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MODERN ECONOMIC DIPLOMACY



Ministry of Foreign Affairs
of the Czech Republic

**SPECIAL
EDITION**



CZECH ECONOMIC DIPLOMACY: ONE TEAM, ONE MISSION



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Minister Martin Tlapa

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Dear Readers,

I am very pleased that recently the term “economic diplomacy” has taken on a very specific form in Czech conditions. This is because together we managed to introduce a number of new features and bring them closer to the needs of Czech entrepreneurs. I understand modern Czech diplomacy as a service of the State to citizens and companies in the promotion of Czech national interests. The fact that we are actively working with more than seven hundred exporters is a sign that the companies trust us.

At the same time each year I can talk about the improved conditions of our exports and our economy as such. Just to illustrate, in 2016 our daily exports amounted to nearly 11 billion Czech crowns, indicating an increase of 85 percent above what it had been 10 years ago. Last year the Czech Republic outreached a 1 percent share in world trade for the first time in history. The confidence of citizens and companies in the Czech economy is increasing and the overall mood in society is much better than it had been 4 years ago and the values of our exports indicate that we have a lot of skilled companies in the Czech Republic that are not afraid to export.

The main task in the area of state export support for us in the future will be the efficiency of the functioning of our ministries and agencies. Abroad, we should be acting in concordance and confidently as one team – the “Team Czechia”. From examples from abroad we can see that we need to multiply our efforts in one joint effort. I am convinced that there is a lot of work ahead for us that should not be postponed. I wish that this journal was not just a source of valuable information from various areas of economic diplomacy, but rather that it should ignite broad discussion on how to improve the state services effectively. I will be delighted if you accept our invitation for our journey together.

Martin Tlapa
Deputy Minister for Foreign Affairs



An interview
with Deputy Minister Martin Tlapa

PROMOTION OF ECONOMIC INTERESTS CALLS FOR BETTER TEAM PERFORMANCE



Modern economic diplomacy is more flexible and interconnected to the activities of many different players. It has become more powerful, says Deputy Minister for Foreign Affairs Martin Tlapa. Representatives of state institutions in economic diplomacy must work more intensively with companies, provide them with what they need and omit what entrepreneurs and their representatives can organise themselves.

This interview will be published in the Modern Economic Diplomacy magazine. How do you imagine modern economic diplomacy?

Above all, it must be effective, lean, inexpensive and efficient. The concept of modern economic diplomacy is based on the latest worldwide trends. In regard to external relations it reflects

shift towards a modern innovative economy. We have to keep up with these trends and not just look too much into the past. We made our way, but we are only at the beginning.

In the past there was much talk about export support. In which way is the concept of modern economic diplomacy different?

There is no fixed definition in the Czech Republic yet. However, modern economic diplomacy has become a reality in the developed world – it is far more flexible, more interconnected and thereby combining the activities of many governmental and non-governmental players and sectors. Our system of support for external economic activities was developed

as a dual system – there were the Ministry of Foreign Affairs and the Ministry of Industry. Today, it is about involving players from other areas – including from agriculture, defence, science, research, tourism, health and the environment – into services provided to companies by the state. In addition to team performance, the key feature of modern economic diplomacy is a rapid response to changing opportunities in the world. Previously, club diplomacy was being talked about, while today it is about network diplomacy that can benefit from networking and interplay between many stakeholders throughout the system. Thanks to efficient interaction, the effect of what we do is multiplied. There was a lot of duplication in the old model, whereby everybody cared only for their own, and instead of multiplying resources and powers things were rather divided.

Will the basis of everything, though, still be in the provision of information on foreign markets and the passing-on of contacts?

Of course. Economic diplomats provide information and offer services to Czech clients abroad. But also here we are undergoing a major change. Many people can find a lot of information today online. What is important, therefore, is the unique insight of someone who represents the Czech state abroad, whether these are economic diplomats, representatives of CzechTrade or of other state institutions. Therefore the information obtained must have clear added value as compared to publicly available resources. It must be unique, accurate, true and quick. In this respect our competitor is the entire cyberspace. This is well documented in The Oxford Handbook of Modern Diplomacy. Diplomacy, including the economy, is under far greater scrutiny – live, 24 hours a day, 7 days a week.

TEAM CZECHIA

You are talking about the Team Czechia, which should represent our country abroad. Should entrepreneurs also become involved in it too?

Certainly. If we want to build a strong team, we have to include players who are also involved in promoting the economic interests of their country abroad. Let's make clear what will be the responsibility of the state

and what the entrepreneur will be doing in the newly designed ecosystem. Government officials also need to give companies what they need and on the other hand to not do what the entrepreneurs and their representatives can organise themselves better – today there are business missions, but I think the same thing applies to the organisation of exhibitions and fairs and to some companies' education. The role of the state is not to arrange the erection of stands, but to provide a professional service for companies. Let's talk together about the sectors and countries and divide the roles better.

Modern economic diplomacy also certainly includes information mediation about opportunities in the Czech Republic for potential prospects abroad...

Yes. These are various areas – tourism, investment and opportunities for corporate-government cooperation in regard to various projects in science and research, for example. Again, it is about how to involve as many players as possible and to come to a common understanding of how today's needs for presentation abroad are changing. I will give you an example. There is no doubt that Prague will continue to attract tourists. But new opportunities are also emerging, we are moving further from traditional areas. Prague probably wants to work with metropolises that develop smart city concepts, top-class congress tourism. Urban and regional partnerships can complement each other with classical diplomacy. Modern diplomacy is not the Czernin Palace in Prague, but a system that brings together individual players who are contributing in a different way to the success of our country in the world.

You are referring to the Nordic countries as an example to follow in the field of modern economic diplomacy. They, for example, approach various forms of measurement of cost-effectiveness and quality of service. Measuring the effectiveness of the work of diplomats or of other state institutions abroad is probably never easy. It is unclear how the economic diplomat affects the fact that exports to the specific country have increased...

We cannot really connect it in this way and we do not do so either.

We do not adopt the results of the big exporters as being our own, because it is silly to boast about someone else's results. We are interested in how our people abroad are active in regard to obtaining unique information, with how many companies they work and what the effect of this collaboration is. An important part of such an assessment is information emanating from the entrepreneurs themselves. We are interested in the approach of one or another embassy and in the outcome of cooperation with this specific embassy. Measuring the effectiveness of the work of the economic diplomats is possible and it can represent a means of creating trust, respect and professionalism between diplomacy and the firms.

The Ministry of Foreign Affairs has ordered an audit by PwC. Was it also the goal to find out whether today's Czech economic diplomacy is too fragmented between different institutions?

PwC's Audit has defined what belongs to the support of external economic relations, what players are active in this ecosystem and what their range of services and activities is. And it also follows trends that can be observed in practice in other countries of the world. It seeks inspiration for the Czech Republic to move-on further. It turns out that the fragmentation of the support of external economic relations is the main obstacle to the shift to a higher level of efficiency. PwC in its audit brings about a dozen recommendations that are not linked to the increase in the requirements of the state budget. The findings confirm that we are kind of "retro" in terms of export support in the Czech Republic. Maybe it is not quite so bad, just a bit obsolete in comparison with advanced countries and less efficient from the point of view of state costs. A dozen agencies, offices and institutions have grown to always hungry and fast-growing Greedy Guts.

What do you consider important in this regard? How could the whole system be improved?

Above all, it is necessary to open a debate on the management of the system of economic diplomacy. It will also be important for its legislative foundation to make clear who is responsible for what. Existing economic relations were based either

on the 1969 Competence Act or on legislation and decisions that emerged during the 1990's. These are obsolete, of course. As an example I can mention the system of export financing that originated in 1993. Based on the current legislation, we cannot create modern financial instruments for financing development cooperation and export credits to the most risky countries. In terms of this we are behind the EU countries and our companies are having worse conditions.

OVERCOMING DISPUTES

How do you rate the past years in this respect? Prime Minister Bohuslav Sobotka talked about the fact that quite a lot was done in the field of economic diplomacy...

After 2014, we managed to set up a system that made it possible to overcome a number of previous disputes. We have created a good cooperative model and we can now meet each other in the middle ground. Nevertheless, now we must have the courage to move on and achieve a higher quality for the entire system. However, it is necessary to emphasise that in 2014 we have followed up on the lost decade. We have lost ten years by constantly shirking our competences, arguing about them and creating competing strategies and concepts.

Between the Ministries of Foreign Affairs and Industry?

Between the individual ministries or within one actual one of them. Once we were transferring CzechTrade under the Ministry of Industry, then we were developing it separately. We were cancelling economic diplomats, since the Ministries of Foreign Affairs and Industry at one point ceased to communicate with each other about their missions. There was a total lack of the most important feature – one "background" that would serve for people who go abroad on behalf of this country. We could have already been much further-on today.

Has the strengthening of the economic sections of the embassies succeeded in recent years?

I would not even talk about sections, I do not like that. In fact, that is the whole embassy's activity. We are encouraging the ambassadors to build a team of people who will carry out a certain part of the agenda

– in this case, economic diplomacy. There is no point in thinking that one diplomat in a four-person team is the head of one section, another diplomat is the head of another section... In this respect, I can see a fundamental change. For one of the greatest achievements I reckon that we are now able to provide multi-source financing for projects abroad. Another feature of modern diplomacy is the intermingling of various topics. Economic foreign policy must combine both national economic and security interests, promote values and adequately represent the country in the terms of its culture, its education and/or its science.

When you have more players, you also need to have someone who will have the main coordinating role... Who will control everything?

It's not that someone wants to control everything at all costs... On the other hand, it is true that we need some roofing. Someone who will play a covering, co-ordinating role. Also, the new Foreign Service Act is based on the fact that activities abroad will not be separated. It should help us to see a point of view of the users of our services. The Embassy should also provide a roof for other state agencies that send their representatives to a specific country. In some countries like Denmark, Japan and Korea, the ambassador is in fact kind of prime minister within his/her office in that country. And someone then has to play a coordinating role at home as well. You know, I do not think that the debate is based on whether we have the Ministry of Foreign Affairs and of Foreign Trade; it should be based on a longer-term vision, on a strategy for building the added value of the Czech economy in the twenty/ thirty years. The nagging question is: "How will we assert ourselves in the world and why are we actually here?" Such a debate must bring together an economic team or a team of an economic ministry that will build on the work of today's Ministry of Industry and will greatly improve the environment to remove the barriers that prevent the growth of interesting Czech solutions, products and services. So under one roof will be the main support for Czech companies, the growth of their competitiveness during their origin, their growth and their projects, while under the second roof it is possible to connect foreign opportunities, trends and the active promotion of the security and the

economic interests of the country, for example. This is a very standard model in developed countries.

So, in this vision, is the Ministry of Foreign Affairs actually at the Ministry of Foreign Affairs and Foreign Trade?

In many countries it is. The successful Nordic countries have been using this model for years; recently, for example, countries like Slovakia or Hungary also decided to take this path. Such a ministry is then stronger in regard to promoting the entire foreign agenda and it also plays an umbrella role. This is one of the options that I think must be considered in the debate on how best to organise state administration. We are in a completely different situation than we were during the mid-1990's, when we had a foreign trade deficit and the growth of the export volume was a priority. At present we are already focusing on quality, added value, industry-friendly services and smart solutions. In regard to the already mentioned network diplomacy we have to look for ways to also contribute to promoting a whole range of solutions, from research, innovation, manufacturing, marketing, export and related services.

The Ministry of Foreign Affairs is also increasingly trying to present itself at events such as International Engineering Fair in Brno. What does the trade fair mean to you, anyway?

I recall some of the earlier considerations that trade fairs will be no longer needed, that everything will be linked on the Internet through supply and demand. In diplomacy – including the economic one – it shows today, however, how important personal contacts are. Key agreements in diplomacy and business are far easier to carry out by people who know each other well. I see the main importance of the trade fair in personal contacts. I think this is even more important than the list of the contracts that have been signed at the fair. The Ministry of Foreign Affairs traditionally shares a stand with other state institutions. We are there as a whole team on behalf of the Czech Republic. We want to show that we are able to act jointly within the framework of economic diplomacy, that we are able to support companies and offer them quality service. And that we still enjoy what we do for them.

JAN ŽIŽKA <<



THE KEY TO SUCCESS – THE TURNKEY DELIVERIES

CZECH COMPANIES ARE GETTING TOGETHER AND TRYING TO CONQUER THE WORLD. WHY DOES IT SOMETIMES WORK AND SOMETIMES NOT?

➤ The Czechs are able to produce a great deal of great things, while it is often worse with the ability to export them. At least this is what the critics of the current state of Czech export see. They point out that domestic companies are rather subcontractors of foreign companies in Germany or other European countries, which are then “with a Czech share” targeting distant markets.

The ability of Czech companies to join forces in regard to export and to create larger export units or alliances had supposedly disappeared long ago. There is something about it but there are enough examples of Czech companies joining together. It is now up to the local entrepreneurs to develop this ability further.

If Czech exporters are able to combine their forces and to deliver abroad a whole hospital, a railway, a power station or even a water complex, in many ways they increase the added value of such exports both in terms of specific exporters and in terms of the Czech economy, which is strongly export oriented.

Final delivery

In this case, the Czechs realise the final delivery, i.e. the turnkey project, and they do not choose to give up their profits for the benefit of someone else. Often, they provide top-quality products. From the Czech point of view, the added value is even higher if domestic production is also preceded

by domestic development and if the supply of certain products within the larger unit is also accompanied by the supply of services.

In their statistics the **Organisation for Economic Cooperation and Development (OECD)** and the **World Trade Organization (WTO)** both offer a comprehensive approach to the assessment of added value to exports. These institutions are concerned with the share of the domestic inputs in terms of gross exports. In this respect, the Czech Republic does not excel at all – in accordance with **Helena Horská** and **Jakub Červenka**, the analysts of **Raiffeisenbank a.s.**, the Czech economy has not broken out from the “assembly plant” stage yet.

In today’s interconnected world, it is hard to find a supply of a large units, which only companies from one country could easily take part in. Without international cooperation, it is not realistic to attempt to achieve any more significant success. However, if Czech companies can join together and add foreign partners and achieve

a domestic share of at least 50-60% within the exportation of a certain whole, from the Czech perspective, it is another manifestation of what is generally referred to as “added value”.

Who can be a driving force

Naturally the export of a larger unit needs its “driving force” – i.e. a company that is able to negotiate business abroad and to secure its final delivery. Still remembering the former state-owned foreign trade companies, which sooner or later after the Velvet Revolution had mostly disappeared from the scene. However, these state-owned foreign trade companies belonged to the old model when these state-owned enterprises had a monopoly position in the export area.

The final contractor may be a specialised business corporation – including such a privatised state-owned enterprise as **Technoexport**. It may be a business corporation that acquired its own production over time, as well as a primary engineering company or a primary manufacturing company.

However the list of potential export-oriented leaders with higher added value can continue. It can also be a Czech company of the type of supplier of whole hospitals or policlinics, i.e. **VAMED Health Projects CZ**, which also benefits from the experience of its foreign parent company and in cooperation with domestic partners helps to develop Czech exports in the form of larger units. Or a significant Czech investor abroad of the kind of operator of hydroelectric power plants, e.g. **ENERGO-PRO**, which has its own development department in the Czech Republic and also managed to offer contracts to Czech partner companies, for example in Georgia.

Another example is the merging of companies with a varied focus within one field and even one group. Here is an example of **Třinecké železářny** and their project for restoring the railway line in Azerbaijan.

Some state institutions may also become a driving force in regard to these export transactions. The EGAP State Export Insurance Company offers its services exactly in cases in which the national share reaches a certain level – i.e. 50% or more, thereby motivating Czech companies to create larger units. The **Czech Development Agency** also supports the merger of companies within an overall framework of providing development aid abroad. And it also helps domestic companies to search for other opportunities in foreign markets – for example, in the field of water management.

Export of hospitals and policlinics

Almost all of the above-mentioned characteristics of “higher added value” are met by exports of whole hospitals and policlinics – more precisely their complete construction abroad associated with the supply of all medical facilities from the Czech Republic. The **EGAP** insurance company has insured such business cases for more than 7.5 bil. CZK over the last 5 years. Czech companies are building complete hospitals and policlinics in Africa, Asia and Oceania – in countries such as Gabon, Ghana, Laos or Papua New Guinea. For each individual transaction, EGAP requires a Czech share of 50-60%.

In these cases, the subsidiary of the Austrian VAMED group that holds the part of the significant European player in the field of complete management of health and spa facilities is often a leader. VAMED operates nine medical facilities in the Czech market. At the same time it cooperates with other Czech companies in the joint exportation of whole hospitals and policlinics to the above mentioned countries.

Businessman **Zbyněk Frolík**, the founder of **Linet**, which is the manufacturer of well-known hospital beds, says that his company is one of the pioneers in the cooperation between Czech companies that are operating in foreign markets. He refers to cooperating with such companies as **MZ Liberec**, which designs, manufactures and installs distribution systems of medicinal and technical gases, or **TSE** – a manufacturing company that focuses on electronics and electrical engineering. *“These are the companies that both through the quality of their products and their commercial and service coverage can together with Linet products succeed in large international projects,”* Zbyněk Frolík adds.

The market is open

According to Frolík, the world market is now open to comprehensive supplies for healthcare facilities: *“The target clients of healthcare supply projects want to focus only on their own field and thereby they expect from their suppliers comprehensive solutions also referred to as turnkey projects.”*

However, there is also the opinion that Czech companies offer high-quality products, but that they are often not used to do their exporting themselves. They also often face language barriers. Zbyněk Frolík points out similar barriers: *“Unfortunately, the Czech Republic has only a limited number of manufacturers of medical equipment who would be in a position to compete worldwide and to be able to supply and service their product anywhere in the world.”* Linet is therefore involved in similar international projects that it shares with foreign partners from amongst the large multinational companies.

Apart from the MZ Liberec and the TSE companies that are mentioned by Frolík, however, other Czech companies are also becoming to assert themselves in foreign markets. These include, for example, the **Block Company**, a leading supplier of operating theatres and other hospital premises with highly demanding requirements on a clean working environment.

In contrast to engineering, the situation in healthcare exports is different. While engineering firms often supply certain parts to their customers, the suppliers of entire hospitals or policlinics buy already-finished products, facilitating important parts of the work, from their domestic partners. These are technically high-end products. Once the hospital or the policlinic is put into operation, the Czechs also provide the necessary after-service.

The reconstruction of the railway

An example of the delivery of a large unit involving more than ten Czech companies – mostly associated with one Czech group – is the extensive reconstruction and the modernisation of the Baku – Tbilisi – Kars railway line in Azerbaijan. The general overhaul of the track consists of the complete replacement of the entire railway superstructure.

“The companies in the Třinecké železářny – Moravia Steel Group in terms of the focus of their product portfolio cover virtually all the needs of the reconstruction; therefore it is mainly these companies that are involved in the supplying. The entire contract is covered by the Czech company M-Steel Project, which is a 100% subsidiary of Moravia Steel,” explains **Mojmír Kašpříšín**, Vice-Chairman of M-Steel Project’s Supervisory Board.

The general repair of the track with its total length of more than 900 km commenced in 2011. The first phase of the reconstruction was completed, but now the Czech companies are implementing the second stage, which will be completed in 2019. The total value of the project is in the order of hundreds of millions of Czech crowns.

While, according to Mojmír Kašpříšín, the main portion of the contract is constituted by rails provided by Třinecké železářny, other products and components, such as wires for sleepers or rail fasteners, are also heading to Azerbaijan. The **Šroubárny Kyjov** plant supplies rail and sleeper screws.

Supervision and geological surveying

"We organise deliveries of special railway machines and small-size

reconstructions and thereby it is possible to plan the supply of individual components and individual activities more efficiently. The unified organisation naturally also brings a positive effect from an economic point of view.

Future is in the water

Water management is undoubtedly a sector with a great chance of cooperation between Czech companies on the foreign markets. The role of the driving force has already been seized by

working together. They are able to communicate with each other about different possibilities."

The leader amongst the actual companies is GEOtest, a supplier of consulting and procurement services in the fields of ecology, hydrogeology and engineering geology. GEOtest is particularly active in projects that take place in the Balkans and that are supported by the Czech Development Agency. Together with another Czech company, Presskan System, GEOtest supplied a pressure drainage system to Serbia. In cooperation with VHS Brno, GEOtest reconstructed the waste water treatment plant in the Bosnian town of Gradačac.

Water management is not just about the supplying of large units that would inevitably involve dozens of Czech companies, as do the healthcare and the transport infrastructure, but the growing cooperation of Czech companies seems hopeful.

An energy industry with question marks

Of course, when we are talking about water, we can also talk about the projects involving cca. twenty Czech companies, which were attracted by the above-mentioned investment of the domestic company ENERGO-PRO to the Georgian hydropower plants and the distribution network.

On the other hand the exporters who expected the Czech Republic to be able to successfully build on to projects for supplying entire power plants that are combusting fossil sources – i.e. the export with a value in the order of billions of Czech crowns – are still unsatisfied. Efforts to repeat the earlier successful supplying of coal-fired units in Shenzhen, China, or Afsin Elbistan B, Turkey, from the beginning of the millennium ended with either minor or greater failures.

However, Czech energy companies still have an optimistic hope that they can jointly take part in building new nuclear blocks not only in the Czech Republic but also abroad.

JAN ŽIŽKA <<



Photo: Třinecké železářny – Moravia Steel

machinery and we also provide project planning and building supervision. We have also carried out a geological survey including surveying for the purposes of implementing project documentation," adds **M-Steel** Project's Vice-Chairman of the Supervisory Board.

Kašpříšín sees the added value of the entire project with the option of realising everything virtually under one roof. Complete delivery facilitates the organisation of such extensive

the **Czech Water Alliance (CWA)** back in 2004. Its aim has been to strengthen the positions of the domestic companies in regard to the exportation of both services and technologies.

CWA's Emeritus Chairman, **Ivan Nikl**, says that the beginnings were not easy. Instead of joining their forces the Czech companies tended to compete especially hard on the foreign markets. But, according to Nikl, this has changed: *"After the difficult beginnings, the companies are now*



An Interview with Pavel Frelich:

WE NEED TO INVOLVE THE PRIVATE SECTOR IN THE DEVELOPMENT OF POOR COUNTRIES



Thanks to the Czech Development Agency's projects, new business opportunities are also emerging for Czech companies. ***"We are helping to open the doors to new markets and to obtain the necessary references,"*** says **Pavel Frelich**, the new Director of the **Czech Development Agency**.

You are coming to the head of the Czech Development Agency with a reputation as being a banker. How do they go together – the banker and the management of the development institution?

I'm not a banker as my original profession. I also have experience from the state administration; I started-out at the Ministry of Finance. Gradually, I was more and more in charge of the development agenda and the international development institutions, including the World Bank, the International Monetary Fund, the European Bank for Reconstruction and Development and other relevant entities. I was really interested in this field and during my postgraduate studies I have also been involved in it. Finally, I became a representative of the Czech Republic at the World Bank. There I strongly focused on the financing of development projects.

Do you expect your World Bank experience to help you now?

Certainly! The World Bank is the most important global development financial institution and it has long been involved in development issues. Its know-how is interesting to us and it can inspire us in regard to setting our own priorities. The Czech Republic is a relatively small donor as compared to the more developed European countries, but we strive to achieve the greatest possible impact in regard to helping the poorest countries of the world with our relatively small available resources. At the World Bank, I also dealt a lot with the long-term sustainability of the projects being supported. The path to this is, inter alia, the greater involvement of the private sector in development aid.

As the new head of the Czech Development Agency, what are your main priorities?

I have come to the development agency at a time of significant changes in regard to the development – not only in the Czech Republic but also worldwide. It is self-evident that global development goals cannot be achieved without the involvement of private resources. Mobilising private resources through the involvement of new financial instruments is one of my priorities.

Development aid should not be perceived as simply a gift, solidarity or charity. It has to be an investment in development, which, of course, must also involve the private sector.

Frequently in the past, an argument was heard in the Czech Republic that it is not appropriate to link the non-profit sector with private business plans...

This is a relatively new trend. Development aid should not be perceived as simply a gift, solidarity or charity. It has to be an investment in development, which, of course, must also involve the private sector. But the latter needs to obtain some incentives; i.e. poorer countries represent riskier territory for it and therefore private companies usually do not embark in these projects with an especially great degree of enthusiasm. State institutions should provide support by mitigating any risks caused by investing in local markets.

Broader commercial activities

Do you also want to support Czech export and investment through development aid?

The Czech Development Agency is not an export promotion agency and therefore this cannot be our primary mission. Our primary objective is to try to alleviate poverty and to help the poorest countries to find a sustainable path in regard to economic and social development. On the other hand, it is obvious that both foreign development cooperation and economic diplomacy are amongst the pillars of the foreign policy of the Czech Republic. There is a necessity for synergies and for mutual support between these pillars. We strive to contribute to this synergy particularly through the B2B subsidy programme – Business to Business Partnership and thereby we can offer the private sector, especially the small and the medium-sized enterprises, opportunities to create business plans and feasibility studies with our support for potential

projects in developing countries and subsequently to also implement their business projects.

You are talking specifically about Czech businesses...

All subsidies can only be provided to Czech companies. Currently, we have six priority countries to focus on in regard to development aid – i.e. Bosnia, Moldova, Georgia, Cambodia, Ethiopia and Zambia. However, our B2B projects are not restricted to this list; they are open to projects in all of the developing countries. These projects can open the doors for the private sector to new markets, thereby giving it the opportunity to obtain the necessary references via a project to which the Czech Development Agency will also contribute.

If I understand it well, everything is meant to create a business plan through your projects, from which both the specific country and the people involved in these projects will benefit too...

We help to create a business environment together with new jobs thereby promoting economic growth and also a higher standard of living. This is not just about creating studies, but primarily we are currently looking for a Czech company to find a partner and to also implement the entire project within the framework of such a partnership. A project of this nature can also be followed-up by the long-term commercial activities of the Czech entrepreneurs. I can mention for example such companies as Enviros or GEOtest that have set up their branches or their regional representatives in the Balkans in the fields of the environment and of sanitation. Another company that is very active in regard to foreign



development cooperation projects is Dekonta, for example, which also focuses on environmental protection. Thanks to the projects that are supported by the Czech Development Agency, this company also succeeded in obtaining specific commercial contracts.

Where do these new Czech companies' projects actually arise from?

Virtually everywhere that we have provided development aid. But I can particularly emphasise the countries of the Balkans and those of the former Soviet Union. People are countries in which people are interested in learning about our experiences regarding economic transformation. Our language skills represent actually our advantage. Not everyone in these countries speaks English and we will definitely do better there in regard to language than Spaniards, Germans or French do.

New financial possibilities

I have noticed that you want to make more use of the new financial instruments in development aid, which go beyond merely providing direct subsidies. What are you actually planning in this respect?

We want to enter into both a partnership with the Czech-Moravian Guarantee and Development Bank

(ČMZRB) and also with the EGAP state insurance company. As the Czech Development Agency, we will offer a subsidy of 50% of the total expenditure in a specific project. However, the respective company will also have the opportunity to obtain additional favoured funds from the ČMZRB – possibly in association with the EGAP insurance.

Can these financial instruments actually be loans and guarantees? Or even property inputs?

These are preferential loans, guarantees and they could also become asset inputs with the assistance of venture capital. There are more of these options and this can also be a subject for further discussion. So far our considerations are based on the fact that the Czech Republic does not have a development bank that has been accredited by the European Commission.

In accordance with the current plan, the National Development Bank should be founded, however...

It's true that the transformation of the existing ČMZRB into the National Development Bank is already underway. This is very significant for our projects. Once this transformation process has been completed and the National Development Bank has acquired its European accreditation,

the possibilities for supporting the private sector in the framework of development cooperation will expand significantly. It will also be possible to make more use of the subsidies that are available from European funds and also from the European Commission programmes.

In addition to the involvement of the private sector and the use of the new financial instruments, do your priorities also include cooperation with the European Commission?

Here we really face another new challenge. In June 2017, the Czech Development Agency received accreditation from the European Commission for Delegated Cooperation. If we succeed to manage to use the European funds for development aid within this cooperation, there will automatically be more room for the involvement of Czech companies. We are a small agency, yet we want to be very active in this regard, while, at the same time, also being careful not to take too big a bite at the outset. We need to be able to identify really high-quality projects. That is why we are also focusing on our priority countries where we already have a high degree of know-how and where our development diplomats regularly operate.

JAN ŽIŽKA <<



Photo: Ctirad Košťál

HUNDREDTH IN THE FOREST



Czech exports rose above 1% of world exports for the first time in history. Czechs and Moravians constitute only 0.14% of the world's population, and we have 0.26% share in world GDP. Before that we reached the highest share of world exports in 2008. The Czech share at that time was 0.9%. Then a little down to 0.84%, but now 1.01%, in accordance with the data provided by the **World Bank**. Over the past 16 years, this share has doubled.



That hundredth is great news, especially when you see how traditional Czech companies and Czech entrepreneurs are doing. Now let us make a big margin of it. To get out of the shadow of Germany, since our biggest export article is still supply, not a final product.

Europe today reminds me of a book by French writer **Jean Giono** entitled **"The Man Who Planted Trees"**.

In this 1953 novel there is a shepherd who lives in a small stone house, in a deserted landscape, where people rather care just about themselves. He himself is also depressed. He figured that the landscape was dying because there was a scarce of trees. He decided to fix the situation. So he planted the trees. Every day as many as he could manage.

Greece could be like a newly planted dwarf pine that grows/does not grow in the Giant Mountains.

Germany is the least demanding evergreen tree – a sturdy forest pine. It does not need much either. Deep roots, extending all over the sands and clay, on stony, excessively dry and wet soils and at all altitudes.

The Czech Republic reminds of the fastest growing tree – Black Alder. Well, we're rather a spruce, but the current growth is surprisingly high.

Anyway, do not look for linden trees in the European field – the most

popular deciduous trees – a symbol of reciprocity. On the contrary, each state is different. Individual. It has its own interests. And its scepticism and inner depression – which is a little something actually connecting them.

The guy from this novel tirelessly planted and planted trees, whether or not there was a crisis or a war. In three years he planted a hundred thousand of them. A beautiful forest was born and water and life began to return to the country. When the water appeared, there were also meadows, gardens, flowers and some reason to live. But the transformation took place so slowly that people became accustomed to it and it did not surprise them.

He was visited by the gamekeeper. He officially instructed him that he should not make fire out there. It could threaten the growth of this "natural" forest. The naive gamekeeper added that it was visible how the forest grew "by itself". The High Representative of **Water and Forests**, a MoP and technicians also came. They made many unnecessary talks. They decided that "something" more had to be done, but they did nothing. They were only enthusiastic that nature grows "by itself".

What, in fact, caused the growth of these trees or of Europe? The book is the answer.

It is the hard work of individuals, entrepreneurs, employees who really want to work hard and achieve something. That's how growth arrives. In Greece, the competition "A Young Entrepreneur of the Year" was won by a guy who continues his family tradition and makes the luxury honey under the **Melira** brand (if you are there please take me one). In Germany, spouses who created **Motel One Design Hotels**. In the Czech Republic, **Mr. Chmela** from **Tescoma** was awarded and a year before amazing **Mr. Pelc** from **GZ Media**, thanks to whom I have Rihanna's vinyl, and before them **Mr. Břıza** from **Koh-i-noor...**

Growth through entrepreneurship can continue. The alder grows between

twenty-five to thirty metres. Well that spruce grows less. But for example the tallest tree in the Czech Republic – the Douglas fir – is in Jablonec area and is over 64 metres tall.

However, growth is not eternal, just as no tree grows into the sky. Scientists say that the point to which water rises within the internal irrigation system of a tree determines its maximum height. Once it reaches the peak of its physical growth potential, the upper part of the tree will suffer "stress from drying out". The tree begins to die in the struggle for getting enough water.

Since January 2014, 274 thousands new jobs were created in the Czech economy. Most of them in industry and business. Wages grow 5.3% year-on-year – most since the end of 2008. If the Czech economy continued to do so, GDP would grow over 4% over the whole year, which nobody expected... But there are no people anymore... And when workers are brought from abroad people are afraid of crime. Additionally, **Kofola**, which was "resuscitated" by the Entrepreneur of the Year 2011, **Mr. Samaras**, is subject to complaints of the residents of the neighbouring houses in Mnichovo Hradiště that they produce too much and that the production even disturbs them at night...

Looking at that hundredth, at those overall numbers on exports and GDP, we are currently experiencing a growth episode. No growth lasts forever as trees do not grow to the sky, but they can become thick. In each of the trees from the European park a social state flourishes and the government sector is expanding. And that's the problem. In spite of all the examples and the number of great businessmen and businesswomen, I'm not sure if there is currently enough modesty, perseverance and honesty – if it is not just a flare up of how the states give out subsidies, minimum wages or social benefits from their budgets.

ALEŠ MICHL,
co-founder of the **QUANT**
Investment Fund <<



Czech Development Agency



B2B Programme

Private Sector Development Cooperation Programme of the Czech Development Agency

The B2B Programme of the Czech Development Agency aims to support the Czech businesses in developing countries. We provide financial assistance for innovative business partnerships addressing development challenges.



Who is eligible?

Czech companies which apply for a grant at the Czech Development Agency. These companies can subsequently become a partner/investor of your project. The projects can be implemented in all developing countries according to OECD/DAC.

What do we offer?

Financial grants for entering new developing markets - up to EUR 10 000 with 50% co-financing.

Financial grants for project implementation - up to EUR 200 000 with 50% co-financing.

What can you get through cooperation with Czech partners?

Companies from developing countries can benefit from the grants by partnering with the Czech investors through access to innovative technologies and know-how, as well as from sharing expertise and experience provided by the Czech experts and finally from exploring further business opportunities.

Call for applications

2× per year (April and November)

More information available at www.czechaid.cz/en/. We are ready to answer your inquiries by email, telephone or in person.

In 2017 the Czech Development Agency supported
58 projects in 26 developing countries



Ministry of Foreign Affairs
Economic Diplomacy

