentives have been permitted under a block exemption in accordance with Commission Regulation (EC) No 800/2008 of 6 August 2008 declaring certain categories of aid compatible with the common market in application of Articles 87 and 88 of the Treaty (General Block Exemption Regulation), and since 2014 in accordance with Commission Regulation (EU) No 651/2014 of 17 June 2014 declaring certain categories of aid compatible with the internal market in accordance with Articles 107 and 108 of the Treaty.

CzechInvest's practices audited in the sample were the practice in accepting intents for investment incentive and the practice in assessing these intents. Both the MoIT's practices and CzechInvest's practices were audited on the same sample of **16 investment incentives promised**, in respect of which the MoIT issued decisions of promised investment incentive between 2016 and 2020.

The volume audited with the MoIT at **system review** amounted to **CZK 49,536 million,** which was the total volume of the investment incentives promised for which the MoIT issued decisions of promised investment incentive between 1 July 2014 and 30 October 2020. The **total of CZK 5,435 million** was the volume audited **in the sample at both the MoIT and CzechInvest**. The audited volume was determined as the sum of the maximum public aid set in the decisions of promised investment incentive.

IV. Detailed Facts Ascertained by the Audit

1. MoIT's proposal to repeal the Act not passed

The granting of investment incentives has been regulated by law since 1 May 2000. In 2007 the MoIT commissioned the **Prague University of Economics and Business** to make an analysis of investment incentives. This analysis showed that incentives had been most obtained in the regions with the highest GDP per capita, which fact **broadened the gap between the most and the least developed regions rather than make the gap narrower**. Also, employees tended to move from other companies in the same industry, which resulted in no effect on reducing the unemployment rate. The analysis also concluded that: **revenues did not exceed total expenditure;** investment incentives **distorted the market** by favouring large, usually foreign companies by providing them with market advantages at the expense of small and medium-sized companies; and most investment came from **low value-added sectors**, where no major innovations were generated.

In response to the aforesaid analysis, **the MoIT communicated to the Czech government in 2008 that the Investment Incentives Act should be repealed** and aid should be targeted at technology centres and centres of strategic services supported through *the Framework Programme to Support Technology Centres and Centres of Strategic Services.* In April 2008, the Czech government passed a resolution[13] to approve the MoIT's plan to terminate investment incentives granted under the Act and delegated the industry and trade minister to draft a bill that should repeal the Investment Incentives Act. However, in January 2009[14] the pertinent parts of the resolution were repealed by the government and the **Act was preserved as a result.**

[13] Resolution of the Government of the Czech Republic No 445 of 21 April 2008, *on a design to make changes to the investment incentive system*.

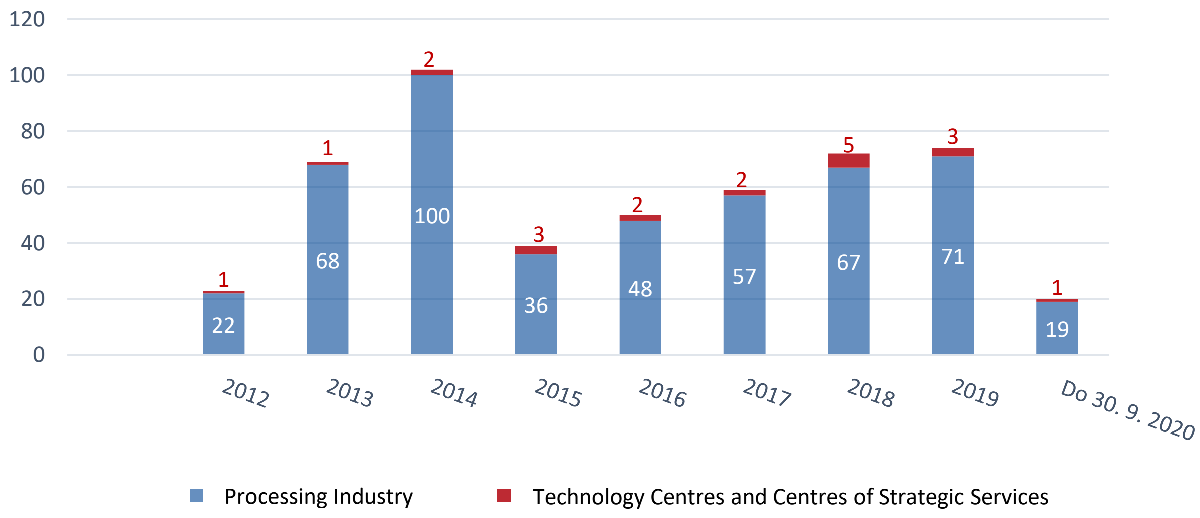
[14] Resolution of the Government of the Czech Republic No 105 of 26 January 2009, *on a bill to amend Act No 72/2000 Coll., on investment incentives and amendments to certain acts (the Investment Incentives Act), as amended, and Act No 435/2004 Coll., on employment, as amended.*

2. Prevalence of investment incentives into processing industry without higher value added

Between 2000 and the end of September 2020, the MoIT issued a total of **1,265** decisions of promised investment incentive. Validity was cancelled or expired in respect of **310** issued decisions of promised investment incentive (at the request of the company because of changes to strategy, for example). Consequently, as at 30 September 2020, the MoIT reported **955** valid decisions of promised investment incentive that had been issued in or after 2000, of which **508** were issued in or after 2012.

Since 2012, the year when investment incentives became available to not only the processing industry but also **technology centres and centres of strategic services**, the MoIT has issued a total of 36 decisions of promised investment incentive for those centres. Validity was cancelled or expired in respect of 16 decisions. Consequently, as at 30 September 2020, the MoIT reported **20 valid decisions of promised investment incentive for technology centres and centres of strategic services,** i.e. 4% of the total of 508 decisions valid and issued in or after 2012. The remaining 488 decisions, i.e. **96%, were issued by the MoIT for the processing industry.**

Chart 1: Valid decisions of promised investment incentive as at 30 September 2020 (issued between 2012 and 30 September 2020)



Source: Made by the SAO using data from the MoIT.

Until September 2019, the Act had not permitted that the MoIT's decisions of promised investment incentive give preference to such activities in the processing industry that, for example, employed labour force with higher qualification, conducted research and development or collaborated with research organisations.

3. Introducing the higher value-added duty

It was **not until 6 September 2019** that a new general condition in respect of granting investment incentives was added to the Act, that is, the **requirement that the investment project must be part of a higher value-added activity**. Higher added value is defined in Government Decree No 221/2019 Coll., which provides that higher value-added activities in the processing industry are those where a minimum of 80% of the beneficiary's employees have an average gross monthly pay no lower than the average gross monthly pay as paid in the region where the investment project is to be implemented, and the investment incentive's beneficiary fulfils the conditions related to research and development (making a contract of collaboration with a minimum of one research organisation, a minimum of 2% of R&D employees out of all employees or acquiring machinery that will prevailingly be employed in research and development). Until that date, **vast majority of investment incentives were received in the processing industry without any duty to implement investment projects as part of activities that generated higher value added.**

In Regulation No 221/2019 Coll., the government has laid down that beneficiaries are **not required to carry out a higher value-added activity** if the entire investment project is implemented **on the territory of a state-aided region**[15] defined in a law that regulates regional development aid. Between 6 September 2019 and the end of September 2020, the MoIT submitted to the government a single proposal for approving a manufacturing investment incentive which was applied for after 6 September 2019; and the government approved[16]. The applicant had chosen to implement his investment project in a state-aided region and was therefore not subject to the duty to conduct a higher value-added activity. **Consequently, by the end of September 2020, the MoIT had not issued any decision of promised investment incentive for the processing industry with the duty to implement the investment project as part of a higher value-added activity.**

4. New duty to generate higher value added has resulted in lower interest in incentives

Within a single year from the amended Act taking effect and introducing the duty to generate higher value added (i.e. in the period from 6 September 2019 to 10 September 2020), CzechInvest received **11 intents** for investment incentive. In 2019, it was only a single intent out of a total of 76 intents filed, and 10 intents in the year 2020.

[15] For the period 2014–2020 period, these are economically problematic regions, which are comprised of the territories of 57 municipalities with extended powers. These regions are defined by the Ministry of Regional Development on the basis of Act No 248/2000 Coll., on regional development aid. The Czech government has delegated the MoIT to favour these regions for public aid programmes.

[16] Resolution of the Government of the Czech Republic No 767 of 20 July 2020, *on approving an investment incentive for Shimano Czech Republic, s.r.o.*

Table 1: Intents for Investment Incentive as Received by CzechInvest

Year	2015	2016	2017	2018	2019	1 January to 10 September 2020
Intents	67	81	83	69	76*	10

Source: CzechInvest annual reports for the years 2015 to 2019 and data from CzechInvest.
*Of which 75 intents received by 5 September 2019 and one intent received after 6 September 2019.

Between 2015 and 2019, CzechInvest received an **average of 75** intents for investment incentive each year. Comparing the number of the intents received between 2015 and 2019 to the number of the intents received within one year of the amended Act taking effect on 6 September 2019, it is clear that the requirement of generating higher value added **resulted in lower interest in investment incentives.**

5. Investment incentives were provided in spite of low unemployment rate

In the meaning of Section 1(1) of the Investment Incentives Act, the purpose of granting investment incentives is to support economic development and job creation in the Czech Republic. **Between 2015 and 2019, the unemployment rate in the Czech Republic was declining.** Whereas the 2015 unemployment rate was 5%, the 2019 rate was just 2%. Declining unemployment rate was reported in all regions of the Czech Republic. In addition, the number of jobseekers registered with the labour offices per job was significantly declining starting from 2014. Whereas in 2015 one job had four jobseekers, it was less than a single jobseeker in 2019. **Yet no significant decline in the decisions of promised investment incentive was reported; on the contrary, the number of these decisions was rising until 2018.**

Table 2: Unemployment and Issued Decisions of Promised Investment Incentive

	2015	2016	2017	2018	2019
Unemployment rate (%)	5.0	4.0	2.9	2.2	2.0
Jobseekers registered with the labour offices per job registered by labour offices	4.4	2.9	1.3	0.7	0.6
Issued decisions of promised investment incentive	57	71	74	77	74

Source: Made by SAO using data published by the CSO and provided by the MoIT.

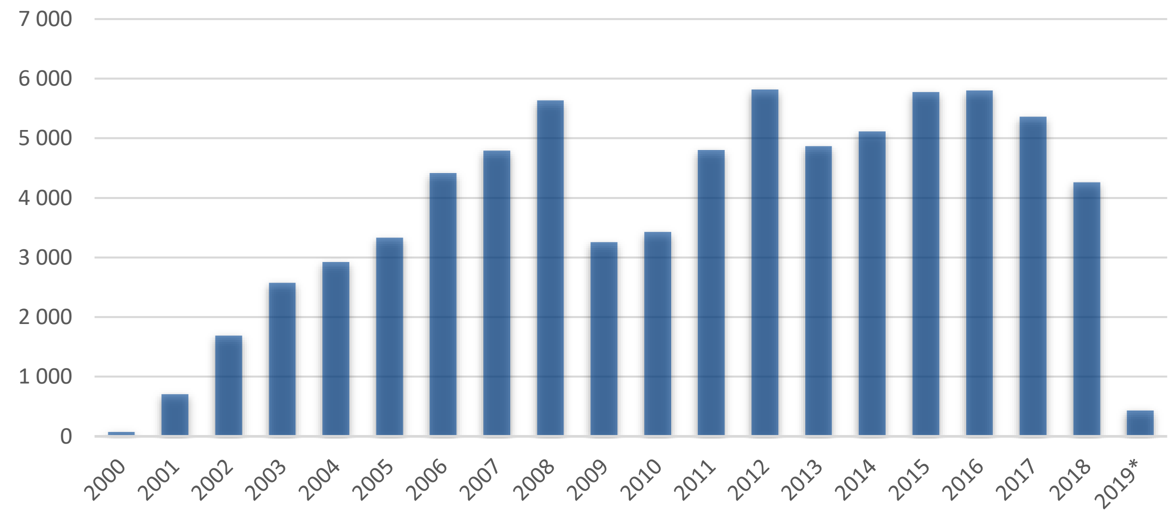
Since 2000, the basic legal rule for the entire investment incentive system has been the Investment Incentives Act, which did not permit that the MoIT could make any choices in the intents received, such as favouring preferred investment projects. In compliance with the Act, the MoIT issued a decision of promised investment incentive to **any applicant** that met the conditions laid down in the Act and those in the regulation of the European Commission. For strategic investment projects, an approval from the Czech government was required prior to issuing the decision of promised investment incentive. **Since September 2019, the MoIT must submit all investment incentives to the Czech government for approval** and no decision of promised investment incentive may be issued without the government's approval.

The Act permitted that the MoIT could promise less stringent conditions[17] for applicants in regions with increased unemployment rate. **However, the Act did not permit that the MoIT could respond to low unemployment rates** by regulating or limiting investment incentives if unemployment rate was declining. It was **not until 6 September 2019** that the Act started to permit responding flexibly to various aspects, such as unemployment rate developments. A new provision has been introduced to the Act, providing that the Czech government determines in a resolution, using an analysis of the **developments** in economy, industry and **unemployment**, for which types of investment projects the MoIT may grant investment incentives.

6. Income tax rebate as the most common form of incentive

The MoIT monitored how investment incentives were drawn each year. Between 1 May 2000, when the Act took effect, and 31 December 2019, **beneficiaries drew more than CZK 75,071 million**, of which more than CZK 64,014 million was drawn as income tax rebate. In this case, the amount is unrealised tax income for the state budget rather than expenditure from the state budget.

Chart 2: Investment Incentives Drawn between 2000 and 2019 (CZK million)



Source: Made by SAO using data from MoIT.

* The data for 2019 are not complete because the data on the investment incentives drawn in 2019 as income tax rebate were not available to the MoIT at the time of the SAO's audit.

[17] Until 5 September 2019, Section 2 of the Investment Incentives Act permitted reducing the required minimum investment amount from CZK 100 million to 50 million if the entire investment project in manufacturing was to be implemented in an administrative district with an unemployment rate higher by 50% or more than the average unemployment in the Czech Republic.

7. Evaluation of Investment Incentives

As required by the European Commission, the MoIT was to prepare evaluation reports for the period from 1 July 2014 to 31 December 2020. Each evaluation report was **prepared and published**[18] by the MoIT by the dates **in accordance with** the European Commission's requirements. The collection of relevant data, the evaluation and the making of the evaluation reports were commissioned by the MoIT to an outside company.

Between 2016 and 2020, the outside company produced and the MoIT published five annual evaluation reports, one mid-term evaluation report and one final evaluation report. The MoIT paid a total of CZK 1,427,800 to the outside company for the preparation of these evaluation reports. These reports evaluated those investment incentives for which the decision of promised investment incentive was issued by the MoIT on or after 1 July 2014. The final evaluation report, prepared in 2020 with the use of the data from 2014 to 2018, **was sent by the MoIT to the European Commission in June 2020.** For the year 2021 the MoIT is required to submit the second version of the final evaluation report that is to include the data for the years 2019 to 2020.

The **goal for investment incentives** as specified by the **MoIT in the Evaluation Plan** is support of economic development and the creation of jobs in the Czech Republic; this goal is also mentioned in the Investment Incentives Act. In addition, the MoIT also specified **concrete objectives,** namely: eliminate disparities between the country's well-developed and less developed regions; reduce the inter-regional gaps in unemployment rates by creating new jobs; support the creation of new jobs that require better qualification; support the economic development in the Czech Republic through investment projects aimed at advanced technologies and activities with high value added and high export potential, and better international competitiveness of the Czech Republic in innovations, information technologies and strategic services.

The SAO holds that the existing **evaluation reports fail to give any evaluation** as to how much the investment incentives granted made any specific contribution to the fulfilment of the above-mentioned objectives. The **SAO recommends** that the **MoIT ensures** that the outside company's final report is supplemented with information as to, for example, how many investment projects were supported in the state-aided regions; how much the aided companies actually invested in the Czech Republic; how many jobs were actually created and how qualification-intensive they are; how many of these jobs were filled with jobseekers; or what the exporting potential was of the companies which had received aid. This information can be obtained through a questionnaire survey.

[18] See https://www.mpo.cz/cz/podnikani/dotace-a-podpora-podnikani/investicni-pobidky-a-prumyslove-zony/investicni-pobidky/hodnoceni-systemu-investicnich-pobidek--223090/.

8. The MoIT failed to make sure that data for evaluation are received from all beneficiaries

The **MoIT failed to make use of the opportunity provided in Section 6a(8) of the Act** and did not ask beneficiaries to submit information as to the progress of their investment projects and the amount of funds actually drawn. The data from beneficiaries for the evaluation reports **were collected by the outside company through its own questionnaire survey.** However, an **average of 20%** of the companies contacted **did not complete** the questionnaire each year. Moreover, the final evaluation report prepared in 2020 relied on data in which data for **almost 40%** of the companies surveyed **were missing.** The questionnaire was completed and returned just by 177 out of the total of 289 companies which had received aid and were sent the questionnaire for completion.

Therefore, the MoIT, as the provider of the aid, failed to make sure to obtain complete data from beneficiaries through questionnaires for evaluating the investment incentives. **The SAO recommends that the MoIT make use of the opportunity provided in the Act and ask directly the beneficiaries to provide their data.**

9. The MoIT failed to monitor whether and how expected benefits of investment projects were accomplished

In their intents the applicants had to and did **specify the benefits they expected** to be generated by their investment projects and these benefits were expressed as the amount invested in fixed assets and the number of new jobs expected to be created. The MoIT had a list of all the aid-receiving companies and of all the benefits expected. However, the beneficiaries were only **obliged to meet the minimum values** as set out in the Act, or Government Decree No 221/2019 Coll. where applicable, rather than achieve the values they expected.

What was audited by the MoIT with the beneficiaries was whether the actual investment made and the number of new jobs had amounted to the minimum values. **Comparing the actual values to the expected values was beyond the MoIT's duty and the MoIT thus made no such comparisons.** The MoIT was bound by no duty to monitor how many new jobs were filled with the jobseekers registered with labour offices.

10. Most beneficiaries were large Czech companies

In 2020, the MoIT reported 305 decisions of promised investment incentive that were issued for 289 companies between 1 July 2014 and 31 December 2019. The evaluation report made in 2020 observed in respect of those beneficiaries that **large companies** significantly **prevailed** over small and medium-sized business (241 large companies out of the total of 289 companies), **Czech companies** significantly **prevailed** – measured by applicant's country of origin (251 companies out of total 289 companies were from the Czech Republic), and most investment projects were situated in the **Moravskoslezký Region**, the **Ústecký Region**, the **Středočeský Region** and the **Plzeňský Region**. The absolute majority of beneficiaries applied for an investment incentive **in manufacturing** (290 out of 305 investment projects were for manufacturing), with **three** CZ-NACE **industries prevailing**: CZ-NACE 29 (manufacture of motor vehicles (except motorcycles), trailers and semi-trailers), CZ-NACE 25 (manufacture of metal structures and fabricated metal products, except machinery and equipment), and CZ-NACE 22 (manufacture of rubber and plastic products).

Out of total 289 companies which received aid in 2020, the questionnaire was completed and returned by 177 companies. The questionnaire survey showed that: **49%** of them would have implemented their projects in the Czech Republic to more or less the same extent even without the investment incentive; **81%** of them had been operating on the Czech market for ten years or longer; **52%** of them had had their projects under way but had not yet started to draw funds; **20%** of them had been in intensive collaboration with universities or research organisations; and **80%** of them had been employing a share of agency workers that accounted for less than one tenth of their total employees.

11. Impact on other entrepreneurs

The evaluation reports evaluated how much the aided companies had been collaborating with home suppliers. For example, the final evaluation report concludes that in 2019, out of the 177 aided companies, **70% did business** with suppliers coming from the same region of the Czech Republic, **13% did business** with suppliers coming from other regions of the Czech Republic, and **17% did business** only with suppliers outside the Czech Republic and with no suppliers coming from the Czech Republic.

The evaluation reports **do not reveal whether or not** there were any **transfers of employees** between the companies which had received aid and those which had not and **whether or not any non-aided company** operating in the same industry as the aided companies **ceased to exist in the region**.

12. Other related state budget expenditure in regions

Some companies which received investment incentive implemented their investment projects in state-supported industrial zones, which generated additional related expenditure. For example, in 2015, the development of the existing ŠKODA AUTO a.s. plant in the Solnice-Kvasiny industrial zone generated significant expenditure from the state budget as a result of having to **build public and transport infrastructures**[19]. Additional expenditure from the state budget was generated in the same industrial zone in 2017 as a result of having to **allocate more Police for the locality**, raise their initial salary and intensify auditing in respect of employment and accommodation of foreign nationals[20]. The **MoIT was not obliged to monitor, and did not monitor,** the amount of the state budget **expenditure** on addressing the above-mentioned examples and any other issues that occurred in connection with the operations of the beneficiaries of the investment incentives in regions.

[19] Resolution of the Government of the Czech Republic No 97 of 9 February 2015, *on the proposal to ensure investment preparation for the project Expansion of the Solnice-Kvasiny Strategic Industrial Zone and Improvement of Public Infrastructures in the Hradec Králové Region*.

[20] Resolution of the Government of the Czech Republic No 162 of 27 February 2017, *on Measures to Address Security and Public Order in Industrial Zones and their Vicinity in connection with High Numbers of Foreign Employees.*

13. No formal error identified in the sample

Having examined the sample of 16 promised investment incentives for which the MoIT issued decisions of promised investment incentive between 2016 and 2020, the SAO concludes that **CzechInvest's practices** in accepting and assessing intents were **in accordance with** the Investment Incentives Act. It has also been verified **in respect of the sample** that the **MoIT's practices** in issuing decisions of promised investment incentive were **in accordance with** the Act and with Commission Regulation (EU) No 651/2014 and that the **MoIT's practices** in observing the rules for public aid were **in accordance with** Government Decree No 596/2006 Coll.[21]

The Act laid down that the **assets and jobs** for which the investment incentive was granted **had to be preserved by the beneficiary where the investment project was implemented**. Specifically, the assets had to be preserved for the duration of the investment incentive but no shorter than **five years** of the completion of the investment project, and the jobs for a period no shorter than five years of the date of the first employment contract for each new job position. It has been verified in the sample of 16 decisions of promised investment incentive that the **MoIT did specify that duty as one of the requirements** for drawing investment incentives by beneficiaries.

[21] Government Decree No 596/2006 Coll., which sets out the permissible level of public aid in the cohesion regions of the Czech Republic, as amended by Government Decree No 118/2014 Coll. and Government Decree No 100/2015 Coll.