



Investment for European Competitiveness:

Contribution of the Czech Republic to Europe 2020 Strategy

2012 National Reform Programme of the Czech Republic

Contents

I. Introduction	5
I.1. The Czech Republic and Europe 2020	7
I.2. Structure of Chapters of the National Reform Programme	9
I.3. Update of the National Reform Programme for 2012	10
I.4. Consistency of the National Reform Programme with the Government's Strategic Materials.	13
II. Basis of Economic Policy	15
II.1. Macroeconomic Trends in the Czech Republic	17
II.2. Competitiveness as a Goal of Czech Economic Policy	18
II.2.1. Competitiveness: Meaning and Purpose of the National Reform Programme of the Czech Republic	18
II.2.2. Exports and Industry as Key Objective Factors of the Czech Economy	19
II.2.3. Democratically Legitimized Political Will Reflecting Objective Factors in Society and the Economy	19
II.2.4. Main Priorities of Czech Economic Policy against the Backdrop of Europe 2020	19
II.3 Public Investment under the EU Cohesion Policy and the Territorial Dimension of the National Reform Programme.	23
II.3.1. Government Priorities for Future Interventions under the EU Cohesion Policy and their Links to the National Reform Programme	23
II.3.2. Regional and Urban Dimension in the NRP	24
II.3.3. Role of the Regions, Towns and Municipalities as Partners in Preparations for Future EU Cohesion Policy	24
III. Main Reform Measures	27
III.1. Consolidation of Public Finances	29
Introduction	29
Main Reform Objectives	29
Additional Fiscal Steps by the Government Undertaken in 2012 beyond the Framework of the NRP	29
III.1.1. Tax and Tax System Reform	30
III.1.2. Health System and Public Health Insurance Reform	31
III.1.3. Fiscal Framework Reform	34
III.1.4. Effective Public Administration and the Fight against Corruption	35
III.2. Functioning Labour Market and Social System as a Prerequisite for Competitive Economy – the National Jobs Plan	41
Introduction	41
Main Reform Objectives	42
III.2.1. Modern Social System and Labour Law	42
III.2.2. Integration into the Labour Market	44
III.2.3. Social Inclusion and Reduction of Poverty	46
III.3. Education as a Route to Competitiveness	51
Introduction	51
Main Reform Objectives	52
III.3.1. Improving the Quality and Availability of Preschool Education	53
III.3.2. Systematic Improvement of the Quality of Educational Activities and Reform of the Educational System	54
III.3.3. Reform of the Higher Education System	58

III.4. Support of Business, Digitisation and the Development of the Digital Market.	61
Introduction	61
Main Reform Objectives	61
III.4.1. Reduction of Administrative and Regulatory Load of Entrepreneurs	62
III.4.2. Institutional and Legislative Support of Business Development	63
III.4.3. Improvement of Access to High-speed Internet and Development of eGovernment	66
III.5. Support of Growth Based on Research and Innovation	68
Introduction	68
Main Reform Objectives	69
III.5.1. Investments into Research, Development and Innovation and Evaluation of Their Outputs and Impacts	70
III.5.2. Increase of the Innovation Potential of the Czech Economy.	73
III.6. Support for a Low-carbon, Environmentally Friendly Competitive Economy	75
Introduction.	75
Main Reform Objectives	76
III.6.1. Increasing Energy Efficiency	76
III.6.2. Increasing the Share of Energy from Low-carbon Sources	78
III.6.3. Improving the Quality of the Environment and Reducing Greenhouse Gas Emissions	79
III.7. Promoting Competitiveness by Improving Transport Infrastructure	82
Introduction	82
Main Reform Objectives	82
III.7.1. Strategic Planning of Transport Infrastructure Development	83
III.7.2. Ensuring Effective Financing for the Completion of the Backbone Network	84
IV. Conclusion	87
IV.1. Summary	89
IV.2. Further Steps towards Meeting the Targets of the National Reform Programme	90
IV.3. The Government's National Targets under Europe 2020 Strategy	91
Appendix	93
Appendix I: Table Showing the Link of the National Reform Programme and International Competitiveness Strategy with the Priorities of Cohesion Policy	94
Appendix II: Overview of Government Strategic and Conceptual Materials Related to the National Reform Programme	96



I. Introduction

I.1. The Czech Republic and Europe 2020

The National Reform Programme is the Czech Republic's contribution to the objectives of Europe 2020, the strategy for jobs and growth in the European Union in 2010–2020 established by EU Member States beyond the purview of the EU in the voluntary coordination of economic policies in cooperation with the European Commission. The National Reform Programme is based on priorities defined by the political will of the Government. It also aims to reflect the diverse interests resonating in society, and to this end the document was discussed many times with representatives of social partners, regional and local government bodies, the relevant academic community, and the Government's National Economic Council during its preparation in 2011 and as part of the update for 2012.

When drawing up and updating the National Reform Programme, the Government respected the logic of the close interdependence of all the measures involved, both from the perspective of its reform priorities and in the context of the five headline targets of Europe 2020, with consideration for the recommendations contained in the Europe 2020 Integrated Guidelines and the European Commission's individual flagship initiatives.

The main targets of Europe 2020 approved by the European Council in 2010 are as follows:

1. to increase the employment rate of the population aged 20 to 64 years to at least 75%;
2. to increase investment in research and development to 3% of GDP;
3. to reduce the energy intensity of the economy by at least 20%, to increase the share of renewable energy in the energy mix to 20%, and to cut CO₂ emissions by 20%, and potentially by 30% (if other economically developed countries commit to comparable emission control and the more advanced developing countries are adequately involved in these efforts);
4. to increase the number of aged 30 to 34 years completing third level education from the current 31% to at least 40%, and to reduce the school drop-out rate from the current 15% to below 10%;
5. to promote social inclusion, particularly by reducing poverty, through efforts to lower the number of people at risk of poverty or exclusion by at least 20 million.

These targets are a joint political commitment EU Member States which is to be achieved by coordinating their economic policies. This commitment applies to all Member States and the individual quantified targets should be understood in this way. Therefore, each State, with regard to its own baseline economic situation, sets national goals

and priorities, the attainment of which it considers to be a specific contribution to those common targets.

When setting their own national priorities and the overall structure of national reform programmes, Member States take into account the Integrated Guidelines and the recommendations contained therein:

1. ensure the quality and the sustainability of public finances;
2. address macroeconomic imbalances;
3. reduce imbalances within the euro area;
4. optimize support for R&D and innovation, strengthen the knowledge triangle and unleash the potential of the digital economy;
5. improve resource efficiency and reduce greenhouse gases;
6. improve the business and consumer environment, and modernize and develop the industrial base;
7. increase labour market participation and reduce structural unemployment;
8. develop a skilled workforce responding to labour market needs, promote job quality and lifelong learning;
9. improve the performance of education and training systems at all levels;
10. increase participation in tertiary education;
11. promote social inclusion and combat poverty.

Besides these Integrated Guidelines, in the creation of their National Reform Programmes governments may also take account of the various flagship initiatives presented by the European Commission on an ongoing basis.

Beyond the jointly identified objectives and recommendations, States may also take into account, in the implementation of their national programmes, the structural barriers to achieving faster pace of economic growth established for each Member State (identified for the Czech Republic by the EU's Economic and Financial Affairs Council at its meeting on 8 June 2010 – see the following sub-chapter), the Council's specific recommendations, and the European Commission's recommendations contained in the Annual Growth Survey.

National targets set by the Government in the implementation of Europe 2020 at national level are the result of taking into account the above objectives and recommendations, as well as analyses and strategic documents processed at government level (prime examples of cross-

cutting documents include the Policy Statement from the Government of the Czech Republic, the International Competitiveness Strategy of the Czech Republic, the Strategic Framework for Sustainable Growth, priorities for the future EU cohesion policy programming period, and a number of other key documents referred to in the Annex), and discussions with social and regional partners and representatives of other relevant institutions. The Government has pushed for the most realistic approach possible, reflecting the potential of the domestic economy, national budget resources, and the constraints arising from the length of its tenure. In order to make a specific contribution to the pursuit of the European targets, it has sought to establish quantified indicators to accompany the quantified European objectives (which, incidentally, cannot be viewed in any way other than as growth indicators). Nevertheless, in light of these factors and its credibility, in some cases the Government has not quantified indicator targets, opting only for priority trends in certain areas instead.

The National Reform Programme contains the Government's priorities and respects rules on the competence of public authorities in the Czech constitutional system, including the division of powers between the State and lower self-governing units. As the European Union respects the constitutional traditions of Member States, the Czech Government cannot set the development priorities of Czech regions and municipalities. However, the National Reform Programme also aims to reflect the territorial dimension of economic policy, particularly with regard to the future of EU cohesion policy. Even so, the primary focus is on objectives, the achievement of which is the responsibility of central authorities of the Czech Republic. These are government priorities which, in numerous areas, are pursued within the sphere of legislation, and therefore require the consent of the legislature. As the programme itself is not a legislative, but a conceptual document, and is not subject to parliamentary approval, the measures it outlines should be viewed as political objectives of the Government. In the National Reform Programme, the Government merely maps the reform paths which the executive intends to follow in the coming years.

At the same time, the Government is aware of the trend of the closer linkage of EU cohesion policy interventions with priority areas and objectives of the National Reform Pro-

gramme, and of the complementarity of cohesion policy interventions in rural development under the second pillar of the Common Agricultural Policy. Accordingly, thematic consistency also exists at the level of the cornerstones of the Strategic Framework for Sustainable Development, which provides a stable environment and a platform for the interconnection of medium-term sectoral and regional development strategies and programmes. Therefore, the National Reform Programme is mainly linked to the EU cohesion policy, which, in the context of increasing the competitiveness of the Czech Republic, plays an irreplaceable role and its focus in the period after 2014 fully builds on the reform measures contained in the National Reform Programme. Strategic links between these areas are developed further in the programmes corresponding reform chapters. A separate sub-chapter is devoted to the synergy between the Government's reform measures and EU cohesion policy.

From this perspective, the National Reform Programme is a central document in which the reform paths of individual sectors of national policy in the spheres of economic growth, competitiveness and employment intersect and will continue to run into one another in the future.

The National Reform Programme sets out the guiding principles of reform measures, while specific steps and detailed proposals are or will be set out in strategic documents drawn up in the various areas by the competent state authorities. The programme is conceived, on a general basis, for the entire period up to 2020. To speed up growth measures, reform measures are planned so that the most serious and most rigorous reforms take place in the first half of the 2010–2020 decade, with 2015 serving as a reference year.

The Czech Government accedes to this programme knowing that it is outside the sphere of competence of the EU, which is only a coordinating body, particularly within the framework of a system for the open method of coordination. It is in this context that the Government views the role played by EU institutions, and it is aware of the full and exclusive responsibility of national political authorities for determining the priorities and objectives of national economic policy.

Although the Czech Republic does not participate in the Euro-Plus Pact, the Czech Government has not ruled out involvement in the future.

I.2. Structure of Chapters of the National Reform Programme

The structure of the National Reform Programme's chapters is based on key areas for the promotion of competitiveness, taking into account the barriers to economic growth in the Czech Republic identified by the EU's Economic and Financial Affairs Council at its meeting on 8 June 2010:

1. the high structural deficit and long-term sustainability of public finances;
2. persistent structural weaknesses in the labour market;
3. enduring weaknesses in the business environment, inadequate efficiency of public administration and the regulatory environment;
4. Inadequate diversification of the economy due to low promotion of its innovation capacity and business R&D;
5. Low labour productivity due to a lack of knowledge and skills.

In accordance with the conclusions of the European Council of 17 June 2010, this list was supplemented by another major barrier assessed at national level:

6. Inadequate backbone transport infrastructure network.

These barriers were used during the preparation of the reform programme to define seven thematic areas and their corresponding chapters, forming a logical and internally consistent whole:

1. the consolidation of public finances;
2. A functioning labour market and social system as a prerequisite for competitive economy – the National Employment Plan;
3. Education as a route to competitiveness;
4. Support for business, digitisation and the development of the digital market;
5. Support of growth based on research and innovation;
6. Support for a low-carbon, environmentally friendly competitive economy;
7. Promoting competitiveness by improving transport infrastructure.

Each of the chapters thus determined falls under one of the national development priorities of the focus of EU cohesion policy interventions in the post-2014 period. This interdependency is developed further in the section on synergies between the National Reform Programme and the EU cohesion policy. In terms of specific reforms, the links between individual measures are indicated in the individual sub-chapters. Similarly, the text explains how measures under the National Reform Strategy are connected to the International Competitiveness Strategy of the Czech Republic.

The coordination of the preparation and implementation of the National Reform Programme is the responsibility of the Office of the Government.

Talks with the coordinators of the various areas are mainly held via the Committee on the EU (at both a working and government level) and a sub-team of the Europe 2020 coordinating group of the Office of the Government. The individual ministries also use their structures to discuss important conceptual materials.

The implementation of the National Reform Programme and the fulfilment of Europe 2020 targets are regularly monitored in cooperation with the European Commission according to commonly agreed methodology. Where necessary, the National Reform Programme will annually be updated, approved and, by the end of April, submitted to the European Commission for evaluation of its macroeconomic and structural measures.

Many of the measures contained in the National Reform Programme are actually entirely consistent with the recommendations of the Euro-Plus Pact, to which the document refers at specific points.

I.3. Update of the National Reform Programme for 2012

The National Reform Programme for 2012 is, like the previous year's version, prepared as a national implementing document for Europe 2020, and in this context has been conceived with a view to the entire decade from 2010 to 2020. At the same time, however, it must reflect the constraints imposed by the constitutional order of the Czech Republic, both in terms of the division of powers between the central government on the one hand and local and regional government on the other, and as regards the Government's capacity to decide on strategic priorities, the implementation of which does not fall within the current term of office. In particular, the Government views the annual update of the National Reform Programme as an opportunity to flesh out measures intended for the following year. Accordingly, these are emphasized in the current version of the National Reform Programme, while the basic designation of key priorities for the entire decade remains otherwise unchanged.

In 2011, a significant proportion of National Reform Programme measures planned for 2011 were put into action, to some extent as part of the reform packages put forward by the Government and approved by Parliament. Partial reforms in response to specific recommendations of the Council were also made. In some areas, however, the Government's declared ambitions failed to bear fruit, in part because of the economic and financial crisis in the euro area and its impact on the real economy in the Czech Republic. This factor is also taken into consideration in the current version of the National Reform Programme; it reflects potential additional measures aimed at fiscal consolidation and responding to the crisis and the forecast economic growth. These measures may substantially affect the implementation of priorities under the National Reform Programme.

The National Reform Programme was also updated on the basis of an evaluation of the implementation of the European Semester (for the coordination of economic policies) in 2011 and the implementation of measures contained in the National Reform Programme over the same period as a contribution to Europe 2020 targets, taking into account the Government's evolving policy priorities appointed in the democratic decision-making process.

The update of the National Reform Programme for 2012 also includes the National Employment Plan (in the section on the functioning labour market). It should be noted that the framework of the employment plan also incorporates other parts of the programme, such as a chapter on educational issues.

The updated National Reform Programme, in the relevant chapters, also takes into account measures proposed and implemented in response to the **Council's specific**

recommendations for the Czech Republic of 12 July 2011. Those recommendations and the basic measures for their implementation are summarized in the following paragraphs:

First Council recommendation: *"Implement the planned consolidation in 2011 and take countervailing measures of a permanent nature as needed in case of any revenue shortfalls or expenditure slippages. Adopt fiscal measures as planned in the Convergence Programme for 2012 and underpin the target for 2013 by more specific measures; subject to this, avoid cutting expenditure on growth-enhancing items. Improve the efficiency of public investments, and continue efforts to exploit the available space for increases in indirect tax revenue to shift taxes away from labour, improve tax compliance, and reduce tax evasion. Ensure an average fiscal effort over the period 2010-2013 of 1 % of GDP, in line with the Council recommendations on correcting the excessive deficit, which will allow meeting the EDP deadline with a sufficient margin in 2013."*

The upcoming establishment of rules on fiscal responsibility and other related measures to stabilize developments in public finances is consistent with this recommendation. The relevant rules are enshrined in the constitutional law on *budgetary discipline and responsibility* and are supported by the creation of the National Budget Council.

In the tax system, action is being taken to increase the efficiency of tax collection and administration. The *Single Collection Point (JIM) Project* will deliver major simplification in this respect. There are also plans to *change the value added tax rates*. These measures are described in relevant sections of the National Reform Programme.

Other measures related to the consolidation of public finances depend on economic developments as a basis for the relevant decisions. Measures for the consolidation of public finances, as well as the impacts of structural reforms, will be developed and quantified in the 2012 Convergence Programme.

Second Council recommendation: *"Implement the planned pension reform in order to improve the long-term sustainability of public finances and to ensure the future adequacy of pensions. Additional efforts should focus on further changes to the public pillar to ensure that the system is not a source of fiscal imbalances in the future, and on the development of private savings. With a view to raising the effective retirement age and life expectancy could be considered. Ensure that the envisaged funded scheme attracts broad participation, and is designed to keep administrative costs transparent and low."*

In line with this recommendation, the Czech Republic has taken legislative steps in the past year and is now implementing pension system reforms in order to achieve the long-term fiscal sustainability of the pension system and strengthen the equity component as a source of income.

Fulfilment of this goal, in terms of achieving long-term fiscal sustainability, was underpinned by the adoption of Act No 220/2011 amending Act No 155/1995 on pension insurance, as amended (the "small pension reform") and Act No 426/2011 on retirement savings ("big pension reform").

The small pension reform has reinforced the merit side of the pension system, established a further gradual increase in the retirement age in accordance with the expected increase in life expectancy, and laid down faster unification for all contributors. Measures under the big pension reform adapt the pension system to the need for a higher proportion of private savings in the future by establishing another funded pension pillar with a voluntary decision on whether to join as of January 2013. As of that date, those interested in participating in this pillar will be able to join the newly created system. However, the process of (re-)licensing operators should take place in the first half of 2012, so that in the second half of 2012 the offer of joining this pillar can be made.

The primary aim of this reform step is to achieve the greater diversification of risks throughout the pension system by combining the unfunded (PAYG) and funded methods of financing along with combined defined benefit and defined contribution plans. The distribution of risks between both methods will encourage stabilization of the system of security for the elderly.

Third Council recommendation: *Enhance participation in the labour market by reducing the barriers for parents with young children to re-enter the labour market through increased availability and access to affordable childcare facilities. Increase the attractiveness and availability of more flexible forms of working arrangements, such as part-time jobs."*

In response to this recommendation, in particular the Czech Republic is pursuing priorities geared towards further facilitating the reconciliation of work and family life within the family policy and strengthening the active employment policy; it places a stress on youth employment and on expanding the use of flexible forms of employment.

Fourth Council recommendation: *"Improve the performance of the public employment service in order to increase the quality and effectiveness of training, job search assistance and individualised services, linking funding of the programmes to results. In cooperation with stakeholders, extend tailor-made training programmes, for older workers, young people, low-skilled workers and other vulnerable groups."*

In response to this recommendation, the Czech Republic has concentrated on supporting the labour market with smart and effective innovative tools contained within the active employment policy, the implementation of innovative

projects focused on staff training, the retraining of particularly vulnerable groups, including older workers, and support for youth employment by interlinking the spheres of education, vocational training and counselling during the transition from school to the labour market.

Fifth Council recommendation: *"Take the necessary measures to improve the quality of public services in areas essential for the business environment. In this context speed up the implementation of the anti-corruption strategy in line with the identified targets, adopt the Public Servants Act to promote stability and effectiveness of the public administration and take steps to address the issue of anonymous share holding."*

The Czech Republic views the effective functioning of public administration as one of the key prerequisites for the increased competitiveness of the Czech economy and for the provision of public services. For the Czech Republic, a favourable and predictable business environment is a long-term priority, and therefore the measures focus on lightening the administrative burden, making public administration services more accessible, promoting services for business development and providing greater corporate governance opportunities.

In response to the recommendation, the Czech Republic has concentrated on the implementation of the Smart Administration Strategy for 2007–2015 and the Concept for the Completion of Public Administration Reform.

In terms of improving the quality of the legal and regulatory framework and the accessibility of legislation, key projects are the electronic collection of laws (eSbirka) and digitalisation of the legislative process (eLegislativa), which are currently being prepared.

The preparation of the Public Servants Act has advanced to the next phase; the Government has approved the tenets of the bill. The articulated version will be submitted to the Government for consideration in September 2012.

With regard to improving the efficiency, quality and accessibility of public administration, the Czech Republic sees great potential in the gradual introduction of eGovernment services. In this area, the Czech Republic has implemented or is preparing a number of projects, such as data boxes, the Czech POINT public administration contact point, basic public administration registers and the above-mentioned eSbirka and eLegislativa projects.

A Bill on the Transparency of Legal Persons, which addresses the problem of certificated bearer shares, has been prepared. Under the rules proposed in the bill, the transformation of certificated bearer shares should be completed as at 1 January 2014.

Sixth Council recommendation: *"Establish a transparent system of quality evaluation of academic institutions and link it to its funding in order to improve the performance of tertiary education."*

In response to this recommendation, the Czech Republic started to work mainly on a system of indicators that will map out Czech higher education and assess the focus and

quality of individual institutions with respect to their specific mission, and distinguish between the different dimensions of quality in key areas of activities carried out by universities.

In the framework of the *Principles and Rules for the Financing of Public Universities*, 20% distributed of funds have been distributed based on a system of qualitative indicators (i.e. not by the number of students). This model will be evaluated in detail in the next few years. At the same time, material is being prepared for a *system of performance indicators for the higher education system*, through which it will be possible to monitor how a university is developing compared with the whole system. The Government is also heavily engaged in work on mapping the creative activities of universities in order to use this knowledge to further evaluate the quality of higher education.

These measures are described specifically in relevant sections of the National Reform Programme.

The update of the National Reform Programme for 2012 also responds to the **priorities of the 2012 Annual Growth Survey**:

1. Pursuing differentiated, growth-friendly fiscal consolidation.

This priority is primarily reflected in measures contained in Chapter III.1. Consolidation of Public Finances.

2. Restoring normal lending to the economy

This priority responds primarily to the situation in certain EU Member States. It is not a fundamental priority in Czech economic conditions. In certain respects, the pursuit of this priority can be furthered by certain measures contained in Chapter III.5. Support of Growth based on Research and Innovation.

3. Promoting growth and competitiveness for today and tomorrow

This priority is primarily reflected in measures contained in Chapter III.4. Support for Business, Digitization and the Development of the Digital Market, and Chapter III.5. Support of Growth based on Research and Innovation.

4. Tackling unemployment and the social consequences of the crisis

This priority is primarily reflected in measures contained in Chapter III.2.2. Integration on the Labour Market.

5. Modernizing public administration

This priority is primarily reflected in measures contained in Chapter III.1.4. Effective Public Administration and the Fight against Corruption.

The actual update of the document took place during the first quarter of 2012 through intensive formal and informal consultations involving a wide range of stakeholders, particularly social dialogue partners (including the Bohemian-Moravian Confederation of Trade Unions, the Association of Independent Unions, the Confederation of Industry of the Czech Republic, the Economic Chamber of

the Czech Republic, the Confederation Employers' and Entrepreneurs' Associations of the Czech Republic), representatives of relevant committees from both chambers of Parliament, the Association of Regions of the Czech Republic, the Association of Towns and Municipalities, universities, the academic community, NGOs, the European Commission Representation in Prague, experts and professionals. The update of the National Reform Programme for 2012 was discussed by the European affairs committees of both parliamentary chambers, and the Working Team of the Council of Economic and Social Agreement for the EU, and was submitted to the plenary of the Council for Economic and Social Agreement.

The resultant text reflects numerous comments raised during the consultations. It should also be noted that it contains priorities consistent with the Government's competencies resulting from the constitutional order of the Czech Republic because it is a document approved at government level, which means that it cannot contain priorities and measures which the Government does not have the means or ability to pursue or implement. In this respect, full agreement with all the social dialogue partners was not achieved on certain reform measures contained in the text.

I.4. Consistency of the National Reform Programme with the Government's Strategic Materials

The content of the National Reform Programme is linked to other strategic materials of the Government related to economic policy, growth and competitiveness. It forms a basis for individual strategic documents adopted by the Government or individual ministries which are aimed at individual sub-areas of national policy. These documents are regularly mentioned in the text at appropriate places and are also annexed to the 2011 National Reform Programme. Older cross-cutting government strategic materials with high relevance to the National Reform Programme include the Sustainable Development Strategy and Regional Development Strategy.

In terms of synergy, recent strategy documents that should be mentioned include, in particular, a key document of a horizontal nature on which the National Reform Programme builds in those parts relating to the implementation of Europe 2020. This document is the *International Competitiveness Strategy of the Czech Republic 2012 - 2020: Back to the Top* (ICS), which the Government adopted in September 2011 and aims to establish the Czech Republic among the twenty most competitive economies in the OECD by 2020.

The ICS assesses competitiveness in nine pillars (based on the methodology of the World Economic Forum, which annually publishes a Global Competitiveness Index) and encompasses 43 projects incorporated into specific measures. The projects aim to create conditions conducive to creative entrepreneurship, innovation and sustainable growth in living standards.

The Government considers the implementation of measures contained in the ICS a priority, and therefore the National Reform Programme for 2012 refers, in various sub-chapters, to the coherence of reform measures with the relevant chapters of the ICS. On 21 March 2012, the Government approved the Mechanism for the Implemen-

tation of the International Competitiveness Strategy of the Czech Republic for the 2012–2020 period. This mechanism includes a specific timetable for the implementation of each measure and determines the form and timing for the submission of evaluation reports.

The implementation of the ICS and therefore the realization of the various measures will be covered by the Government Council for Competitiveness and the Information Society. The aim is to ensure a more effective means of inter-ministerial communication, the greater consistency of measures and the early detection of risks.

In addition to the International Competitiveness Strategy, it is necessary to stress the link between the National Reform Programme for 2012 and national priorities related to the EU cohesion policy in the future programming period, acknowledged by the Government in September 2011. The EU cohesion policy is an important tool in the pursuit of objectives set out in the National Reform Programme. The Government aims to use resources from the Structural Funds in the next programming period with a greater emphasis on the verifiability of their benefits to competitiveness and growth. It is therefore necessary to view the National Reform Programme as a basic strategic framework when establishing objectives related to the EU cohesion policy.

In view of the above, the National Reform Programme also includes the aspect of the territorial dimension of development goals, naturally while respecting the vertical division of powers between the central and local government arising from the constitutional order of the Czech Republic.

In its macroeconomic and fiscal part, the National Reform Programme, in the context of the European Semester, shows continuity with the 2012 Convergence Programme.



II. Basis of Economic Policy

II.1. Macroeconomic Trends in the Czech Republic

According to current data, the Czech economy grew by 1.7% in 2011 in spite of the fact that the annual growth rate slowed down gradually during the year. GDP declined in the third and fourth quarter of 2011 by 0.1% and the Czech economy formally found itself in a technical recession. Therefore, the current phase of the economic cycle can be regarded as stagnation since such small changes in GDP are ascribable to inevitable statistical errors and later revisions of quarterly national accounts are usually skewed towards higher growth. GDP is expected to grow by 0.2% this year, i.e. the Czech Republic expects the stagnation to continue. We expect GDP to increase by 1.3% in 2013 and gradually accelerate in following years, reaching 2.8% in 2015.

Growth in consumer prices is expected to be around 3.3% in 2012 and 2.3% in 2013. Development of consumer prices will be substantially influenced by changes in VAT. The inflation rate should be in close proximity to CNB's inflation target in years 2014 and 2015.

The situation on the labour market should reflect slow economic growth and increased uncertainty. Employment rate should decrease by 0.5% this year and stagnate in 2013 or rather grow by 0.1%. We do not expect employment growth to exceed 0.4% in the following years. Unemployment rate (LFS) was at 6.7% last year and should reach 7% this year. Further increase in unemployment is expected in 2013, but a very slow decline should take place in 2014 and 2015. Wages and salaries could increase by 1.5% in 2012, 2.6% in 2013 and 4.5% in subsequent years.

The current account deficit as a proportion of GDP should remain at a low and sustainable level. However, given the high uncertainty regarding future development in the euro area, significant downside risks for the scenario under consideration remain.

Table: Key macroeconomic indicator

		2008	2009	2010	2011	2012	2013	2014	2015
						Forecast	Forecast	Outlook	Outlook
Gross domestic product	<i>bil. CZK, curr. pr.</i>	3 848	3 739	3 775	3 809	3 891	3 996	4 143	4 325
Gross domestic product	<i>growth in %, const.pr.</i>	3,1	-4,7	2,7	1,7	0,2	1,3	2,2	2,8
Consumption of households	<i>growth in %, const.pr.</i>	2,8	-0,4	0,6	-0,5	-0,4	0,2	2,0	2,8
Consumption of government	<i>growth in %, const.pr.</i>	1,2	3,8	0,6	-1,4	-3,7	-0,5	-1,8	-0,2
Gross fixed capital formation	<i>growth in %, const.pr.</i>	4,1	-11,5	0,1	-1,2	-0,5	2,1	2,8	3,2
Cont. of foreign trade to GDP growth	<i>p.p., const.pr.</i>	0,9	0,8	0,9	2,6	1,0	0,8	0,8	0,5
GDP deflator	<i>growth in %</i>	1,9	1,9	-1,7	-0,7	2,0	1,4	1,4	1,5
Average inflation rate	<i>%</i>	6,3	1,0	1,5	1,9	3,3	2,3	1,8	2,0
Employment (LFS)	<i>growth in %</i>	1,6	-1,4	-1,0	0,4	-0,5	0,1	0,2	0,4
Unemployment rate (LFS)	<i>average in %</i>	4,4	6,7	7,3	6,7	7,0	7,2	7,1	6,9
Wage bill (domestic concept)	<i>growth in %, const.pr.</i>	7,5	-2,1	-0,4	1,1	1,5	2,6	4,7	4,4
Current account / GDP	<i>%</i>	-2,1	-2,4	-3,9	-2,9	-2,4	-2,3	-2,2	-3,8
<i>Assumptions:</i>									
Exchange rate CZK/EUR		25,0	26,4	25,3	24,6	25,1	24,9	24,8	24,6
Long-term interest rates	<i>% p.a.</i>	4,6	4,7	3,7	3,7	3,4	3,5	4,0	4,4
Crude oil Brent	<i>USD/barrel</i>	98	62	80	111	115	113	115	115
GDP in Eurozone (EA-12)	<i>growth in %, const.pr.</i>	0,3	-4,2	1,9	1,4	-0,3	0,7	1,4	1,8

Source: Ministry of Finance of the Czech Republic (based on Macroeconomic Forecast from April 2012)

II.2. Competitiveness as a Goal of Czech Economic Policy

This section contains the basic strategic objectives of the Government's economic policy, incorporating the outlook for the entire decade from 2010 to 2020, and therefore remains unchanged compared to the version of the National Reform Programme for 2011. It should be borne in mind that the financial and economic crisis, which in 2012 and certainly in future years will have negative impacts on the real economy in the Czech Republic, is a challenge that must be reflected when setting guidelines for the national economic policy. In this respect, the support of competitiveness, the prime objective of the National Reform Programme, is all the more pertinent this year. Circumstances in the euro area and in the Czech Republic itself indicate that austerity measures in the fiscal sector are not, in themselves, enough to ensure sustainable levels of economic development, and need to be accompanied by pro-growth measures to ensure the long-term competitiveness of the economy

This position is also defended by the Czech Government in its policy towards the EU. For these reasons, the Czech Government co-initiated and signed a letter of 20 February 2012 from 13 heads of States and governments of EU Member States, which, on the eve of the March European Council, was addressed to the Permanent Chairman of the European Council and the President of the European Commission. The letter calls for pro-growth measures at EU level and places an emphasis on completing the single market and maximizing its potential.

As the negative economic outlook will result in additional fiscal measures, which the update of the National Reform Programme for 2012 fully takes into account, more attention needs to be paid to other accompanying measures, which will complement the budgetary savings to prevent a spiral effect and further economic slowdown. It should be noted that the Government's additional fiscal measures are a response to the action undertaken by the euro area and the EU, particularly with a view to achieving the jointly defined objectives in the fiscal pact, the underlying purpose of which the Government supports regardless of the issue of its own accession to this pact.

II.2.1. Competitiveness: Meaning and Purpose of the National Reform Programme of the Czech Republic

Europe 2020 is based on the principle of an open method of coordination under Article 121 of the Treaty on the Functioning of the European Union. This legal basis determines the status of various EU institutions and Member States in the preparation, monitoring and adoption of

measures to fulfil the jointly set targets. A key principle of joint coordination is a consensus on objectives and indicators at EU level, while leaving the Member States free space in deciding how to achieve them.

The economy of each EU Member State is determined by a number of specific objective factors. This diversity is one of the pillars underpinning the functioning of the European Union, so preserving it is in the interests of all Member States.

At the same time, however, this diversity places increased demands on the potential form of economic coordination. As this coordination, according to Article 121 of the Treaty on the Functioning of the European Union, is not among those EU competences where the method of legislative harmonization can be used, the political will of governments and national parliaments of Member States continues to play a key role here.

The aim of Europe 2020 is therefore not to establish common procedures and measures to achieve the agreed targets, but to allow the States, on the basis of their political will and in accordance with the objective conditions of their economies, to shape the systems of their economic policies so that the resulting effect at EU level is not centrifugal, but synergistic. The commonly set targets therefore represent limits in which States should move and to which they should adapt their policies without relinquishing the democratic formation of such policies according to their own will and interests.

From this perspective, the Czech Republic views the National Reform Programme as a contribution towards achieving the targets of Europe 2020 and also as a framework built on trends in domestic economic policy for the coming years. The specific form of this policy, including strategic decisions on partial measures, however, cannot be determined by the National Reform Programme, as it is not intended to be a key prescriptive conceptual document at national level, but the Czech contribution to coordination at transnational level.

The Czech Republic views the main purpose of Europe 2020 as a joint effort to increase the competitiveness of the European economy as a whole. While competitiveness is not listed among the various targets of the Strategy, general synergy in the pursuit of these targets should lead up this path. With this in mind, the Government drafted its National Reform Programme in accordance with the main objective of sustainable competitiveness of the EU. The premise is to exploit fully the potential of the internal market, as the cornerstone of the European integration project. Therefore, in 2012 the motto "Investing in Europe's competitiveness", guiding the Government in the

conception of the National Reform Programme in 2011, remains valid.

In its update of the National Reform Programme for 2012, in this context the Government pursued the objective of creating maximum synergy with the International Competitiveness Strategy, which sets specific measures in nine major pillars as part of the goal of increasing competitiveness. The measures are designed to improve the business environment, create favourable conditions for innovation and improve the quality of the education system. The proposed measures are based on the recommendations of international institutions (OECD) and the National Economic Council.

II.2.2. Exports and Industry as Key Objective Factors of the Czech Economy

The Czech economy is one of the most open in the world, with a dominant export orientation. Therefore, it is also highly dependent on the international division of labour, on external economic relations and on the economic growth of those States to which the overwhelming majority of Czech exports are headed (with Germany and the Czech Republic's other neighbours at the top of the list). Competitiveness and economic growth in these States therefore interact closely with the economic growth of the Czech Republic.

Following the Czech Republic's accession to the European Union, export links with those European economies with which we maintain a highly active trade balance were consolidated even more. To maintain the competitiveness of the Czech economy, cardinal themes are the functionality of the internal market and the removal of barriers to its functioning.

The export orientation of the Czech economy is connected, among other things, with the dominant role played by industry in the domestic economy. With 37.1% of employees working in the industries, the Czech Republic is a highly industrial country (the EU average is 24%). While this development has been boosted by the recovery in the first half of the last decade, this orientation of the Czech economy can continue to be regarded as an objective determinant for future years. Industry is also a sector reporting long-term productivity growth in the Czech Republic; this does not hold true for the service sector, although even there is potential for the future. With its focus on exports, favourable geographical position and the orientation of neighbouring economies, Czech industry has the potential to find markets in European and world markets. At the same time, to maintain or strengthen its competitiveness in the future, the transition to more sophisticated production, using innovation and new technologies, must be intensely promoted.

The further orientation of Czech exports should also be channelled into services with high added value. Here, the primary focus should be on establishing an institutional

framework and fostering conditions in which this potential can be harnessed.

II.2.3. Democratically Legitimized Political Will Reflecting Objective Factors in Society and the Economy

The state economic policy clearly cannot be merely the result of functional necessities arising from objective factors. A key role must be played by political, legitimate will shaped by democratic procedure. This can and must take into account other factors, such as the social dimension of the economy, respect for cultural traditions, human freedom, the environment and further values. The specific focus of economic policy will therefore always be based on specific normative concepts stemming from the policy programmes of political parties competing in democratic elections. There should be a logical connection, based on the principle of rationality, between objective factors and the subjective will of the political entity – the people – articulated through elected representatives.

With regard to this situation, the National Reform Programme incorporates trends combining objective conditions and the imperatives of political will, also establishing the boundaries of this Programme, which must respect the Government's Policy Statement and the Government's political consensus on major issues. At the same time, however, the Programme should reflect interests resonating in society, including the positions of economic, social and regional partners, whose representatives were consulted during all stages in the preparation of this document.

II.2.4. Main Priorities of Czech Economic Policy against the Backdrop of Europe 2020

Bearing in mind the above objective and subjective determinants, several key priorities can be determined which outline different strategic directions and specific measures of national policy in the upcoming period..

Competitiveness of Businesses

The default priority following on from the above concept of Europe 2020 will be to increase competitiveness as this is a key growth factor for the Czech Republic as a very open economy geared towards exports. Competitiveness can be viewed according to the definition presented by the Organization for Economic Cooperation and Development (OECD), i.e. the ability to produce goods and services which can withstand international competition, combined with the ability to maintain or increase real GDP. At the same time, it can be understood as part of, and a prerequisite for, a deeper goal, which is primarily to ensure a sustainable increase in the living standards of citizens. Key units applicable when measuring the competitiveness of the economy are not only businesses, but also individuals.

Competitiveness conceived in this way is the result both of immutable objective factors and of activities by public authorities, which, in the case of the Czech economy, can be divided into central government power, the power of transnational organizations (especially the EU) and the power of self-governing bodies (although the source of legitimacy for all three components is state power). The National Reform Programme focuses only on the possibilities existing in the current structure of competences.

National measures, in addition to increasing the efficiency of public administration itself, should be directed primarily at promoting the competitiveness of domestic enterprises in Europe and worldwide. The fact that most companies operating in the Czech Republic are in the hands of foreign investors also needs to be reflected. It is therefore necessary to cultivate a favourable business environment, a friendly influx of foreign investment and the long-term holding of such investment in the Czech Republic.

With regard to the principles of social market economy, long advocated by the Czech Republic, it is also necessary to take into account limits arising out of respect for elements of social solidarity, as well as arrangements to ensure the minimum living and social standards of citizens and security for workers. From this perspective, although numerous measures can be taken to improve price competitiveness, the main *raison d'être* of Czech economic policy should be to promote non-price competitiveness based on certain objective factors of the structure of the Czech economy.

In accordance with improving public administration efficiency, superfluous measures holding back the competitiveness of enterprises should be removed on an ongoing basis.

Promotion of Exports

As mentioned above, the Czech Republic will remain an export-oriented economy in the coming decade. In terms of industrial distribution, a key sector is (and will likely remain) engineering, which accounts for more than half of all of the Czech Republic's exports (54.2% in 2009). Besides engineering, government policy will also focus on supporting sectors delivering high added value, including biotechnology, nanotechnology, information technology and other sectors that are currently on the rise but will be unable to compete in the market without state aid. In order to diversify the economy and increase its growth potential, attention will also be paid to services with high added value.

The export performance of the domestic economy is closely linked to its competitiveness. The promotion of exports as part of the International Competitiveness Strategy must be based on a conceptual pro-export policy, which must include, *inter alia*, closer institutional coordination in the foreign representation of the Czech Republic.

Although much of Czech exports are headed for European

markets, the State should also aim to increase the attractiveness of other foreign markets, especially among small and medium-sized enterprises. In terms of exports outside the EU, the Czech economy still has significant untapped potential, even in comparison with other EU Member States. In particular, south-east Asia, including China, and Latin America are regions in which Czech exports can certainly be supported, and where the trade balance result can be improved. The specific markets of third countries where the State's priority support should be focused will be identified, *inter alia*, in the Export Strategy and International Competitiveness Strategy of the Czech Republic.

Industrial Policy

The essence of industrial policy can be grasped as a system of State measures in the economic sphere focusing on public-private partnerships to develop new technologies and industrial production. This policy is a priority area for both Europe 2020 and the European Union, as evidenced by the European Commission's key initiative "Industrial Policy for the Globalization Era". Considering the role played by the industrial sector in the Czech economy, this part of the Strategy should be considered essential in the priorities of the Czech Republic.

Measures by the State and public authorities may be aimed either at underpinning individual industrial entities or sectors, or at affecting the overall structure of this segment. The aim of all measures, however, must be to promote the competitiveness of the national economy as a whole. In this respect, individual steps must not interfere with free competition, even in a pan-European context, disadvantage taxpayers and consumers, or lead to imbalances distorting the overall principle of the market.

With regard to the constraints arising from the European model of a social market economy, the primary focus should be on those areas that will enable the Czech industry to maintain its competitive advantage in the future. In particular, this includes a well-prepared, educated and skilled workforce meeting the needs of industry, good transport, communication and energy infrastructure, and technology support, including technical know-how and applied research, etc. The industrial sector is currently the main driver of innovation potential.

The economic crisis of recent years has revealed the high sensitivity of industrial sectors across Europe. The greatest degree of stability has been in manufacturing. This area needs to be supported in line with the key priorities of intelligent, socially inclusive and sustainable growth, as well as the need to exploit innovative potential in industry and strengthen global competitiveness. However, the production cycle must be monitored throughout the value chain. This also applies to the sphere of energy intensity, where demands associated with transport and other infrastructure, raw material extraction, subcontracting production and subsequent recycling, regardless of territorial distribution, ought to be borne in mind. Then the negative

implications of, for example, relocating production, which are subsequently reflected in other parts of the value chain, will become more evident.

In its promotion of industry, the Government will continue to place a particular emphasis on supporting small and medium-sized enterprises, on links to the active employment policy, and on research, development and technological (industrial) innovations. At the same time, however, it will respect the real possibilities of the Czech economy and the effects of its positional benefits.

Support for the Development of the Internal Market and Small and Medium-sized Enterprises

As 85% of Czech exports are destined for the EU internal market, it is a priority interest of the State for the internal market to function as well as possible. In this area, the EU shares powers with its Member States, and therefore it should be included in the National Reform Programme. Further support for the development of the internal market is one of the Czech Republic's domestic priorities in order to increase competitiveness and fulfil the objectives of Europe 2020. The Czech Republic will consistently advocate this position in the EU. In particular, the Czech Republic will press for the enforcement of the priorities set out in a letter of February 2012 from 13 EU Member States addressed to the Presidents of the European Council and the European Commission.

As part of its European policies, the Government will seek to remove barriers and open up previously non-liberalized sectors, which pose a problem to small and medium-sized enterprises in particular. The Government will support initiatives aimed at improving the European business environment, as identified, for example, in the Monti Report and specified in the European Commission's communication on the Single Market Act and in the Small Business Act and the revision thereof. The Czech Republic will continue to regard the internal market as one of the key instruments of European competition policy which should not be overshadowed by alternative concepts. At the same time, the external dimension of the internal market must not be neglected; the Government will continue to advocate the elimination of barriers to international trade via negotiations of EU institutions within the World Trade Organization.

Support for small and medium-sized enterprises, which play an important role in creating new job opportunities, and which, in view of their importance to the economy, have a significant impact on the overall economic and, consequently, social development of the country and individual regions, will remain a priority of future government economic policy.

Reducing Labour Costs

One of the problems faced by the Czech economy is the high effective tax on labour, which pushes up labour costs and thereby adversely affects price competitiveness. Over the last decade, the domestic currency has appreciated

greatly and wages have risen; while this has a positive impact on domestic demand, it has also had a negative impact on the global competitiveness of Czech products due to the steady increase in labour costs. Compared to the services sector, the competitiveness of which has been rather flat (although it is a sector with high potential for long-term growth and competitiveness), the manufacturing industry has shown that it is best placed to respond to external factors (the economic crisis) and to adapt labour costs to productivity and external conditions.

In this regard, one of the objectives of economic policy should be, in particular, to reduce non-wage labour costs in industrial sectors. Tax reforms need to shift the tax burden to consumption and reduce labour taxation. For the same reason, it is not appropriate to unilaterally increase corporate income tax without reducing the effective taxation of labour, as this tax is also reflected in labour costs.

Furthermore, measures to increase productivity and maintain harmony between wage developments and labour productivity trends also need to be taken in other areas.

Development of the Business Environment and Effective Institutional Backdrop for the Development of Non-price Competitiveness

In addition to the possibility of directly influencing price competitiveness through labour costs, it is necessary to support various steps leading to enhanced non-price competitiveness. First and foremost, attention should be paid to providing a quality institutional backdrop and the cultivation of a transparent, long-term predictable business environment. State policy should aim not for the mechanical shrinking of the state sector, but, primarily, for a change in its structure to better reflect the demands of the economy. State administration should be effective, efficient and better coordinated. Redundant costs resulting, for example, from the duplication of agendas, and excessive and opaque regulation must be eliminated, and opportunities for corruption need to be reduced.

State policy must be based on the premise that the only possibility of long-term economic stability lies in increasing competitiveness. However, budget-related austerity measures in themselves are inadequate. Far more necessary than the mere reduction of public funds is the reform of the various areas where these funds are spent. It is also necessary, in public expenditure, to continue placing a major emphasis on public investment for the development of the business environment, including more effective support for science, research, innovation and transport infrastructure, with regard to the key role played by EU cohesion policy in this area.

Support of institutions should not neglect institutions of education and vocational training. Instead of blanket support based on student numbers and instead of focusing on the total number of students holding a secondary-school leaving certificate or a university degree, sights

should be set on the structure of teaching and study fields, and on strengthening general education in key areas, taking account of the global transformation of the knowledge paradigm to education as lifelong process. The quality of education must take precedence over numbers of pupils and students, as, in this respect, a simple increase in university-educated people does not in itself benefit the economy if students are graduating in subjects having no connection with labour market demand. The inefficient financing of such education increases the costs of the public and private sector.

It is therefore necessary to adjust policy in the structure of educational institutions to market demand. This must not entail the complete elimination of fields of study that offer little or no return, but the number of students in these fields must be consistent with interests and needs, bearing in mind the resources of the State and its regions. Support should be concentrated more in those subjects where skill shortages are identifiable. In this regard, attention should also be paid to the sphere of vocational training (apprenticeships) in response to the industrial nature of the Czech economy. In this context, the lifelong learning and retraining of traders and other groups, especially in regions with high unemployment, should not be neglected.

Support of Legislation for a Competitive Economy

Besides institutional facilities, there should be a greater focus on establishing legislation that can deliver greater labour market flexibility and streamline the market in services and goods. The most important legislation must be concentrated into codes that can be understood by ordinary citizens.

Key priorities are the adoption of a new Civil Code and, in order to ensure consistent regulation, the modernization of related legislation, such as the Labour Code. A key role for business development will also be played by the modernization of the Commercial Code with a view to promoting the principle of contractual freedom within the constraints of mandatory regulations.

Measures expanding the labour market's integration capacity need to be promoted in legislation. Conditions for the creation of childcare facilities must be simplified

without detracting from the best interests of the child. Tax measures and changes in social legislation should strengthen awareness of individual responsibility for improving one's own social situation, including motivation to enter the labour market.

Support of Industry and Services Based on Research and Innovation

As mentioned above, industry plays a major role in the Czech economy. The State's priorities in individual sectoral policies (support for science, research and innovation, and support for education in the field of energy) should be adapted to this. With public financing opportunities limited, it is necessary to make a distinction based on priority interest, including in areas strongly supported by the State, and taking into account global economic trends.

The importance of intangible assets and relationships (especially to services) and, in general, the knowledge society is rising in the world.

In this process, a key role is played by the readiness of individual countries to absorb the technology on which services with high added value and knowledge systems are based. In particular, information and communication technology, biotechnology, nanotechnology and space technology are at the centre of attention.

The innovative potential of the Czech economy should be seen especially in industrial manufacturing and services with high added value; the policy of support for innovation, research and development must be consistent with this. In those areas, the driver must be the private sector, albeit accompanied by a properly conceived central government and regional policy.

It remains necessary to direct adequate support into the sphere of primary research, which is the basis for further scientific progress and the development of applied research. However, the public funds spent must predominantly constitute investments in competitiveness. Even in scientific fields not directly connected to the outputs used, it is necessary to prioritize those sectors, institutions and scientists who are able to compete internationally. Also in this case, in terms of both the number of students and research institution capacity, quality must take precedence over quantity.

II.3 Public Investment under the EU Cohesion Policy and the Territorial Dimension of the National Reform Programme

For the Czech Republic, a significant contribution to the targets of the Europe 2020 Strategy are public investments made in relation to the EU Cohesion policy both by central government as well as regional and local authorities. Interventions under the EU Cohesion policy already contribute to increased competitiveness and inclusive, smart and sustainable growth in many areas. In 2007–2013, the Czech Republic could invest up to EUR 26.9 billion in this context.

The adequate configuration and appropriate thematic focus of support provided via the Cohesion Policy in the programming period after 2013 is therefore a key factor for the further successful implementation of Europe 2020. The Government places an emphasis on setting an appropriate mix of national development priorities. The National Reform Programme, as a summary of the Czech Government's reform priorities relevant to the targets of Europe 2020, is therefore one of the sources determining the thematic focus of interventions under the EU Cohesion Policy after 2013.

The Government also pays due attention to the preparation of the implementation structure for the implementation of future EU Cohesion Policy. It does so based on its assessment of experiences from the current period. There is a close relationship between the two aspects, i.e. the thematic focus and the implementation structure. In the future period, this will primarily result in a dramatic reduction in the number of operational programmes compared to the situation as it stands now, with an emphasis on the criterion of necessity and major orientation of interventions on results (and measurability).

In this respect, the National Reform Programme draws as much as possible on priorities identified in the Government's key strategy documents, especially the Government's Policy Statement and the International Competitiveness Strategy of the Czech Republic. The concentration of priorities, thus identified, into key thematic areas also defines the framework for future EU Cohesion Policy interventions.

II.3.1. Government Priorities for Future Interventions under the EU Cohesion Policy and their Links to the National Reform Programme

On the basis of the main priorities discussed by the Government in connection with preparations for the programming period after 2014, guidelines for future investments under the EU Cohesion Policy were crystallized. These are based on a socio-economic assessment of necessity and are

consistent with the focus of the National Reform Programme and the structure of its chapters devoted to the reform measures. Those priorities are:

1. Increased competitiveness of the economy, including the enhanced quality and efficiency of public administration;

This priority primarily encompasses the reform measures contained in the following sub-chapters of the National Reform Programme: the reform of taxes and the tax system, effective governance and combating corruption, reduction of administrative and regulatory burdens on businesses, institutional support for business development, improvement of the access to broadband Internet and the development of eGovernment, increasing energy efficiency, increasing the share of renewable energy, reduction of the greenhouse gas emissions, and improvement of the quality of the environment.

2. Completion of the backbone infrastructure;

This priority mainly comprises reform measures contained in the following sub-chapters of the National Reform Programme: strategic planning of transport infrastructure development, provision on effective financing of the completion of the backbone network.

3. Education, research, development and innovation;

This priority mainly comprises reform measures contained in the following sub-chapters of the National Reform Programme: enhancing the quality and availability of preschool education, systematic improvement of the quality of educational activities and reform of the educational system, reform of higher education, investment in R&D and innovation and an evaluation of the outputs and impacts thereof, increasing the innovation potential of the Czech economy.

4. Effective labour market, social inclusion, fighting poverty and development of the health care system;

This priority mainly comprises reform measures contained in the following sub-chapters of the National Reform Programme: the modern welfare system and labour law, labour market integration, social inclusion and poverty reduction.

5. Integrated territorial development.

In view of the clear division of responsibilities between the State and regional and local authorities, resulting from the constitutional architecture of the Czech Republic, the Government-approved National Reform Programme can

neither replace nor integrate strategic plans established by regions, towns and municipalities according to their needs, but also according to the democratically legitimized political will articulated at these levels.

The Government, however, follows the principle that the strategic determination of development priorities at national level must also adequately reflect the specific needs of regions, towns and municipalities. Therefore, the regional dimension will be an integral part of the development of these areas. The actual territorial dimension will be covered as a theme in a distinct area of support.

Top-down approaches (respect for the macroeconomic context, the EU and Czech framework documents, and assessments of deficiencies in the functioning of the Czech economy and its development prospects by other external actors) will be combined with bottom-up approaches (the perception of current and future requirements of the relevant actors from the economic environment and the needs of society as a whole).

II.3.2. Regional and Urban Dimension in the NRP

As mentioned above, the National Reform Programme cannot determine priority areas for the development of individual regions, but must take into account factors leading to the different needs of individual regional and local authorities.

In particular, the ever-widening disparities in the economic and social performance of the regions and related disparities in unemployment, living standards and the social situation of the population should be reflected.

Here too, however, it is absolutely essential to have a hierarchy of priorities due to the principle of thematic concentration and in view of the limited financial resources earmarked for EU Cohesion Policy in the period from 2014 to 2020. The Government will seek to ensure that resources are targeted specifically at pre-defined key problem or development areas.

During further implementation of EU Cohesion Policy, the Government will therefore pay attention to the achievement of the declared objectives in accordance with basic regional development strategy documents such as the Regional Development Strategy for 2007–2013 and the planned new Strategy for 2014–2020. These objectives include reduction of regional disparities, implementation of the necessary structural transformations in the regions and triggering processes leading to balanced territorial development. The purpose of applying regional dimension, besides taking into account regional needs and regional disparities, is to provide space to reflect aspects of key actors in terms of their co-decision powers, the degree of subsidiarity or differentiated stances in the defined territories.

An integral part of the regional dimension is the urban dimension, including harmonization of the development

of rural and urbanized areas. In performing their functions, towns, much like regions, face a number of specific issues. In this case, again, the roots of these problems are often interrelated and are also connected with lifestyle changes.

Efforts will therefore focus primarily on the consolidation of towns as centres of growth and on the promotion of the diversification of economic activities in towns and rural areas: in infrastructure, public transport and accessibility; in the stimulation of economic development and business support; in human resources and education, public health, social cohesion; in the promotion of science, research, innovation, and information technologies; in a healthy environment; in partnerships and cooperation in the area, networking and the sustainability of network operation. These are all areas covered by the Government's main development priorities targeted by future investment under the EU Cohesion Policy.

II.3.3. Role of the Regions, Towns and Municipalities as Partners in Preparations for Future EU Cohesion Policy

The resulting focus of future EU Cohesion policy in the Czech Republic, including the regional and urban dimensions, will therefore be the intersection of priorities formulated at international, national, regional and municipal levels, and will reflect the decision-making processes in the creation of interests in all three spheres. At the same time, discussions with social partners will be taken into account.

The framework of conditions for the future Cohesion Policy, thus formulated, provides full complementarity between national priorities contained primarily in the National Reform Programme and other strategic materials adopted by the Government on the one hand and regional and municipal priorities on the other.

This will facilitate support for matters falling within spheres such as culture, tourism, the promotion of social and public services, local and regional transport infrastructure and the completion of environmental infrastructure, etc. The pursuit of these priorities can also ultimately be viewed as a step towards creating a competitive economy based on the principle of sustainable growth, a sustainable increase in the living standards of citizens and environmental quality.



III. Main Reform Measures

III.1. Consolidation of Public Finances

Introduction

Public finances in the Czech Republic suffer from structural deficits, even during the growth period. The deepening recession, followed by the current stagnation and unfavourable economic forecast, has stressed the need for structural reforms and internal consolidation even more. Reduction in structural deficits is necessary to ensure the long-term sustainability of public finances, and thus the competitiveness of the Czech Republic.

Achieving a balanced general government balance remains the Government's priority objective. In 2013, the deficit should fall below 3% of GDP and then gradually decrease until a balanced budget is achieved in 2016. The outlook of balances, based on the ESA95 concept, is shown in the following table:

in % of GDP	2013	2014	2015	2016
General government balance	-2,9	-1,9	-0,9	0,0

Source: Ministry of Finance of the Czech Republic

Main Reform Objectives

The sustainability of public finances is an overarching objective which needs to be reflected in all areas of general government and public sphere. Individual reform measures should therefore be at least budgetary neutral, either directly or in their final effect. More detailed information on the budgetary impacts of the reforms mentioned here can be found in the Czech Republic's 2012 Convergence Programme.

During 2011, as part of the reform packages submitted by the Government and approved by Parliament, significant progress was made in consolidation efforts. Among the most important measures approved are the "small" and the "large" pension system reforms. The large pension reform will take effect as of 1 January 2013. The measures taken follow through on steps planned in this area and are also consistent with the country specific recommendations for the Czech Republic.

Despite the measures already approved, there are still areas where reform efforts need to continue to reduce their budgetary demands in the long run. These include health care, in which the negative consequences of population ageing are also strongly reflected.

At the same time, it is advisable to continue implementing consolidation measures on the revenue side so that the tax system becomes simpler, administratively less demanding, and transparent, and to maintain or increase the com-

petitiveness of the domestic economy. Important also is the preparation of the Constitutional Act on Budgetary Discipline and Accountability which is due to be adopted in 2013. This Act will create a sufficiently robust and effective fiscal framework for the Czech Republic.

An important condition of budgetary discipline is the effective functioning of state administration in the handling of public funds. In particular, it is necessary to increase transparency and take reform measures in order to combat corruption and waste. An effective anti-corruption strategy is a prerequisite for all further reforms on the expenditure side of public budgets. This should include strengthening of accountability in public administration and the reduced outsourcing of basic activities of central and local administration to the private sphere.

The Government intends to continue its austerity measures. At the same time, the Government is aware that these measures cannot be motivated solely by the desire to reduce expenditures, but must follow a priority, which is now mainly to kick-start sustainable growth based on the support of competitiveness. The Government therefore aims primarily to structure public spending in a suitable way so that public investments strengthen competitiveness further.

Reforms therefore cannot consist only of budget cuts, but in particular they must also include pro-growth measures, such as the creation of quality conditions for business and development.

Additional Fiscal Steps by the Government Undertaken in 2012 beyond the Framework of the NRP

Considering the unfavourable outlook of economic developments, during 2012 the Government will take further steps towards fiscal consolidation. In this context, the Government considers its main priority to be the pursuit of objectives under the Stability and Growth Pact and the related legislative acts adopted at EU level. These objectives must be linked with and complemented by the measures listed in the National Reform Programme.

However, the Government will seek to ensure that implementation of the 2012 National Reform Programme is not compromised. Fiscal measures that will be taken in the spring and summer of 2012 beyond the framework of this programme should therefore not compromise the priorities of the National Reform Programme; the current version of the National Reform Programme already takes account of potential measures (although at the time the programme was prepared they had not yet been adopted by the Government).

III.1.1. Tax and tax system reform

III.1.2. Health system and public health insurance reform

III.1.3. Fiscal framework reform

III.1.4. Effective public administration and the fight against corruption

III.1.1. Tax and Tax System Reform

The main objectives of tax reform for the coming period are to reduce the administrative burden and contribute to the consolidation of public budgets. Tax reform must also contribute to the competitiveness of the Czech economy. Therefore, it should lay down conditions that will facilitate economic growth and an influx of foreign investment. The Government would also focus on streamlining and simplifying tax collection so that the whole system is more taxpayer friendly.

Evaluation of the Implementation of Reform Measures under the 2011 NRP

The tax reform measures that have been made or are under preparation are consistent with 2011 Specific Recommendation to the Czech Republic (CSR) No 1 in the part "continue efforts to exploit the available space for increases in indirect tax revenue to shift taxes away from labour, improve tax compliance, and reduce tax evasion". These measures also comply with the emphasis placed by the 2012 Annual Growth Survey on the contribution of tax reforms to growth. The budgetary impacts of tax reforms are quantified in the Czech Republic's 2012 Convergence Programme.

In the period from April 2011 to April 2012, the following tax reform steps were taken:

- The introduction of a 20% levy on lotteries and other similar games, to be channelled into public budgets;
- An increase in the reduced value added tax rate from 10% to 14%;
- An increase in tax on tobacco products based on the requirements of the Council Directive 2011/64/EU;
- An increase in the child tax concession by CZK 150 per month;
- The establishment of a Specialized Financial Office, responsible for the administration of major taxpayers, such as financial institutions or legal entities with a turnover exceeding CZK 2 billion.

Specific Reform Priorities with Particular Reference to 2012

Public budgets will be consolidated in 2012 and 2013. This consolidation will be carried out both on the expenditure side (in the form of cuts) and in 2013 on the income side, by means of a potential increase in certain taxes. For exam-

ple, following measures are planned for 2013: both VAT rates will rise by 1 % compared to rates in 2012, health insurance limits will be abolished, the so-called "solidarity surcharge" on personal income tax exceeding social insurance limits will be introduced, basic discount on the taxpayer for working pensioners will be abolished. All the measures above will be effective only for a transitional period of three years. Other measures that would become effective in 2013 do not have a legislatively limited period of effectiveness. These include restriction on lump-sum expenses for businesses, cancellation of the so-called "green diesel", tax increase on cut tobacco, increase in real estate transfer tax or increase in withholding tax against tax havens. Following measures are planned to come into force in 2014: personal income tax will rise by 1 %, new tax will be imposed on still wine, carbon tax will be introduced, tax exemption for gas for households will be abolished, tax on insurance contract will be introduced, the so-called "employment fee" will be abolished.

1. Simplification of the income tax system

The reforms of direct taxes and contributions that have been launched and are to be carried out in two stages will significantly simplify the entire tax system and reduce administrative cost of the State and taxpayers. The first stage aims to *harmonize the tax base of individuals* with the assessment basis for social security and health insurance contributions, and to unify procedures in the administration of income tax and contributions. The second stage will entail unification into a single *regulatory law on income taxes* and the completion of the project to simplify and streamline the existing system. A number of tax exemptions will be removed. Besides exemptions for reasons of greater efficiency of the tax system, only those that match the priorities of the Government will be retained. Families with children will remain a collective group that will be able to continue enjoying special benefits in the tax system as they represent long-term facilitators of sustainability of the public system by raising children – future taxpayers. Exemptions will also continue to apply to the support of science and research, development and innovation, security in old age, owner-occupied housing and altruism.

2. Other tax measures

The tax system continues to rely heavily on the high taxation of labour, and therefore this should not be increased further in the long term. Based on the Council's Specific Recommendation, the Government's steps in this period will focus on indirect taxes. Activities to raise the share of those taxes in total tax revenue will continue, and through the implementation of the Invoicing Directive paper and electronic tax documents will reach equal status. The *rate of excise tax on tobacco products* will also increase.

In order to maintain competitiveness and not to hamper the growth of the European Union, the Government will not support the introduction of financial transactions tax at either national or EU level.

3. Single collection point

Tax system reform includes the institutional unification of the collection of tax and social security and health insurance contributions, and the creation of a single collection point (SCP) which aims to improve efficiency in the collection of the income concerned, increase the volume of funds collected, and reduce costs (the relevant legislation has already been approved).

In 2012, the multi-step formation of the SCP system will continue. The initial phase was launched in January 2011 when the institutional reform of tax administration began. It is currently estimated that the actual creation of the SCP will take effect as of 1 January 2014.

From the formal institutional perspective, the SCP will be formed on the basis of today's financial administration institutions. The *implementation of the SCP project* will have to be accompanied by the revision of existing legislation on taxes and contributions, along with the unification of procedural approaches governing their collection. This process will be completed by the planned *law on income tax*, which will uniformly govern income tax and contributions. The set of SCP amendments includes a *new method for taxing gambling*.

From the substantive aspect, the following measures are part of the introduction of the SCP system:

- The takeover of the collection and administration of social security and public health insurance contributions by bodies of the Financial Administration of the Czech Republic;
- The consolidation and centralization of registers and records;
- The harmonization of assessment bases for personal income tax and contributions.

4. Reorganization of tax and customs administration

During 2012, work will continue on the *reorganization of tax (or financial) administration and customs administration*. This will reduce the number of tax and customs offices and eliminate fiscal and customs directorates (in the case of financial administration, they will be replaced by a single Appellate Financial Directorate). These reform measures will enter into effect on 1 January 2013.

Consistency of Measures with the International Competitiveness Strategy and the Focus of EU Cohesion Policy

The reform of taxes and the tax system is part of the Competitive Tax System project, that itself is part of the Macroeconomic Stability pillar of the International Competitiveness Strategy. The project aims to streamline and simplify the tax system and eliminate as many unnecessary distortions as possible. The main measures proposed strive for the operation of a single collection point, a preferential shift from labour taxation to consumption taxation and the minimization of unnecessary exemptions, and the

formation of "tax floors" (lower limit) – a minimum non-taxable basis in the calculation of health and social insurance contributions.

In preparation for the 2014+ EU cohesion policy programming period, a number of measures proposed in this chapter focus on the same goals as the future EU cohesion policy in Czech conditions, especially in terms of priority of increasing competitiveness of the economy, including enhanced quality and efficiency of public administration.

Consistency of Measures with the Targets of Europe 2020

The main objective in implementing tax reforms is to reduce the administrative burden on both the State and the business sector. It should also help to build a competitive economy and ultimately create new jobs. From this perspective, it promotes the pursuit of Europe 2020 targets geared towards the increased employment of women and men. At the same time, the system to provide tax-related family support will facilitate the reconciliation of work and family life. The measures will promote employment by parents while making childcare more available through tax concessions for working parents.

Tax reform and the SCP project are directly related to Recommendation 1 in the Integrated Guidelines from 2010. The aim of both steps is to reduce unnecessary administrative costs associated with the administration of taxes. This will be achieved via institutional contraction (SCP), the removal of exemptions in the income tax system, and the overall simplification of the structure of these taxes.

Streamlining the taxation of labour, reducing red tape while maintaining advantages in certain critical areas, including research, development and innovation, is also one of the measures recommended to increase competitiveness in the Euro-Plus Pact.

III.1.2. Health System and Public Health Insurance Reform

Although the health sector is not mentioned specifically in Europe 2020 Strategy, it appears in its several flagship initiatives. By streamlining the health care system, the Czech Republic can significantly contribute to implementing the Europe 2020 Strategy.

The objective of the measures is to make the health service financially sustainable in terms of public budgets that will be capable of adapting to change and will provide all citizens with access to health care of the required quality and efficiency. Gradual reform measures will see health care continuing to shift from a rationed system to an increasingly better regulated market in which the main role will be played by the citizen/patient and in which the right incentives for all stakeholders will be established. Reform steps also take into account a high degree of solidarity between the healthy and the sick, and between

generations and social strata, in accordance with the principles of European civilization.

Evaluation of the Implementation of Reform Measures under the 2011 NRP

In accordance with the priorities mentioned in the 2011 National Reform Programme, Act No. 372/2011 Col. on health services and conditions for the provision thereof was adopted in autumn 2011. The Act, inter alia, provides for standard conditions in the delivery of health services for all providers and clarifies the rights and obligations of patients, who thus become equal partners in the process of providing health services. The Act uses the concept of "health care".

Complementary to the above mentioned, Act No. 373/2011 Col. on specific health services (regulating, for example, blood donations, artificial insemination, or sex changes) and Act No. 374/2011 Col. on the emergency medical service, which comprises comprehensive legislation responding to current requirements in the provision of pre-hospital emergency care, which had previously been lacking, were adopted.

Two amendments to Act No. 48/1997 Col. on public health insurance precised the definition of the scope of care covered by public health insurance, and the rights of the patients. This legislation, among other things, also clearly defines rules on the use of superior, economically more intensive health care options and will gradually allow for reduced spending on drugs by means of reviews, agreed maximum prices and, for generic drugs, electronic price auctions.

In order to improve the system of education in paramedical professions, Act No. 96/2004 Col. on conditions for the acquisition and recognition of qualifications for non-medical professions was also amended.

Following the implementation of the above measures, the current reform steps focus primarily on the following areas:

- Streamlining the public health insurance system;
- Improving the organization, structure and quality of health care, with a special focus on emergent inpatient facilities and improvements in the education and development of human resources in the health sector;
- Promoting eHealth and information technology;
- Establishing a newly configured system of health and social care.

Specific Reform Priorities with Particular Reference to 2012

The legislative changes adopted and under preparation will ensure that the public health system remains steeped in solidarity, providing the widest access to quality and modern services for all groups of insured persons.

1. Streamlining the public health insurance system

The legislation that has been adopted has resulted in a more accurate definition of the scope of care covered by public health insurance, and of patient rights.

The forthcoming new *act on health insurance companies* will strengthen the accountability of public insurers in the administration of public funds and increase the pressure on their efficiency. This law will define a health insurance company as a non-profit institution sui generis, with an accountable supervisory board and board of directors, which will be prohibited from owning health care facilities. The act will describe the manner of establishment, operation and winding-up of health insurance companies, along with the method of supervision and control, and will establish a Health Insurance Office as an umbrella for common activities.

The powers of, and means available to, the Ministry of Health in its oversight of the management of health insurance companies and compliance with the rights of insured persons as defined by the *Public Health Insurance Act* will also be strengthened. Reforms of the health care financing model seek to minimize the severity of the impact of reform on patients. When checking compliance with the entitlements of insured persons, the Ministry will draw on the Government Regulation on the Temporal and Local Availability of Health Care, which will be adjusted as necessary to reflect current needs. The Ministry will supervise the implementation of measures (e.g. correctional) imposed on health insurers.

On the expenditure side, price mechanisms that are fair and motivate care providers to behave efficiently will be used. The phasing-in of payments based on diagnosis related groups (DRG) in emergent inpatient care will increase efficiency, eliminate existing inequalities between sites, and restructure inpatient care. The DRG classification system facilitates comparisons of the productivity, quality and efficiency of different sites and is an effective management tool. Prospective payments per episode of care are also being considered in outpatient services. The gradual introduction of the DRG system is aimed at enabling health authorities to adapt capacity and the portfolio of care provided at health care facilities to the new situation.

To ensure fair competition between health insurance companies, the risk compensation system will be clarified in more detail. Current redistribution parameters, taking into account the cost factor of an insured person's age and the cost of insured persons fifteen times more than the average cost, will be expanded to include the cost of prescriptions. This redistribution will better reflect the cost structure of the insurance portfolios of individual health insurance companies than the current system and will increase the protection of chronically ill patients in particular.

On the revenue side, the introduction of the possibility of choosing economically more costly variants has opened up space for private funds to enter the health sector based on

patient choice and decision-making. This space will be expanded further, and the possible coverage thereof by additional contractual insurance will be determined by demand among patients/citizens. One way to increase the motivation of health insurance companies to manage the funds entrusted to them efficiently is the introduction of price competition between them. The most beneficial way forward would appear to be *dual-component contributions*, the first part of which is tied to the citizen's income and is subject to redistribution, and the second part of which is the same for all insured persons at one insurance company, with the amount set by the insurance company in accordance with its forecast balance. The possibility of applying dual-component contributions will be further analysed in particular in relation to the creation of the SCP.

To standardize the incorporation of medical technology into the system of coverage under public health insurance, a system for the evaluation and assessment of medical technologies will be established in accordance with EU rules. Setting rules for the use of expensive equipment will rationalize investments, purchases and the deployment of new technologies.

The Government, in collaboration with health insurance companies, will help to set up a range of services covered by public health insurance aimed at promoting prevention. Patient entitlements should include the promotion of a healthy lifestyle, prevention and compliance with treatments.

2. Improving the organization, structure and quality of health care, with a special focus on emergent inpatient care and improvements in the education and development of human resources in the health sector

The aim of reforms is to continuously improve the organization, structure and quality of health care. To achieve this goal, a combination of economic, legislative and executive instruments will be used.

One priority is to streamline the management of state-run hospitals and clarify responsibilities within these organizations. This area will be covered by the forthcoming *University Hospitals Act*, which will reflect the dual function of today's teaching hospitals, which provide treatment and education at the same time.

In accordance with the Europe 2020 Strategy priority focusing on education and lifelong learning, the medical education system will also be optimized. As the education of medical and paramedical health care workers is very specific in comparison with other disciplines, e.g. in view of the challenging nature of these professions and the constant need to absorb new knowledge, several measures need to be taken to improve this system.

3. Promoting eHealth and information technology

In order to ensure greater transparency in the provision and payment of health care, the eHealth system and information and communication technologies are con-

tinuously being promoted as important tools for managing and monitoring the impact of various reform measures. The aim of deepening the basic tools for the monitoring and control of the whole system is to apply the principle of a policy based on evidence and empirical knowledge. Of particularly crucial importance here are projects for the *digitalization of medical records* (technology platforms for the exchange and sharing of medical record data), identifiers (of insured persons and medical professionals), registers (databases defined inside and outside the National Health Information System) and prescriptions (a database of prescribed and dispensed drugs and/or medical supplies). The digitalization of health care also touches on the supervision and regulation of drugs, telemedicine and education (e.g. the standardization and development of opportunities to apply modern methods of distance education for medical professionals and citizens as part of education in preventive care).

4. Establishing a newly configured system of health and social care

Work is also continuing on new legislation on the interface between health and social services (coordinated rehabilitation, long-term care). The aim of the legislation on coordinated rehabilitation is to restore the independent and fully-fledged physical and mental life of people after an injury or illness, or to lessen the permanent consequences of sickness or injury for their life and work. *New legislation on health and social care* will significantly improve the efficiency of public spending under the system of public health insurance and social benefits, will ensure available and quality long-term care provided according to individual client needs, and will ensure equal conditions for all citizens and providers of long-term health and social care. The ultimate aim is to establish a clear definition of long-term care and the interdependence of health and social services provided in that framework, client rights and evaluations thereof, and the determination of the corresponding staffing and equipment requirements of providers.

Gradually, the interaction between health insurance companies, the Government and the regions should optimize the inpatient care network to ensure optimal and adequate inpatient facilities for the population in response to demographic trends, in part by removing acute care beds or by converting them into after-care beds. The aim of optimizing health and social care is primarily to promote outpatient and outreach health and social services within the community, with a view to enabling long-term patients to remain in their natural environment (their home) for as long as possible. Therefore, in addition to supporting the transformation of inpatient care, the Government is seeking to reallocate funds from cancelled acute beds to the promotion of home-based health care. Health and social care optimization is a coordinated project of the Government, health insurance companies and local health authorities.

Consistency of Measures with the International Competitiveness Strategy and the Focus of EU Cohesion Policy

The above measures are set out in more detail in the Health Care pillar of the International Competitiveness Strategy. They include the streamlining of financial flows from the taxpayer to public budgets, the optimization of the payment system, modification of mechanisms for the redistribution of the contributions collected, and support of a competitive environment, incorporating the guarantee of insurer competition for clients (insured persons). In line with this, the functioning of insurance companies needs to be streamlined in the form of institutional settings, including uniform legislation on form and status, and regulation of the method of accounting and oversight of health insurance companies. These measures aim to increase system revenue and efficiency, and are also accompanied by purely economical steps.

In the preparations for the programming period of the 2014+ EU cohesion policy, these measures are aimed at the same targets as the priority of increasing the competitiveness of the economy, including improvements in the quality and efficiency of public administration and, as a priority, promotion of an efficient labour market, social inclusion, the fight against poverty and the development of a health care system.

Consistency of Measures with the Targets of Europe 2020

In addition to the general objective of ensuring long-term financial sustainability, health reform measures also contribute to meeting the employment targets of Europe 2020 Strategy in terms of the demand for health workers (the health sector is a major employer) and, in general, ensuring the employability of EU citizens from the perspective of their health, as well as the strategy's education and research and development targets. As an affordable and quality health care system can be a poverty prevention tool, the reform measures also contribute indirectly to a reduction in poverty.

III.1.3. Fiscal Framework Reform

Sound and sustainable public finances are one of the pillars of a competitive economy and sustainable development. In its policy statement the Government subscribed to the reform of public finances, the pension system and the health and social system. The Government's medium-term objective is to achieve balanced public budgets by 2016. The priority of fiscal policy for the upcoming period is the consolidation of public budgets, aimed not only at reducing the government-sector deficits, but also at improving structural parameters such as the quality of public finances and reinforcing the growth-enhancing attributes of the Czech economy. The Government's medium-term fiscal strategy and the forthcoming

changes in the institutional framework of fiscal policy will be detailed in the update of the Czech Republic's Convergence Programme for the years 2012 to 2015, which the Government is preparing in parallel with the update of the National Reform Programme for 2012, and which will be subject to the approved medium-term expenditure framework.

The fiscal framework will complement other measures in tax administration, management control, public procurement and social spending.

The fiscal framework will be complemented by other measures in tax administration, management control, public procurement and social spending.

One of the basic prerequisites for consistent and responsible fiscal consolidation and fiscal discipline is the existence of a robust and effective fiscal framework for the preparation and implementation of fiscal policy. Therefore, by reference to an evaluation of the existing fiscal framework, foreign experience and the obligation to implement the EU Council Directive on requirements for budgetary frameworks of Member States, the Government started the preparation of a draft Constitutional Act on Budgetary Discipline and Accountability in 2011.

Evaluation of the Implementation of Reform Measures under the 2011 NRP

The 2011 National Reform Programme broadly outlined the two main concrete fiscal framework reform initiatives, legislation on the fiscal rules and legislation on the establishment of a National Budgetary Council. Since April 2011, these initiatives have been the subject of political debate, resulting in the inclusion of more precise parameters and a timetable for adoption in the update of the National Reform Programme for 2012.

Specific Reform Priorities with Particular Reference to 2012

In line with the Government's Legislative Work Plan, the draft *Constitutional Act on Budgetary Discipline and Accountability defining numerical fiscal rules covering the whole general government, implementing the debt brake, establishing the independent National Budgetary Council and introducing measures for increased fiscal transparency*, will be submitted to the Government in mid-2012. Implementation of conditions for the new fiscal framework operation has already begun this year with the intention of finishing until the end of 2013.

1. Submission of legislation strengthening budgetary discipline and accountability

The new Constitutional Act will define the principles of budgetary discipline and accountability, and will provide an umbrella for the fiscal framework by explicitly setting fiscal rules for the general government and for its individual sub-sectors. It will commit the Government to

ensuring that it maintains transparent and responsible policies that will not jeopardize the stability of public finances in the future. It will define the obligation to monitor and independently evaluate compliance with the fiscal rules. Operational fiscal rules will be supplemented by the debt brake rule, which will limit the debt-to-GDP ratio. By reaching this limit the Government will be automatically obliged to realize predefined consolidation actions.

2. Formation of a National Budgetary Council

Further legislative action pledged by the Government relates to the establishment of the National Budgetary Council. It will be an independent fiscal institution, which will monitor and evaluate adherence to the numerical fiscal rules, prepare reports on fiscal sustainability and monitor transparency of public finances including recommendations for improvements.

Consistency of Measures with the International Competitiveness Strategy and the Focus of EU Cohesion policy

The introduction of rules on budgetary accountability and other proposed measures are part of the International Competitiveness Strategy project Budgetary Oversight – Transparent, Sustainable Public Finances; their implementation will contribute to the stabilization of public finances so as to implement the country specific recommendations (CSR) for the Czech Republic in the area of public finances.

In preparation for the 2014+ EU Cohesion Policy programming period, the Government expects a positive impact of the measures now being adopted on promoting competitiveness of the economy, including the enhanced quality and efficiency of public administration.

Consistency of Measures with the Targets of Europe 2020

The proposed measures will significantly limit the increase in state indebtedness and will contribute directly to the fulfilment of Guideline 1 of the Integrated Guidelines of 2010, i.e. Ensuring the quality and sustainability of public finances. At the same time, these measures are also related to Guideline 2 of the Integrated Guidelines, i.e. Addressing macroeconomic imbalances.

The incorporation of budgetary discipline and accountability into the legislation is precisely what the Euro Plus Pact and the Treaty on Stability, Coordination and Governance in the Economic and Monetary Union call for.

III.1.4. Effective Public Administration and the Fight against Corruption

High-quality institutions are a key building block when constructing a competitive and innovation-based economy. This is underscored by the International Com-

petitiveness Strategy. Conversely, inefficient public institutions are an economic brake. The fact that, in all international comparisons, the institutional environment is viewed as one of the Czech Republic's weaknesses makes this all the more important. Inefficient institutions, an excessive regulatory burden and corruption are currently the phenomena keeping the Czech Republic from catching up with the developed countries of the EU and OECD. The efficient functioning of public administration in the handling of public funds is also one of the main paths to the sustainability of public finances on the expenditure side of the central government budget. On the income side, its counterpart is an efficient tax administration system that eliminates the possibility of tax evasion. These two priorities can be met by balancing the three basic pillars of prevention, transparency and recourse.

Evaluation of the Implementation of Reform Measures under the 2011 NRP

In 2011, the Government implemented the Government Anti-corruption Strategy for the Years 2011 and 2012. The criminal liability of legal entities was introduced with effect from January 2012. The establishment of a single collection point has been approved; this will contribute to the more efficient and more economical functioning of public administration by harmonizing the various agendas.

1. Public administration

During the period from April 2011 to April 2012 the following reforms in public administration were either continued or introduced:

- The current state of public administration was analysed, including a description of the systemic shortcomings of public administration. The Government took note of the basic framework of the Concept for the Completion of Public Administration Reform, which was submitted to it;
- On 31 August 2011, the general principle of the Act on Public Administration Officials and on Education in Public Administration was approved by the Government. The tenets of the law were approved in February 2012. The Act's primary aim is to ensure the depoliticisation, professionalisation and stabilisation of public administration. In this context, an international comparative analysis has also been drawn up.

2. Combating corruption

Reduced corruption in the Czech Republic is one of the priorities of the Government's Policy Statement. To this end, in January 2011 the Government adopted the 2011 and 2012 Anti-corruption Strategy. Under this Strategy, more than half of the 84 current tasks have been accomplished.

a. Measures in the field of public administration

Apart from the above tenets of the Public Servants Act:

- The Government has approved an amendment to the Constitution of the Czech Republic and an amendment to the Act on the Supreme Audit Office which introduce control powers of the Supreme Audit Office in relation to the local government units;
- In mid-February 2012, the Government approved an analysis on the establishment of a register of misdemeanours; by 30 June 2012 a draft amendment to the Misdemeanours Act, the Criminal Code and other related laws, in which conditions will be formed for the establishment of a register of misdemeanours, is to be submitted to the Government;
- In February 2012, the Government approved an amendment to the Press Act under which new rules were adopted for the publication of periodicals by local government bodies, requiring them to provide objective and balanced information and adequate space for all members of the local assembly to express their views, including the right to publish supplementary information;
- In December 2011, the Government approved a new law on controls (the Rules of Control Procedure), which attempts to unify the control process of public authorities to avoid duplication and confusion in the performance of public administration surveillance and control. At the same time, in January 2012 a partial amendment to the Financial Control Act was approved;
- In December 2011, the Government approved revised methodology for regulatory impact assessments (RIA) which came into effect in January 2012 in order to reflect measures designed to streamline the process of preparing and conducting mandatory assessments of the expected impacts in relation to the proposed legislation. Along with the above methodological procedure, in November 2011 the institutional aspect of control was reinforced when an independent expert committee was established under the Government's Legislative Council to assess the quality and objectivity of the final RIA reports on proposed legislation; the Government receives its comments and suggestions as part of the Legislative Council's opinion to a concrete draft when it is put on the Government meeting agenda.

b. Activities in public procurement and the increased transparency of legal entities

An amendment to the Public Procurement Act has been approved which improves the procurement process, increases the transparency of procurement and facilitates the computerization of public contracts by enabling the public to have access to procurement information online, encompassing all stages from the initial specifications to the final settlement of the contract. The Government has also approved a Public Procurement Computerization Strategy for the years 2011 to 2015.

c. Measures related to the competence of law enforcement agencies

- The Government has approved an amendment to the Rules of Criminal Procedure which refines the concept of a cooperating accused person in the sense that, under conditions strictly defined by the law, an accused person who prevents the completion of a crime will be absolved of punishment. The purpose of this amendment is to make the detection of organized and particularly serious crime more effective.
- The Government and the Chamber of Deputies have subsequently approved an amendment to the Rules of Criminal Procedure to modify the conditions under which the interception of telecommunications and the deployment of agents can be used. The Act on the General Inspectorate of Security Forces has been passed, under which the access of law enforcement agencies to information from tax proceedings has been extended, along with the reliability test taken by members and staff of the Prison Service, Customs Administration and the newly established General Inspectorate of the Security Forces.
- An amendment to the Criminal Code has introduced stricter penalties for corruption by officials. Also, the Experts and Interpreters Act has been amended to ensure greater state supervision of the work performed by experts, interpreters and expert institutions with a view to enhancing the quality of expert opinions and interpreting.
- Training events have been and will continue to be held for law enforcement agencies on an ongoing basis.

Specific Reform Priorities with Particular Reference to 2012

During 2012, it is important to continue the rigorous implementation of existing recommendations and projects based on the adopted International Competitiveness Strategy of the Czech Republic and the strategy document Efficient Public Administration and Friendly Public Services (the Smart Administration Implementation Strategy in the 2007–2015 period). It is also necessary to focus on the following measures in the field of public administration.

1. Public administration

a. Adaptation of labour costs in public administration to growth and labour productivity

In the Czech Republic, there is one public sector employee for every 15 citizens. This is not in any way higher than the number of civil servants in other European countries. This comparison also shows that not even a higher number of civil servants is necessarily a barrier to the competitiveness of the economy. The point at issue is whether public administration works efficiently enough and whether the spending is, by nature, an investment in competitiveness. A reduction in the number of civil servants is not a structural solution.

The key is to ensure a balanced relationship between labour costs in public institutions and their productivity. In an environment imposing higher demands on qualifications and management or other specific skills, the remuneration system must reflect employee performance.

b. Efficient and more economical public administration

i. Unification of agendas, institutions and the introduction of client access

Economical measures will be accompanied by reforms preventing duplication of official agendas or even institutions. The new institutional system for collecting taxes and charges at a single collection point (SCP), expected to take effect as of 1 January 2014, can be specifically mentioned here. The mechanism for the payment of social benefits, including system centralization, is also undergoing administrative unification. All these activities will be undertaken to fully maintain client convenience and increase the territorial and temporal availability of individual services while simplifying the system (the capacity to handle a maximum number of agendas in one place). Accompanying measures will be the establishment of a client-oriented approach by public institutions in contact with citizens, modification of the structure of public institutions (back-, mid- and front-office), and a subsequent change in the status of civil servants and their remuneration.

ii. Concept for the Completion of Public Administration Reform

In line with the Government-approved Analysis of the Actual State of Public Administration, the *Concept for the Completion of Public Administration Reform* will be submitted to the Government by 30 June 2012. The aim of the Concept is to optimize and streamline public administration while clearly defining the status and role of public administration at various levels.

iii. Sharing of administrative activities, including central purchasing and sales

Substantial public resources can be saved by pooling the administrative activities involved in the functioning of institutions. Here, a pivotal role will be played by the centralization of the public asset procurement and sale system while ensuring the highest possible transparency, e.g. procurement through electronic public auctions or sales in public auctions. As of 2013–14, the centralized purchasing system should be covered by the *National Infrastructure for Electronic Public Procurement (NIPEZ)*, which will include eMarket (eTržišťe) modules and a national electronic instrument for public procurement. A system operating on similar principles will be developed for the transitional period.

iv. Digitalisation of public administration

Digitalisation in the various areas of public administration makes an important contribution to savings. The inter-

linking of databases and information systems between institutions can also deliver significant savings to private parties as they seek to obtain information. An example of a well-functioning and open database is the insolvency register. However, it will be necessary to place more emphasis on its user-friendliness and on the protection of personal data.

Another key factor will be the *completion and inter-connection of the system of central public administration registers*, which, after its launch on 1 July 2012, will facilitate secure data sharing between public authorities. The main benefit will be a reduction in the number of operations required to process a certain agenda in typical situations and events in life, coupled by fewer demands by public authorities on citizens and businesses to document individual data.

It is also necessary to modernize the form of legislation, to facilitate citizens' access to applicable law, to assist them in understanding its content and its context in the Czech legal system, and to ensure the quality, efficiency and transparency of law-making. These measures will be the subject of the *eSbírka* (e-Collection) and *eLegislative* (e-Legislation) projects aimed at improving the access that the public and businesses have to applicable law or to forthcoming legislative measures. This will also result in better quality regulation. The initiation and implementation of the *eSbírka* and *eLegislative* projects is planned for autumn 2012, with completion due in mid-2015.

The judiciary will make the transition to electronic files, with the broadest possible use of electronic tools in the administration of justice, which in the long run will ensure access to files, reduce the administrative costs of litigation and lead to the interactivity of court records. The project also includes the idea of publishing selected decisions on the Internet.

The Government will also take measures to improve public and business awareness of transposition measures and the implementation of European legislation.

v. Public administration as a source of information for the public

Measures in this area aim to strengthen the provision of information by public institutions for public use and greater transparency in the disclosure of data used to strengthen public control.

Provision of information

One of the services of public institutions is the provision of information. Public administration and other public institutions dispose of large quantities of data, statistics and analyses which, if published in the correct format and in a user-friendly manner, can be used by the private sector or the public. This will also identify more readily any unnecessary duplication of analyses by central and local government. This conceptual publication system will also help to make significant savings in public budgets and in the budgets of businesses, educational and research insti-

tutions, etc. Platforms for the publication of information and data can also be used for the systematic collection of information from the public and businesses through online surveys and public discussions, and can allow for greater control by the public in the formulation of policy proposals. Accordingly, work will continue on an amendment to the *Freedom of Information Act* which should enhance the efficiency of the law and improve the effectiveness of free access to information.

Public control

Public control should also be increased and facilitated by measures to allow citizens to obtain information more simply on public budgets and on the management of public funds, including public assets (especially sales and leases); this will increase efficiency in the management of such property. Similarly, improved procurement notices will enhance the economic efficiency of public contracts. A crucial role in the process of increasing control and transparency must be played by the computerization of the provision of the above information.

vi. Preparation of the law on public servants and the adoption of measures to educate public employees.

One of the basic prerequisites for the greater professionalisation of public administration is the approval of a new *law on public servants*, the aim of which is to unify legislation on the status of officials of central and local government bodies while respecting the necessary differences. The newly prepared law will set boundaries between politically filled and clerical posts in state administration, thus contributing to professionalisation, lowering costs, clamping down on corruption, cronyism and nepotism, and, in particular, reducing the periodic destabilization of public administration during election cycles. This is also a prerequisite for establishing the uniform management of workers in central government bodies with clearly set incentives and accountability of officials. The date set for the submission of the articulated version to the Government is 30 September 2012.

By the end of 2013, the system for the training of public servants in support, core and ancillary activities will also be restructured. Training programmes and internships will be introduced for public officials. Attention will also be paid to the institutional arrangements for a uniform state administration training system. Judges and senior court officials will receive training in economic and other fields. These measures will help to increase the efficiency of the education system, to strengthen the motivation of public officials and to improve their professional skills.

2. Combating corruption

The Government Anti-corruption Strategy for the Years 2011 and 2012 will be followed by a *new strategy for the years 2013 and 2014*, the draft of which will be submitted to the Czech Government by 30 November 2012. The performance of individual tasks will be monitored at regular quarterly intervals.

Under the EU Council's specific recommendations, the Czech Republic is advised to accelerate implementation of the strategy in accordance with the stated objectives.

Measures currently being implemented can be divided into three spheres: public administration as a whole, public procurement and changes in the activities of law enforcement agencies. Particular areas not falling under the executive or judiciary are then part of the fight against corruption in the legislative sphere.

a. Measures in the field of public administration

A significant proportion of measures in this area is focused on local government bodies, where elevated potential for corruption can be identified in view of the lower level of public and media interest. The aim is to increase the transparency of decision-making, both in the decision-making of policy-making bodies (assemblies and councils) and in decision-making on an official level.

Conditions for the disposal of the assets of local government bodies will be tightened significantly by *legislative changes* without compromising the principle of local government autonomy. At the same time, the access of assembly members to information relevant to their decision-making and control activities will be simplified, and the obligation will be established to specify, in the minutes of proceedings of local government bodies, the names of individual members of the bodies and how they voted.

Conditions for handling the assets of legal entities established by central or local government bodies will be reviewed, and transparency in the way the bodies of these companies are filled will be increased. In order to increase transparency in the handling of state assets, a register will be created containing data on the sale and lease of immovable property, the obligation to publish offers of redundant state property in advance will be established to increase transparency and push up the number of interested parties, and the obligation will be set to monetize redundant state property in public auctions.

Attention will also be paid to the protection of whistle-blowers. An *analysis of the protection of whistle-blowers in the Czech Republic*, identifying basic problems of protection and recommending means of legislative solutions, will be submitted 30 April 2012. The analysis, which is already being prepared, is based on the experience of experts from the non-governmental sector who have specialized long term in the protection of whistle-blowers. Naturally, the analysis will include a summary of how these issues are addressed abroad and case studies.

b. Activities in public procurement and the increased transparency of legal entities

The transparency of public procurement will benefit from *legislative changes which will improve the procurement process*, increase the transparency of procurement and facilitate the computerization of public contracts by enabling the public to have access to procurement information online,

encompassing all stages from the initial specifications to the final settlement of the contract.

Related measures aim to increase savings from computerization, to promote the computerization of activities connected with procurement, harmonization and adaptation to eGovernment policy, and to ensure compliance with projects and initiatives within the EU.

In accordance with the Addendum to the Coalition Agreement of 30 June 2011, in the first half of 2012 The Government will discuss an *Act to increase the transparency of legal entities*, which will ensure the regulation of joint-stock companies with certificated bearer shares. This step will lead to greater transparency of relations between, on the one hand, joint-stock companies and, on the other hand, the State and will help to facilitate the detection of conflicts of interest.

c. Measures related to the competence of law enforcement agencies

The independence and accountability of prosecutors will be reinforced by the adoption of a new *Public Prosecutor Act*, which will be submitted to the Government in 2012 and which will redefine the independence of the prosecutor's office as an institution and prosecutors' independence of the executive power, local authorities, and any external influence, including political influences. The principle of the exclusive powers and competence of the prosecutor's office will be expressly laid down in the law. In the fight against corruption, a *special anti-corruption service* will be created which will cover crimes of corruption and crimes typically associated with corruption. This service will be established at the Supreme Public Prosecutor's Office as a single centrally acting unit operating throughout the Czech Republic without branches.

Further, non-legislative, measures will focus on lifelong learning and the anti-corruption training of officers of the Czech Police Force and other law enforcement agencies, or accompanied by the support for the computerization of criminal proceedings.

d. Measures in the field of legislative power

Further to the Government-approved basis for the creation of methodology for corruption impact assessments (CIA), *draft CIA methodology* will be drawn up and submitted to the Government by 30 June 2012. This methodology will then be tested in a pilot project; by 31 August 2013, the draft CIA methodology, revised to reflect the results of the pilot project, will be submitted to the Government. By 30 November 2013, the Government will be presented with the draft procedure for integrating the CIA methodology into the legislative process.

Other measures include the greater transparency of political party funding and the production of codes of conduct for Deputies (MPs) and Senators, defining clear rules of acceptable behaviour, as well as the digitalisation of the legislative process as an essential means of enhancing its

transparency and efficiency (the eLegislative project). Related to this is the issue of lobbying, the regulation of which it is proposed should be covered by a *law leading to the official enshrinement of lobbying as a means transparently advocating one's own interests*.

The rules of procedure of both Chambers of Parliament should be revised to prevent Deputies and Senators from submitting ill-conceived amendments, abusing the "limpet" technique of tagging additional provisions on to unrelated laws, and putting forward non-transparent amendments in debates on the central government budget.

e. Measures in other areas

The *opportunities for tackling corruption in the private sector will also be analysed*. In this context, for example, action will be taken to prevent congress tourism so that there is no direct connection between medical doctors and companies, and to ensure the existence of transparent rules of contributions by companies to the training of medical doctors with no possibility of influencing prescription or the purchase of medicines and other medical supplies or equipment.

f. Support for the moral awareness of society as a means to prevent corruption

In the long run, the best prevention of corruption appears to be a society built on ethical and moral values instilled from birth. These ethical values go far beyond even positive law, which must be complementary to them. The key role here should be played not primarily by the State, but by the family and non-governmental institutions specializing in the development and strengthening of moral values in society. Without this foundation, no anti-corruption policy based solely on instruments wielded by the State will be effective. Therefore, the Government will support families, ethical education in schools, and non-profit organizations and churches in their steps aimed at promoting moral values arising from the legacy of Western civilization. The Government, with a view to the indispensable role of churches in this area, is seeking to reach a *property settlement with churches*, which in this respect should be viewed as an important part of the priorities of the National Reform Programme.

Consistency of Measures with the International Competitiveness Strategy and the Focus of EU Cohesion Policy

Activities focused on enhancing the efficiency and financial sustainability of state administration are detailed in the International Competitiveness Strategy.

Key measures of the Efficient Public Administration project include an analysis of public administration services, which should contribute to cost savings, greater productivity and transparency. Greater transparency will also deliver more understandable information on public budgets

and the management of public assets, which is part of the Streamlining the Management of Public Property and Resources project.

Greater transparency in public procurement will be achieved by extending and computerizing the information disclosed during the procurement process, and by checks on data published by the contracting authorities.

In preparation for the 2014+ EU cohesion policy programming period, the measures mentioned in this chapter focus on the same goals as the priority of increasing the competitiveness of the economy, including the enhanced quality and efficiency of public administration.

Consistency of Measures with the Targets of Europe 2020

Reforms in this area, from the perspective of Europe 2020 targets, are included among steps to promote increased employment. The resultant effect will be savings in the budgets of the State and private entities due to improved conditions of free competition. These measures will increase the potential for job creation.

For this reason, the reforms are also consistent with Recommendation 1 of the Integrated Guidelines as savings will be made in public budgets. Equally, they meet Recommendation 6 by improving conditions for business. The interlinking of labour costs with productivity in the state sector is also in line with the recommendations of the Euro Plus Pact to boost competitiveness.

III.2. A Functioning Labour Market and Social System as a Prerequisite for Competitive Economy – the National Employment Plan

Introduction

The current economy, with its dynamic markets, structural changes, new business models and global sources of labour force, has changed the labour organization method, employment culture, offer of career opportunities, as well as requirements regarding knowledge and skills.

Competitiveness of the economy of the Czech Republic requires that the labour market enables both employers and employees to adapt themselves to such changes. This requires the elimination of barriers hindering such adaptation to these changes.

At their informal meeting held on 30 January 2012, members of the European Council called upon the Member States to propose in their National Reform Programmes measures to be adopted to stimulate employment, particularly of young people (the "National Jobs Plans"). Therefore, the Czech Republic considers Chapter III.2. of the National Reform Programme for 2012, namely Sections III.2.1. and III.2.2., as its National Jobs Plan.

Despite significant progress achieved in recent years, the labour market continues to face a number of structural problems, such as low employment of certain population groups, young people, women or persons in pre-retirement age. A number of low-skilled people or people with specializations that do not correspond to the needs of the economy also face difficulties in finding their place at the labour market. Another serious problem is the low workforce mobility and labour shortage in some (particularly engineering) sectors.

Despite weak economic recovery, a partial progress was achieved in 2011 in the fulfilment of the national employment objectives set for the period up to 2020 (the available data are for the first three quarters, compared with the same period of the previous year):

- The total employment rate of persons aged 20 - 64 let years reached 70.8 %, which represents an increase by 0.5 p.p. in comparison with 2010 (the target is 75 %);
- Women's employment rate (20 – 64 years) amounted to 61.5%, an increase by 0.8 p.p. in comparison with 2010 (the target is 65%);
- The employment rate of older persons (55 - 64 years) was increased by 47.7%, i.e. by 1.5 p.p. in comparison with 2010 (the target is 55%);
- The average unemployment rate of young persons (15 - 24 years) amounted in 2011 to 18.2%, i.e. a decrease by 0.8 p.p. in comparison with 2010; the target is its reduction by one third;
- The unemployment rate of low-skilled persons amounted to 24.6%, i.e. 1.2 p.p. less than in 2010.

Despite the partial improvement achieved in the course of 2011, the number of long-term unemployed people is still higher than in 2009. There is a danger of the change of the unemployment nature to mostly structural unemployment, which will be difficult to resolve and will require considerable financial funds.

Some territories within the Czech Republic are seriously endangered by unemployment, by the absence of social services and other phenomena constituting a socially exclusive environment. Such local concentration of problems relating to social exclusion is most evidently manifested by the existence of socially excluded localities. Measures adopted in support of social inclusion also reflect the regional dimension of poverty and social exclusion.

In case of a prolonged instability, the situation at the labour market will largely depend on appropriate interventions from the part of the Government and on results of implemented reforms.

Due to significant openness of Czech economy, the development of employment indicators will depend to a great extent on the development of the EU economy, resolution of the Eurozone crisis and on results of structural reforms that are being implemented and prepared in the Czech Republic.

The national employment targets that are to be achieved as of 2020 have been set with regard to the objectives of Europe 2020 Strategy as follows:

- *Increase of the total employment rate of persons aged 20 - 64 years to 75%;*
- *Increase of women's employment rate (20 - 64 years) to 65%;*
- *Increase of the employment rate of older people (55 - 64 years) to 55%;*
- *Reduction of the unemployment rate of young people (15 - 24 years) by one third in comparison to 2010;*
- *Reduction of the unemployment rate of low-skilled by one fourth in comparison to 2010.*

These objectives are also related to the Government's objectives in its struggle against poverty. The social security system has to be perceived as an essential element in each competitiveness strategy adopted in countries sharing the social market economy model that has established itself in the European continent. Economic growth combined with sufficient employment rate is a prerequisite for overcoming poverty. Therefore, having

in mind the common objectives of the Europe 2020 strategy, the Government has set a specific national objective in the field of struggle against poverty, whose success depends directly on the fulfilment of the above-mentioned objectives:

Maintaining up to 2020 the limit of the number of persons threatened by poverty or by material deprivation or living in households with very low labour intensity at the 2008 levels. At the same time, the Czech Republic will develop efforts leading to the decrease of persons threatened by poverty, by material deprivation or living in households with very low labour intensity by 30,000 people

The implementation of the national objective depends on the ability of the Czech Republic to quickly recover from the crisis, on the development of the economy, situation at the labour market and the demographic development. The share of the population threatened by poverty and social exclusion decreased in 2009 by 1.3% to 14.0% but increased subsequently in 2010 by 0.4% to 14.4%, representing approximately 1,495,000 persons. The share of the population threatened by poverty or social exclusion in the Czech Republic remained the lowest of all EU Member States (according to Eurostat's data, the EU-27 average was 23.5%).

Given the anticipated population increase, maintaining the same number of people threatened by poverty or social exclusion in 2020 at the 2008 level, i.e. 1,566,000 persons, means a reduction of this share in the total number of the population from 15.3% to 14.7%. The reduction of the number of people threatened by poverty or social exclusion by 30,000 would require reduction of the share of those people in the total population from 15.3% to 14.4%.

Although the values of the indicators characterising the risk of poverty and social exclusion continued in 2010 to be favourable for the Czech Republic, it is possible to expect that the results of the EU-SILC 2011-2012 survey, which will fully reflect the consequences of the economic crisis, will be worse. The situation could gradually improve in the following years depending on the economic growth, the implementation of the prepared reforms and particularly on the achievement of the employment objectives. It can be expected that the key objective concerning social inclusion and reduction of poverty will be achieved in 2020.

Main Reform Objectives

The objective of the reform measures is to increase employment, with a special regard to young people, women and people in pre-retirement age, to ensure sufficient appropriately qualified work force in branches and sectors with strong development potential and to increase workforce mobility. This can be achieved through changes in the education and vocational training system, lifelong learning and education programmes, targeted re-qualification programs and short-term and targeted economic migration and activation of groups that are still

excluded for various reasons from the legal labour market. These reform steps will result in flexible labour law with effective control and enforcement of employee protection, an effective job brokering system, a sufficient offer of services which will allow for the harmonisation of family and work life, a simple, cheap, effective and controllable social system offering comfort to its recipients, as well as a motivating policy of social inclusion of excluded groups.

III.2.1. Modern Social System and Labour Law

III.2.2. Integration into the Labour Market

III.2.3. Social Inclusion and Reduction of Poverty

III.2.1. Modern Social System and Labour Law

The Government will continue in the implementation of reform measures, focusing in this respect primarily on social policy, promotion of growth of employment, more effective job brokering, improvement of skills of employees and job applicants and ensuring sufficient appropriately qualified workforce in sectors characterised by growth potential.

Evaluation of the Implementation of Reform Measures under the 2011 NRP

Much has already been achieved: legislative measures of social reform adopted in 2011 concerned key areas – the benefit system, care for people with disabilities, security for destitute persons, employment, labour laws, family policy and childcare. These laws became effective from 1 January 2012.

The purpose of the amendment to the Labour Code that came into force in 2012 is to increase flexibility of labour relations in order to increase motivation of employers towards creation of new jobs and maintenance of employee certainty. The amendment to the Labour Code extended the trial period for managers from three to six months, made the terms of payment of severance pay upon termination of employment due to organizational changes dependent on the length of employment by reducing the severance pay in case of employment shorter than two years. The possibility to transfer the employee temporarily to another employer became easier, the terms of temporary employment have been adjusted, and scope of work under the agreement for performance of work has increased (from 150 to 300 hours) and the work time allocation terms have been modified.

Based on the new definition of dependent work in the Labour Code, the Government applies an improved control system in the assignment and performance of work with employers. Other enhanced control mechanisms reduce the possibility of illegal work or of factual circumvention of some provisions of the labour legislation. This increases legal certainty and protection of agency employees and employees with contracts for a limited period of time. The implementation of comprehensive controls of

employment and optimization of the method of their performance will result in a reduction of unfair competition by means of lower labour costs and higher flexibility, reduction of tax evasion and guaranteeing of employee rights.

A prerequisite for the implementation of the reform in the employment and social protection areas was the establishment of the Employment Office of the Czech Republic (EO) with 14 regional branches on 1 April 2011 and the expansion of its competencies. Beside the existing tasks in the field of employment, protection of employees in case of the employer's insolvency and state social support, the Office has also begun to provide assistance in destitution, pay allowances to people with disabilities and contributions to care and to inspect the provision of social services.

The concentration of decisions to pay and payments of non-insurance social allowances in one place – the Employment Office of the Czech Republic – will ensure, in particular, a reduction of administrative expenses, will significantly improve control over released funds, will increase comfort for citizens in dealings with public administration authorities and will increase motivation of job seekers in giving priority to employment income from work over social transfers.

Specific Reform Priorities with Particular Reference to 2012

The above-mentioned legislative measures that form part of the social reform and are focused on the activation of the groups of people excluded from the labour market, will be further implemented in the course of 2012.

1. Comprehensive social policy reform focused on the promotion of growth and employment

By the end of 2012, the social reform measures will be fully implemented in the practice of the Employment Office of the Czech Republic, including actions focused in the technical and information infrastructure and staffing measures.

The Government has introduced into practice a new system of administration of social allowances. Based on the above-mentioned establishment of the Employment Office of the Czech Republic, the Government continues to build new technical infrastructure, which is supposed to do away with the insufficient level of automation of the administrative work at the Employment Office of the Czech Republic in order to facilitate work with job applicants and to do away with the impossibility to retrieve of updated job applicant information from the social support systems, insufficient space for individual counselling, the impossibility of automatic pairing of the job applicant's skills with requirements of offered jobs, etc. At the same time, such measures will reduce the bureaucratic load and will increase flexibility and effectiveness of job brokering and other activities performed by the Employment Office of the Czech Republic.

2. Improving the efficiency of job brokering

Effective job brokering should lead to an increase of employment. The currently implemented projects in this respect are focused on modernization and enhancement of the capacity of employment services. A higher effectiveness of job brokering will be also provided for by the newly introduced shared job brokering for job applicants through employment agencies.

Further projects of modernization and enhancement of the capacity of employment services will be implemented with ESF support. Such projects are represented by the project "Development of the EO services and cooperation with employers in the changing labour market conditions", with the aim of creating and performing a pilot test of the system of cooperation between employment services and employers in the creation of the offer of the required high quality jobs for job seekers and job applicants.

Another project is the project "Staffing and expert support of the implementation of an active employment policy at the Employment Offices", which focuses on professional development of employees of the Employment Office of the Czech Republic and on the increase of the quality of provided services, familiarisation with the employment issues and knowledge of the labour market.

Consistency of Measures with the International Competitiveness Strategy and the Focus of EU Cohesion Policy

The foregoing measures have been further specified in the project Labour Market Development, which is a part of the International Competitiveness Strategy. The key objectives include support of employment of excluded groups (a change of the employment policy instruments and of the other systems, a change of the legislative framework and a change of inclusion instruments), increasing flexibility of the labour market (expansion of forms of employment) and improvement of employment services.

In the preparations for the programming period of the 2014+ EU cohesion policy, the measures mentioned in this chapter are aimed at the same targets as the priority of increasing the competitiveness of the economy, including improvements in the quality and efficiency of public administration and as the priority of promotion of an efficient labour market, social inclusion, the fight against poverty and the development of the health care system.

Consistency of Measures with the Targets of Europe 2020

The foregoing measures, as well as the projects funded by ESF, are focused on the implementation of the specific Council recommendation for the Czech Republic:

- Strengthen the capacity of the public employment service to increase the quality and effectiveness of training, job search assistance and individualised services.

In consultation with stakeholders, introduce tailor-made training programmes for older workers, young people, low-skilled and other vulnerable groups.

The approach elected by the Czech Republic also complies with the priorities of employment policy identified by the European Commission at its Annual Growth Survey 2012 as the key labour market priorities:

- Mobilising labour for growth: by means of revising wage-setting mechanisms to better reflect productivity developments, to implement activation measures and to adapt unemployment benefits in support of reintegration of the employed to the labour market, enhancing labour mobility (by facilitating the recognition of professional qualifications, by strengthening cooperation between public employment services and employers, ensuring a functional labour market and transport infrastructure), by supporting longer working lives, promoting business, including social entrepreneurship, and by supporting the development of sectors with the highest job creation potential.

III.2.2 Integration at the Labour Market

The priority areas of the Government also include further facilitation of harmonisation of family and work life as a part of the family policy, the enhancement of active employment policy instruments, an emphasis of employment of young people and increased use of flexible forms of employment, such as part-time work, work over the telephone or job sharing.

Evaluation of the Implementation of Reform Measures under the 2011 NRP

Thanks to already implemented measures, the integration at the labour market has become more effective: the provision of the Employment Act which has become effective since January 2012 stipulates that it is an impediment to the inclusion and keeping of a job applicant in the register of job applicants if an individual terminates without a serious reason or agrees with the employer on termination of a suitable job mediated by the Employment Office of the Czech Republic (EO CR), or if the employer terminates a suitable employment of an individual brokered by the EO CR due to a particularly gross breach of work discipline.

As regards the employment of young people, the promulgated amendment to the Labour Code allows for maintaining persons preparing for future occupation in the job applicants register and supports at the same time the possibility to acquire professional practice by students during the period of their studies, thus increasing their employability.

The legislative amendments have added to the scope of persons who may perform public service persons who have been kept in job applicants register for more than two

consecutive months. If a job applicant who has been kept in the job applicants register for more than two consecutive months refuses an offer to perform public service for the maximum of 20 hours a week, such refusal will constitute grounds for his elimination from the job applicants register. The purpose of this provision is to motivate job applicants towards the adoption of an active approach to the resolution of their situation and towards obtaining or preserving their work habits.

The relevant period pertaining to the period of pension insurance required for becoming entitled to unemployment benefits (at least 12 months) has been shortened from three to two years. Furthermore, job seekers and job applicants have been offered a possibility to elect by themselves their re-qualification.

A remedy has been also found for situations where, due to an inappropriate determination of the conditions for provision of the relevant allowances, some instruments provided to disadvantaged people (people with disabilities) ceased to fulfil their purpose and became misused by dishonest employers.

Specific Reform Priorities with Particular Reference to 2012

1. Family policy measures

In order to ensure sufficient offer of preschool care and to support the development of the offer of child care providers, the Government is preparing a new legislation relating to alternative types of child care provision and the related pro-family tax measures. The objective of the measures included in the prepared legislation is to enable parents taking care of a child to maintain contact with their employment and to gradually re-enter to or enter the labour market, based on the strategy used by them in harmonising their professional, family and personal life.

A special emphasis is put on ensuring high quality child care, an individual approach, possibilities offered by a large scale of providers and flexible provision of services with regard to the current situation and to the changing demand. This legislation will also include pro-family tax measures, such as the tax deductibility of costs incurred by employers who provide child care opportunities to their employees and income tax relief for parents who have to pay for child care services due to their re-entering or entering the labour market.

Further implemented projects will be the projects financed by the European Social Fund. The project "Family and Employment Audit" promotes the family-oriented policy and motivates employers towards the development of pro-family working conditions.

The prepared project "Harmonisation of work and family inspired by good practice examples in Europe" will be focused on obtaining international experience in issues concerning the possibility of adjusting working conditions (the work time, the work load - full or part time, place of

performance of the work, etc.) and the development of childcare services and making use of such acquired examples in the promotion of involvement of parents with children in the work process. The aim of this project is to promote the use of flexible forms of work, such as part-time work, home working and other adjustments of working conditions and the development of variable types of childcare services.

The topic of active fatherhood, which promotes sharing of parental responsibility and participation of both parents in the labour market and which was supported in the past by the implementation of an ESF-funded project of active fatherhood promotion, will be further discussed in the Government Council for Equal Opportunities of Women and Men and in its advisory bodies (committees or working groups).

Measures in the field of family policy and in harmonising family and work life will be implemented in accordance with the principle of best interest of the child. The Government does not intend to follow the way of assuming socialising and other functions of the family by the state and its institutions, but will support the family in the fulfilment of its functions, respecting at the same time the family autonomy in selecting the best childcare form. The Government does not intend to promote any specific childcare types over other ones, but is aware at the same time of the special, irreplaceable value of parental care for children in their earliest age.

The support provided by non-state non-profit organizations to the families in their efforts to harmonise family and work life (such a consulting activities, educational courses for parents, etc.) is subsidized from the state budget and by grants from the European Social Fund.

2. Innovative instruments of active employment policy

A competitive and socially inclusive labour market is currently supported by innovative instruments contained in the active employment policy.

Non-legislative instruments will focus on key skills required by employers and on brokering of jobs for motivated job applicants who have been maintained in the register for more than 5 months. The Government negotiates with social partners about the creation of an active employment policy instrument, designated for wage equalisation for employees who cannot work full time due to the crisis.

The Government's objective is a higher involvement of each stakeholder in the implementation of active employment policy instruments, e.g. through "Employment Pacts". The focus of this support will be concentrated on gradual employment mechanisms.

Other new projects that are gradually implemented are projects focused on education of employees in enterprises with further development prerequisites (projects of the type "Educate yourself for growth!") and on job applicants, which are concentrated on deepening, expansion,

increasing, refreshment or maintaining of skills, on key (general) skills increasing employment sustainability and employability at the labour market (working with information technologies, basic business and communication skills, soft skills, general language training, etc.).

The objective of another active employment policy instrument is to reduce the number of self-employed people who are temporarily unemployed as a result of seasonal works or economic crisis. Support of business-related skills increases their qualification and potentially also the ability to create jobs.

The purpose of cooperation with municipalities is to increase the number of clients of employment offices who perform public benefit works or public service.

The range of active employment policy instruments is topped by a project focused on a reduction of the number of job applicants who misuse the system and work illegally while registered at the employment office (Attendance of the Unemployed "DONEZ").

3. Promotion of employment of young people

The issues concerning employment of young people have gained momentum at the European level. Therefore, the Government of the Czech Republic is prepared to increase the use of the active employment policy instruments, including the implementation of the relevant ESF-supported projects. Various forms of specialised counselling, retraining and other programmes are available for young people. Key actions for support of the young people are focused on education, vocational training and counselling provided at the time of transition from schools to the labour market.

The National Qualifications System and the National Occupations System will be completed by the end of 2015 in accordance with requirements raised by the business environment. At the same time, a lifelong career counselling system will be also introduced.

4. Inclusion of people with disabilities at the labour market

The project named "Increasing the effectiveness of the support system of employment of people with disabilities in the Czech Republic" is focused on improvement of the employment policy instruments designated for people with disabilities. Its aim is to provide support to people with disabilities at the entry into, return from or staying at the labour market, based on an assessment of the effectiveness of individual instruments used by the existing employment system, including the involvement of the relevant institutions, namely of the Employment Office of the Czech Republic.

Results of the project "Rehabilitation-Activation-Work", funded as a part of the Equal Community incentive in the last programming period, i.e. the introduction of a new system of evaluation and assessment of people with

disabilities, form the basis of a currently implemented individual project "Regional networks of cooperation in work rehabilitation" (PREGNET), aiming to create a system of regional cooperation networks in the field of work rehabilitation and adequate conditions for the development of such conditions in the rest of the regions. The project will create grounds for cooperation of medical establishments, rehabilitation centres, regional branches of the Employment Office of the Czech Republic and educational and counselling organizations. The project will promote active involvement of employers and organizations working with people with disabilities in the process of inclusion of people with disabilities in the labour market. According to the development of their medical condition, people with disabilities will be allowed to move among various types of employment.

5. Promotion of mobility of skilled workforce, including workers from abroad

The possibility to have qualified experts at the required place in time is one of the basic prerequisites of competitiveness and business success of employers. It is a necessary condition for investments, because it ensures the availability of appropriate skills at the place of the investment, the transfer of knowledge, development of innovations and introduction of new technologies and leads to the creation of new jobs. If it is impossible to ensure the availability of sufficient number of skilled labour force, the investors will turn to localities where it is possible.

The Concept of Housing in the Czech Republic up to 2020, which was approved by the Government in 2011, will give rise to measures promoting the offer side of rental housing, which will facilitate workforce mobility.

With regard to the openness and nature of its economy, the Czech Republic has to adopt measures to remove administrative obstacles in submission and processing of applications for entry into and work in the territory of the Czech Republic and to facilitate the conditions of entry and stay of key personnel and specialists from third countries. The Government efforts should result in an expedient, economical and foreseeable acquisition of skilled professionals from abroad for the Czech labour market.

Consistency of Measures with the International Competitiveness Strategy and the Focus of EU Cohesion Policy

The International Competitiveness Strategy is focused on specification of actions to promote the harmonisation of family life and work career. The aim is to create an offer of alternative forms of preschool education, keeping contact with one's profession while caring for children and smooth return to the labour market in accordance with personal preferences. Another measure aiming at an increase of workforce flexibility is the above-mentioned increased availability of rental housing.

In the preparations for the programming period of the 2014+ EU Cohesion Policy, the measures mentioned in this

chapter are aimed at the same targets as the priority of increasing the competitiveness of the economy, including improvements in the quality and efficiency of public administration and as the priority of promotion of an efficient labour market, social inclusion, the fight against poverty and the development of the health care system.

Consistency of Measures with the Targets of Europe 2020

The above-mentioned actions are directed at the implementation of the specific Council recommendations for the Czech Republic:

- Enhance participation in the labour market by reducing the barriers for parents with young children to re-enter the labour market through increased availability and access to affordable childcare facilities. Increase the attractiveness and availability of more flexible forms of working arrangements, such as part-time jobs;
- Strengthen the capacity of the public employment service to increase the quality and effectiveness of training, job search assistance and individualised services, linking funding of programmes to results. In consultation with stakeholders, introduce tailor-made programmes for older workers, young people, low-skilled and other vulnerable groups.

III.2.3. Social Inclusion and Reduction of Poverty

The social inclusion policy contributes to the implementation of legislatively enshrined human rights, including preservation of dignified life. This policy is focused on the enhancement of availability and quality of basic sources and services, including employment, education and healthcare. Its aim is to reduce social tension and to prevent its negative social and economic consequences. From the macroeconomic perspective, the social inclusion policy reduces funds spent on the resolution of social consequences of exclusion, increasing at the same time the possibility of socially excluded people or people threatened with social exclusion to participate in the open market of goods and services.

Social policy has a complementary effect to the employment policy and other policies dealing with poverty and social exclusion issues that cannot be resolved, due to various reasons, by integration into the labour market. Even such cases, which are based primarily on the principle of social solidarity as the key element of a modern social state, have to reflect the necessity of sustainability of public expenditure. All such actions should have therefore a long-term growth-enhancing nature.

The Czech Republic considers a functioning, flexible and open labour market and increase of employment, particularly of groups threatened for various reasons by high structural unemployment, as the best contribution to elimination of poverty and social exclusion in the society.

While the Czech Republic is overcoming results of demographic changes and perceives the necessity of solidarity between generations with an emphasis on promotion of vitality and dignity of all people, the Government also pays increased attention to active ageing and to the quality of life in the old age.

Evaluation of the Implementation of Reform Measures under the 2011 NRP

As a part of the social reform implemented in 2011, the Government focused on improving the efficiency of the relevant social transfers and on better targeting of aid to people who really need it. This applied to all key areas: allowance systems, care for people with disabilities and provision of security to people in material deprivation. Effective from January 2011, there were changes in additional social allowance, parental allowance and childbirth allowance. The group of recipients of such allowances was rationalized and the conditions of entitlement to such allowances and their amounts were adjusted with a view of their selective provision. As regards the parental allowance, the amount paid in the two-year drawing variant was unified with the amount of the four-year drawing variant. The childbirth allowance is subject to the income test and the entitlement to this allowance arises only upon the birth of the first child.

The vast majority of measures included in the first stage of the social reform became effective from January 2012. The aim of this stage is to simplify the social protection system, to increase the effectiveness of the work of the state administration authorities, to achieve of the maximum possible level of targeting of the allowances, to reduce administrative load for service users and to ensure effective targeting and payment of social allowances to recipients who actually need them. At the same time, the additional social allowance was cancelled, the period of payment of the housing allowance was shortened and the period during which the parents could elect the parental allowance amount and thus also the length of its drawing based on the social situation of the family was shortened to the period within which the total determined amount is used up. The Government is implementing the approved Act on Provision of Allowances to People with Disabilities and on the Amendment to Related Laws, with the aim of aggregation of allowances, revision of the group of recipients and targeting the allowances to the promotion of employment, education and social inclusion of people with disabilities.

In September 2011, the Government approved the Strategy for Combating Social Exclusion for the years 2011 - 2015. This strategy is focused primarily on the involvement of socially disadvantaged children to mainstream education, prevention of family break-ups and of taking children to institutional care, promotion of employment or security inside or in the vicinity of socially excluded localities.

The Government continued the implementation of the measures of the National Action Plan of Inclusive Education. This encompassed the inclusion of a new provision into the state social support system, which defines the consequences of avoiding compulsory school attendance, which consist, Like in the case of assistance in material deprivation, avoiding compulsory school attendance is punished by the reduction or withdrawal of the allowance to the parent or foster parent who was finally and effectively sanctioned for failure to fulfil the duties relating to the proper fulfilment of the compulsory school attendance of the child.

Beside the evaluation of the Crime Prevention Strategy for 2008 – 2011, the Government was also presented with and approved the Crime Prevention Strategy in the Czech Republic for 2012-2015. The implementation of the projects and performance of tasks included in the Crime Prevention Strategy in the Czech Republic for 2012-2015 has begun in 2012.

In July 2011, the Government approved a new Housing Policy Concept of the Czech Republic until 2020, which contains a number of specific measures in the field of housing.

In January 2012, the Government adopted the National Strategy of Protection of Children's Rights, which defines a set of measures aimed at the overall reform of the system of care for threatened children.

An assessment of impacts of economic crisis, fiscal consolidation and social reform on people threatened by poverty a social exclusion was made. The results of these surveys are applied in the creation of further proposals of inclusive policies.

A document named Long-term Vision for Social Inclusion as the Basis for Elaboration of the Social Inclusion Strategy, which will be adopted in 2012, will represent the core document in the field of combating poverty and social exclusion until 2020.

Specific Reform Priorities with Particular Reference to 2012

1. Inclusive education

Inclusive education, which is a key element in the promotion of social inclusion and fight against poverty, in increasing the participation in the labour market and reducing structural unemployment, puts a special emphasis of the proper fulfilment of compulsory school attendance. Inclusive education gains a special importance particularly in socially excluded localities and becomes also the basic pillar of further development of the education system in the Czech Republic.

A system of promotion of participation of children from socially disadvantaged environment in preschool education and care, which will be established until the end of 2013, will focus on increasing the share of those children in

preschool education and on the preparation of those children for school attendance and enabling them to join ordinary school attendance and to become better involved later in private and professional life.

2. Effective social transfers

As a part of the implementation of the measures included in the first stage of the social reform, which aim at improving the quality of information about provided allowances and their recipients so that such information may be used in the assessment of impacts of measures and policies and in timely identification of concentration of social problems, the Government will introduce since June 2012 payment of non-insurance social allowances by means of a "social systems card." Savings of operating expenses will be achieved by means of introduction of a unified information system of allowances, i.e. of a single interface replacing the information systems of the Ministry of Labour and Social Affairs of the Czech Republic, the Czech Social Security Administration and of the municipalities.

3. Social inclusion of people with disabilities

The Government strives to promote full-fledged life of people with disabilities, which includes employment, education and maximum social inclusion. The *material intent of Act on Rehabilitation of People with Disabilities* will be presented to the Government in 2012 (the presentation deadline of the intent to the Government is November 2012).

At the same time, the tasks set forth in the National Plan of Creation of Equal Opportunities for People with Disabilities for the 2010 – 2014 are also being fulfilled. The implementation of the National Development Programme of Mobility for All, with the aim of gradual elimination of existing architectonic and transport barriers in cities and municipalities that will join this programme, will continue until 2015.

4. High-quality social services to those in need

A key step is the continuation of the reform focused on promotion of availability of social services by means of an effective and transparent management environment, networking and distribution and monitoring of financial funds invested from public funds to social services. One of the partial outputs of the reform will be a model map for monitoring social phenomena relating to social vulnerability or exclusion.

The *Act on Long-term Medical and Social Care*, which is being prepared, will regulate the provision of social and medical services to people in need of combined medical and social care. Such services shall be provided in home environment, in outpatient and inpatient centres.

The concept of promotion of transformation of residential social services to other types of social services provided in the user's natural community and promoting social inclusion of the user in the society is implemented by

means of a pilot project "Promotion of transformation of social services", focused on transformation of institutional social care services for people with disabilities and people suffering from a mental disorder co-financed from the ESF. Result of this project may be also applied appropriately to the care for older people.

The project "Promotion of processes in social services, which is implemented in the period of 2010 to 2015, is focused on promotion of availability of social services to their users by means of effective and transparent management environment, networking and distribution and monitoring of financial funds invested from public funds to social services. Results of this project will become the basis for measures to be implemented in the financing system of social services in order to ensure sustainability of such system.

5. Financial literacy

The improvement of financial literacy of wide groups of the public, including the improvement of the ability of people threatened with social exclusion to manage their own debt portfolio, continues to be a long-term priority of the Government. The National Strategy for Financial Education for the years 2010 – 2015 contains measures aimed at the improvement of financial literacy and prevention of overburdening with debt with a specific focus on children and young people and on certain groups of adults (the long-term unemployed or people with basic education). The aim of this strategy is the creation of a unified system of financial education to increase the level of financial literacy of citizens in the Czech Republic.

This strategy is the basis for the System of Building Financial Literacy at Basic and Secondary Schools, a partial concept focused on financial education in these educational institutions.

The Government also implements a pilot project of verification of innovation procedures aimed at the improvement of financial literacy of the target group of the unemployed.

6. Social inclusion of the Roma and of the other socially excluded and vulnerable groups

The measures approved as a part of the Strategy of Combating Social Exclusion for the years 2011 – 2015, which are currently being implemented, represent a broad response particularly to the local dimension of social inclusion, i.e. to the problems of socially excluded localities.

These measures are focused, in particular, on the involvement of socially disadvantaged children to mainstream education, prevention of family break-ups and of taking children to institutional care, promotion of employment or security inside or in the vicinity of socially excluded localities. Municipalities are and will continue to be provided, as a part of local partnership, with support from the part of the Agency for Social Inclusion in Roma Localities. Social integration of the inhabitants of excluded

localities continues to receive significant support from the Structural Funds with an emphasis on support of local projects for provision of social services, promotion of education, employment and housing.

A complementary instrument to the specific instruments of social inclusion which assist the inclusion of socially excluded Roma and other vulnerable groups is a more flexible labour law, more effective system of social transfers and inclusive education.

An analytical survey of the effectiveness of the current active employment policy will be made for the purpose of promotion of employment in socially excluded localities and of improved use of human capital. Such study will become the basis for the elaboration of the conceptual document *Employment Strategy*, which will include specific measures, their content and practical implementation method.

A special emphasis will be put on the promotion of social inclusion and social solidarity in structurally underdeveloped regions with a higher unemployment load and with the existence of socially excluded localities.

The Government has been implementing on a broad scale the comprehensive Roma Integration Concept for the years 2010-2013, which combines human rights, ethnic and socio-economic perspectives.

7. Improving the quality of the system of care for vulnerable children

The actions implemented within the scope of the reform of the system of care for vulnerable children will include unification of the management and funding structure, creation of a single network of services for work with families and children, a comprehensive substitute family care system, a single information system regard protection of children's rights and other steps, which will ensure protection of children's rights in the Czech Republic, reduction of placement of children in institution care and effective prevention of pathological social phenomena.

The Government will implement measures arising from the National Strategy for Protection of Rights of Children and from the related Action Plan. The amendment to the Act on Social and Legal Protection of Children, which will become effective in the course of 2012, will regulate significantly the activities performed by employees of authorities responsible for social and legal protection of children, as well as foster care. Legislative works on a comprehensive legislation concerning support of families, substitute family care and system of protection of children's rights will begin in the same year.

8. Affordable housing

Based on the new Civil Code, which should become effective from 2014 and which contains new provisions regarding flat rentals, the Government will be presented with implementing *regulations regarding ownership and lease of flats*.

The Government implements the measures contained in the Housing Policy Concept of the Czech Republic until 2020, namely those relating to support of rental housing, which facilitates workforce mobility and responds to the demographic development of the society, thus increasing the ability of households to find dignified housing for a price corresponding to their income.

One of the tasks imposed by the Housing Policy Concept of the Czech Republic until 2020 is the performance of *an analysis of the existing legislative environment in the field of care for socially vulnerable groups with a higher threshold of affordability of good quality housing and proposing its modification with the aim of increasing availability of housing support in this area (particularly for non-profit organisations)*. This analysis will be presented to the Government. Another task included in the Concept requires the performance of *an analysis and (if applicable) a revision of social allowances in the area of housing and of an analysis of potential transfer of financial funds designated for housing allowance and additional housing contribution together with the establishment of comprehensive competencies of municipalities in housing issues, which will be presented to the Government*.

The Government is preparing a comprehensive solution of affordable housing with the use of the institute of "housing emergency, which should define a social situation or events causing an unsatisfied housing need. This institute will include a proposed legislative definition of people in housing emergency. This should be followed by the creation of instruments for prevention of loss of housing and for increased availability of housing for entitled persons.

The Agency for Social Inclusion will continue to implement pilot projects of "permeable" housing, which will be used as systemic instruments for ensuring affordable housing for low-income households. Greater support will be provided to non-profit organisations, which provide non-profit housing services in cases of social intervention.

The simultaneously elaborated *concept of resolution of homelessness* is focused on comprehensive resolution of the situation of people threatened with extreme social exclusion.

The current legislation stipulates the duty to prepare every year a draft Government *regulation determining the amount of costs comparable with rent, amounts calculated in respect of solid fuel and normative housing cost amounts for the purpose of housing allowance paid from the state social support for the relevant year*. The presentation deadline of this proposal to the Government is November 2012 and the anticipated effective date will be January 2013.

9. Promotion of active ageing

The tasks specified in the National Programme of Preparation for Ageing for the period of 2008 – 2012 will continue to be fulfilled in 2012, which is the European Year for Active Ageing and Solidarity between Generations. A new *National Programme of Preparation for Ageing for*

the Years 2013 to 2017 is currently being prepared. Key priorities include employment of older and elderly people, lifelong learning, volunteerism, dialogue between generations, healthy ageing, quality of life, links between healthcare and social care and human rights of the elderly.

Consistency of Measures with the International Competitiveness Strategy and the Focus of EU Cohesion Policy

The implementation and development of lifelong learning system is the focus of the International Competitiveness Strategy. Human capital, knowledge and competencies of employees represent an important source of productivity. Hence, it is necessary to implement a number of actions setting up appropriate institutional conditions and appropriately targeted financial support for lifelong learning in line with changing requirements of the labour market, the employers and the labour force.

In the preparations for the programming period of the 2014+ EU Cohesion Policy, the measures mentioned in this chapter are aimed at the same targets as the priority of increasing the competitiveness of the economy, including improvements in the quality and efficiency of public administration and as the priority of promotion of an efficient

labour market, social inclusion, the fight against poverty and the development of the health care system.

Consistency of Measures with the Targets of Europe 2020

The above-mentioned results of the social reform and the progress achieved in the fulfilment of national objectives and partial national objectives of the Europe 2020 strategy indicate that the approach elected in the Czech Republic complies with priorities of the employment policy defined by the European Commission in its Annual Growth Survey 2012 as the key labour market priorities:

- Protecting the vulnerable: improving the effectiveness of social protection systems and making sure that automatic social stabilisers can play their role as appropriate, the implementation of active inclusion strategies, ensuring access of vulnerable groups to basic services (employment services, basic payment account, electricity supply, housing).

These results may also be understood as an essential contribution of the Czech Republic to the implementation of the European Framework for National Roma Integration Strategies up to 2020.

III.3. Education as a Route to Competitiveness

Introduction

Competitiveness and development of the society depend on the level of education of the population and on the quality of the educational system. A well-prepared labour force, whose qualification enables an increase in work productivity, represents one of the pillars of zero-cost component of competitiveness. Some measures described in this chapter are also part of the National Employment Plan.

It has to be provided that measures leading to the stabilisation of public budget deficits in the year 2012 and in the following years will not endanger long-term economic growth. This concerns particularly the development of public expenditure for education, research and development, as it was recommended to the Czech Republic by the EU Council in summer 2011.

The educational system in the Czech Republic has had to adapt itself continuously forced not only to the dynamic socio-economic changes in the surrounding world but also to the consequences of demographical development. This requires the adaptation to the changing number of pupils in each starting year of school attendance. Such numbers are also reflected in the number of secondary school graduates and in the development of the number of applicants for university studies. Such dynamic imposes new and in many respects even higher demands on the educational system.

It is necessary to achieve not only quantitative but also (and significantly) qualitative changes in the education structure. Improving the quality of education and of vocational training in the broader sense is a prerequisite of finding a better place for an individual in the labour market, based on the qualifications corresponding to the dynamically-developing needs of the economy. This is where the more prominent role of lifelong learning and a closer tie between the educational system and the future labour market needs come into play.

As regards the pre-school education system, which creates and enhances the basic foundation for learning and for social integration, attention must be paid to, among others, the availability of affordable and good quality, institutional pre-school education. Therefore, the reform has to emphasise the educational aspect. Pre-school education, particularly of children from socially- and culturally-disadvantaged families, represents one of the few relatively available and proven effective methods of reducing the risk of future educational failure of children during their school life.

The earliest stages of the educational system, that is, pre-school education and basic schools, have to date provided

little help in the reducing the impact of socio-economic differences in Czech society. Differences are to be found between regions and in areas of low employment and low socio-economic standing. An increase of differences in results among pupils of individual basic schools was found during investigation of PISA results. This signalled an urgent need for action.

Secondary education, namely secondary vocational studies with graduation exams, is still characterised by only a small percentage of education for key competences. While the share of specialist vocational training in the Czech Republic is still one of the highest in the EU, the interest in studying these specialisms has been continuously decreasing. Increased demand for such specialist skills and knowledge from the labour market and a reduced number of those graduating in such studies creates a serious problem. Moreover, There is insufficient flexibility to respond rapidly to the needs of the labour market despite the sometimes – but not always effective close link between schools and employers. Further emphasis should be put on the quality of the learning content, on professional and occupational development of the teachers, modernisation of the secondary schools and on closer co-operation with industry, plus better links with further education (including lifelong career counselling) and with systems of analysis and prediction of the long-term needs of the labour market.

The offer of study programmes should be linked to the labour market needs so that the universities do not produce unemployable graduates. On the contrary, it is necessary to ensure sufficient number of graduates in branches that are in demand at the labour market. Hence, sufficient attention should be further paid to the employability of university graduates at the labour market and to long-term survey of the market demand. Another problem is the very different quality of universities as such, particularly in international comparison. The state support should be better targeted, namely to the creation of top centres capable of preparing the most gifted secondary school graduates.

The Czech Republic is one of the EU countries with the lowest number of school dropouts and exceeds significantly the target set out in the Europe 2020 Strategy. Therefore, the Government will focus its attention on the current development of this value and will respond immediately in case of any deterioration to preserve the current level of this indicator.

At the same time, however, the share of children from socially-excluded (mainly Roma) households in school dropouts continues to increase. Up to 80,000 people in the Czech Republic who live in low socio-economic areas have

been showing in the long term a very low level of education (that is, basic incomplete basic education), and up to 80% of these people are Roma.

The following national objectives have been set in this area:

- *the maximum 5.5% of school dropouts;*
- *32% of people aged 30 - 34 years having tertiary education.*

Such objectives have to be understood in the above context not as self-serving, but as a contribution of the Czech Republic to the achievement of objectives set jointly at the EU level. On the other hand, the Government considers these objectives at the national level as a part of a broader strategy, where the structural reforms of the educational system and primarily the quality of this system and its links to the labour market needs play a more significant role than any quantitatively determined objectives.

Actions specified in the National Reform Programme are implemented continuously for the purpose of increasing the availability of pre-school education, increasing literacy and inclusion into the labour market and the society.

Specific measures are being prepared for the introduction of an individualised pupil evaluation system. Other measures have been taken to improve the social integration role played by basic schools and to promote equal access to education. Conditions for inclusion of "company kindergartens" to the register of schools and school establishments, as well as the rules for enrolment of children into such kindergarten have been prepared.

Actions have been taken to make school learning more attractive and to establish closer ties between learning and practical life and its needs in order to overcome the disadvantage of pupils from access to education.

A new common part of the secondary school graduation exam has been introduced. The secondary school reform has been implemented since 2007, and a single evaluation system of basic school pupils is being prepared.

Main Reform Objectives

It will be important to adopt in the immediate future specific measures to improve the effectiveness and the quality of the educational system, to adapt this system to the interests of Czech economy, which is oriented on industry and export, and to ensure the necessary development of lifelong learning opportunities. Special attention has to be paid to ensure that each level of the educational system (and of the out-of-school education system and informal education) provides, on completion, a good quality education to its graduates and furnishes them with competencies and knowledge that can be used in society and in the labour market and that can be further developed by lifelong education.

This process has to start in pre-school care and education, both with regard to the objectives aimed at the integra-

tion of parents into the labour market and to the upbringing and education of children at an early age, their preparation for school and for school education. More emphasis will be put on pre-school education of children before the start of basic education and on co-ordinated social and pedagogic intervention in households in areas of socially disadvantaged. It is necessary to establish a system of quality control. At the basic school level, it is necessary to focus on the development of the ability of children to master new skills quickly and effectively and to support creativity with regard to the objective of lifelong learning, to put more emphasis on promoting search for knowledge, dexterity and interest in mathematics, science and technology and on adopting basic moral values. These abilities acquired at an early age have to create a sufficient foundation for adaptation to changing professional and life demands in the following years of life. This approach should also include good quality preparation in the area of general knowledge, which is a pillar of classical education in Western culture.

Another strategic objective is the transformation of the Czech educational system towards social inclusion. This is also related to the promotion of a system where with the assistance of school psychologists, there is an enhancement of the ability of teachers to educate children with special educational needs and promotion of the introduction of ethical education to the curriculum for all. Measures directed at the promotion of inclusive education have been included in the Long-term Plan of Education and of the Development of the Educational System of the Czech Republic (2011). In accordance with the Government resolution, a report on further progress in the preparation of the National Action Plan of Inclusive Education will be presented by the end of 2012.

An update of the Framework Educational Programmes, which is planned to be made in 2015, will also cover financial literacy, which will be added to the Framework Educational Programmes in 2012.

The proposed new legislation concerning better conditions for pedagogues and for INP (Individual National Projects) and a Career System for teachers will be presented to the Government in 2014.

Another task is the reform of secondary education system, which is also a prerequisite for the reform of university education. The problem of secondary education system is that the lower number of graduates in a number of areas of study, including education with apprenticeship certification. At the same time, it is necessary to resolve the growing number of secondary schools with unused capacity. It is also necessary to concentrate on high quality career counselling, which will be linked to the real needs of the labour market. As regards university education, it is necessary to reform the still insufficiently diversified system. Measures will be adopted to improve the quality of university education and the profiling of graduates from individual schools, which will better correspond to the labour market requirements and will enable them to find more suitable jobs. One of these measures is the in-

crease of the prestige of Bachelor degree education and its practical use in the labour market, together with support of vocationally focussed Bachelor study programmes, together with the transformation of some higher vocational education programmes to Bachelor level. The intention is to stabilise the existing higher vocational schools, because these schools constitute an important link of the educational system and represent a non-university segment of tertiary education with a special focus on practice, which exists in most European countries. Steps have to be taken to set up criteria for mutual access between higher vocational schools and similar bachelor programmes provided by universities.

An emphasis has to be also put on flexibility of graduates, their good theoretical preparation, sufficient language proficiency, team work and project management competencies, minimum legal knowledge, etcetera, across all study branches. Universities have to be opened to other social strata and must search for students in other categories than fresh secondary school graduates. It is also necessary to increase international mobility of students and academic staff and to pay attention to the improvement of the international environment at the universities.

It has to be noted that the additional fiscal measures discussed in the Government at the time when this National Reform Programme is being prepared should not have an immediate impact on the measures contained in this document. On the other hand, it is necessary to take into account secondary impacts, particularly on reforms of basic and secondary school system, which depends in a number of ways on the possibilities of financing from public sources (this applies, for instance, to the chapter dealing with "better conditions for teachers and improvement of school leadership and management", although it does not deal with remuneration but with the structure of a remuneration system).

III.3.1. Improving the Quality and Availability of Preschool Education

III.3.2. Systematic Improvement of the Quality of Educational Activities and Reform of the Educational System

III.3.3. Reform of the Higher Education System

III.3.1. Improving the Quality and Availability of Preschool Education

High quality preschool education designated as a part of the educational system has a key importance for further development of personality and represents also ideal preparation for the entry into the school system and prevention of negative consequences of social disparities, which appear in later stages of the educational cycle. Therefore, it should be the focus of proper attention in the creation of conceptual educational policy materials. Preschool education cannot be primarily understood as the care for young children by a person other than their

parents but as an instrument of socialisation of the child and of mastering basic skills for later life. On the other hand, however, it should not be forgotten in this phase of life that the best instrument to teach the child the basic cultural, ethical and social standards is the functioning family.

Evaluation of the Implementation of Reform Measures under the 2011 NRP

The Government has prepared concrete proposals of financial support of company kindergartens and of legislative elimination of barriers to their establishment by means of the amendment to the School Act No. 472/2011 Coll. of 20 December 2011. The budget impacts will depend on the specific form of financial support.

Specific Reform Priorities with Particular Reference to 2012

The Government will take steps to facilitate the establishment of pre-school institutions by means of removing the existing legislative barriers, particularly certain redundant conditions required for the establishment of such facilities. On the other hand, however, the simplification of such conditions should not result in a reduction of the quality of such institutions. The Government will provide financial support to the establishment of company kindergartens.

Due to the fact that investment in education have a decreasing tendency with the increase of the child's age, investments into pre-school education have a high return. In this respect, it is appropriate to promote an increase in the teaching of foreign languages in pre-school institutions.

The Government will continue to promote availability of pre-school education for children from socially-disadvantaged environment. This will be accompanied by transformation of pedagogic and psychological counselling so that it may adequately diagnose individual needs of children and propose appropriate supportive measures in full co-operation with kindergartens, basic schools and non-state, non-profit organisations.

The entire pre-school education system has to be also viewed in the context of steps in the field of child care that will be taken as a part of measures supporting the family and compatibility of the family and work life. The child-care system, particularly care for children older than three years of age, should take into account priorities of the educational system.

Consistency of Measures with the International Competitiveness Strategy and the Focus of EU Cohesion Policy

The measures described in this chapter are included, among others, in the project of "Improving the Quality and Availability of Pre-school Education", which is a part of the International Competitiveness Strategy.

In preparation for the programming period of the 2014+ EU Cohesion policy, the measures mentioned in this chapter are aimed at the same targets as the priority of education, research, development and innovation.

Consistency of Measures with the Targets of Europe 2020

The proposed measures are based on the objectives of the Europe 2020 strategy in the field of education, on the related recommendations no. 9 and 10 if the integrated main directions and on the objectives of the strategic framework of European cooperation in education and vocational training ET2020.

III.3.2. Systematic Improvement of the Quality of Educational Activities and Reform of the Educational System

The educational system as a whole has to be more closely connected with the need of the labour market and consequently also with the business environment. As regards basic and secondary education, it is necessary to promote such focussed teaching that will offer to pupils broader opportunities for finding work and for future changes of occupation, will promote language education, increase information, reading, mathematical and financial literacy. Schools have to avoid excessive unilateral preparation of pupils. Other efforts have to be focussed on inclusive education of all pupils, on the start of the process of transformation of special education, on the improvement of the school climate, on increased attractiveness of the second level of basic schools, on the process of merging the existing secondary schools into multi-functional secondary vocational schools, etc. On the other hand, such steps may not be allowed to lead to any negative consequences such as a decrease in the quality of teaching. Such a system may also contribute to increased access to education. For the same purpose, it is necessary to create conditions for provision of support to particularly gifted and talented pupils, which should begin at the pre-school level.

The educational system should apply innovative ways of use of modern techniques and modern technologies with the aim of increasing the effectiveness of the educational services provided, taking into account the trends existing in developed countries.

It is also necessary to improve the system of care for vulnerable children and to promote timely inclusion and maintaining of these children in mainstream education at all school levels.

As regards the regional school system, it is necessary to support the functioning of the career counselling system at basic and secondary schools and to establish closer links between this system and the labour market requirements. For this purpose, it is also appropriate to concentrate the responsibility for this agenda in a single institution.

The monitoring and evaluation of results of educational and training activities at all levels and provision of feedback to the founders, schools, principals and pedagogues is a prerequisite for effective implementation of the measures and instruments, which will ensure the achievement of the objectives in the area of education and social integration. Therefore, the Government will improve the system of evaluation of the quality of teaching, as well as the evaluation of students, to ensure maximum objectivity of the evaluation criteria.

Evaluation of the Implementation of Reform Measures under the 2011 NRP

The Government approved in 2011 a strategic material named "Long-term Plan for Education and the Development of the Educational System in the Czech Republic" (Government Resolution No. 836/2011).

A decree on the improvement of the social integration role of basic schools and equal access to education as the basic step in this area came into force as of 1 September 2011.

Whole-scale evaluation of the results of education of pupils of the 5th and the 9th grade of basic school was introduced in December 2011 by means of pilot testing of a sample of 104 basic schools and of the corresponding grades of multi-year secondary grammar schools. The testing period of this process will continue in 2012 and 2013 and the live version will be introduced only from 2014. The implementation of this measure was preceded by the preparation and publication of standards for results of pupil education in accordance with the Framework Education Programme for Basic Education.

An amendment to Decree No. 177/2009 Coll. on detailed condition of completion of secondary school education by a secondary school-leaving exam (GCSE) came into force in September 2011. A new GCSE was introduced at secondary schools in the school year 2010/2011. The Government was presented with an evaluation of the promotion of quality of vocational education in cooperation with employers.

In January 2012, the Government reviewed an amendment to the Action Plan for Promotion of Vocational Education and requested a proposal of new measures for promotion of vocational education, which will be presented to the Government for review by 31 August 2012.

An amendment to the Act on Promotion of Further Education of Adults was passed in February 2012. An amendment to the Act on Regulation of the Conditions for Formalisation of Knowledge and Skills Attained by Informal Education or Informal Learning through an Exam Passed in accordance with the National Qualification System was passed in February 2012. Furthermore, the National Referencing Report of the Czech Republic was adopted in autumn 2011 as a part of the implementation of the European Qualifications Framework.

Specific Reform Priorities with Particular Reference to 2012

1. Basic education

a. Introduction of a single system of pupil evaluation

Beginning with the school year 2013/2017, the Government will introduce *blanket evaluation of results of education of pupils of the 5th and the 9th basic school grades and of the corresponding grades of six- and eight-year secondary grammar schools* with the aim of using such results in its own evaluation of the school. A public discussion about the objectives and conditions of evaluation in the basic school system will be followed by the creation of a single means of identification and monitoring of education results in basic education, which will be created in co-operation with the Czech School Inspectorate (CSI) with the aim of achieving broader consensus and gradual practical application of evaluation instruments. The evaluation will focus primarily on the pupil's orientation in his/her own knowledge and on his/her ability to make use of attained skills. Such evaluation system will be motivating for the school; concrete results will be provided only to the pupil and to the school. It is expected that, following its creation, the system will be linked, for example, to the CSI assessment for the purpose of analysing the work of schools with the worse results. The system will enable the school to propose a way of change; at the national level, it will make possible to identify groups of schools and pupils who need support.

b. Improvement of the social integration role of basic schools and equal access to education

The Government will strive to ensure that the basic education structure supports social coherence.. Basic schools should not be a place of social differentiation and early determination of future career. Too early division of pupils according to their study results and prerequisites may frustrate the utilisation of the potential of hidden talents.

On the other hand, the quality of teaching should not worsen by having classes with all abilities. The system has to make room for the growth of talented pupils and to motivate children from an early age towards competition and efforts to improve their knowledge and skills.

An improvement of the social integration role of schools depends on measures aiming at an increase of the attractiveness of teaching. Existing surveys indicate that pupils are bored at school and have a negative attitude, particularly to technical and natural sciences. Therefore, teaching of these subjects should have closer ties to practical life and its needs. Pupils should not get an impression that they will never use the taught subject in practice. Education at basic schools should not be concentrated primarily on the quantity of knowledge, but on the ability to work with the text, to acquire information, on team work and problem-solving.

It is necessary to ensure that basic school pupils have equal chances and are not excluded without reason from mainstream educational system. Therefore, the Government will create conditions for reduction of the number of children educated outside the mainstream educational system at schools teaching in accordance with the Framework Educational Programme for Basic Education with the Annex Specifying the Education of Pupils with Mild Mental Disabilities.

The training of future teachers will be transformed to ensure that they possess competencies for setting up and implementing of socially-inclusive measures in the class and in the school and other required competencies enabling them to enter in their subsequent practice into the relevant career system. The key pre-requisites for transformation of undergraduate preparation include a significant increase in demands on the applicants for studies, an increase in the amount of real practice with children in schools and the introduction of a common profile for graduation as a teacher.

c. Better conditions for teachers and the improvement of school leadership and management

One of the objectives of the Government is to create an independent system of remuneration for teachers, which will be closely linked to the career system and both these system will motivate teachers towards lifelong improvement of the quality of their work. The basic salary amount no longer depends only on the length of the teachers years of service, but mostly on the quality of his/her work and on the increasing demands on the activities performed by him/her and on his/her functional specialisation. The promotion of a teacher in the career system will be supported by a system of continuing professional development.

It is also necessary to innovate professional training of future and existing headteachers, to begin preparing a career system of headteachers and to systematically improve the quality of headteachers. It is necessary to promote improvement of school leadership and management at all levels (the school – the founder – the Ministry of Education, Youth and Sports) and to establish and maintain a quality management system in education. Without high quality education of teachers and headteachers, it is impossible to improve the quality of education.

The amendment to *Act No. 563/2004 Coll. on pedagogues*, which is to be reviewed in 2012, should mainly simplify recognition of equivalence in the professional qualification of teachers.

3. Reform of the secondary school system

a. Reform of the secondary school-leaving exam (GSCE)

The key specific priorities of the Government include the introduction of a new GSCE model in the educational system of the Czech Republic. The data obtained from the

implementation of the new GSCE model are continuously analysed and serve as the basis for increasing the effectiveness of the entire implementation process. The main purpose of the reformed GSCE is to ensure that it corresponds, by its demands, to the requirements of the state regarding the knowledge and skills of graduates from study branches providing education with a GSCE exam. One of the side-effects of the new GSCE model is the possibility to set it up in accordance with the requirements of admission exams at universities. For the purpose of this pre-requisite, it would be appropriate to discuss or to introduce unifying evaluation elements in the joint unified part of the GSCE and to agree with universities on the use of objectified results of the reformed GSCE by the universities as criteria for selection and admission of candidates for university studies.

The interpretation of results achieved by pupils/schools through the new GSCE model is a complicated process, which is affected by a number of factors (different branches of study; different entry level of pupils; different level of inclusive education; different regional conditions, etc.). Inaccurate interpretation of data obtained from the outputs may cause damage to pupils and to schools. As a result, special attention will be paid to more refined interpretation of such results.

The paramount and key objective of the reformed GSCE is to ensure that the results achieved by a pupil are evaluated in the light of the objectives of the Framework Educational Programmes. Another, not less important factor is to provide feedback to pupils, their parents, schools and their founders for the evaluation of the educational system setup.

Based on full introduction of the reformed GSCE, it will be possible to take into account its results also in an external evaluation of schools, which will allow for comparison of the quality of Czech schools and the level of preparedness of their pupils in the European context.

b. Introduction of a new final exam to the vocational education system

Specific legislation will introduce at the latest in 2014 a new final exam into the vocational education system with an *apprenticeship certificate*. Such an exam will ensure better comparability of the quality of schools and of the knowledge and skills of their graduates. This exam will be prepared with the participation of employers.

c. Promotion of the improvement of the vocational education quality in cooperation with employers

The Government will continuously monitor the level of secondary vocational education, using indicators and criteria for measuring of the progress achieved in the quality improvement (such as the success of pupils at the final exams and the GSCE, the percentage of dropouts, permeability of the educational system, the success of pupils in international surveys) and the creation of con-

ditions for co-operation with employers. This objective will be also implemented in the context of the European Quality Assurance in Vocational Education and Training (EQAVET), adopted in 2009.

Enhanced co-operation between vocational schools and employers will have various forms. It will be particularly reflected in an improvement of the quality of practical training in an actual working environment, or will have the form of study stays of teachers, cooperation on changes of educational programmes, preparation of teaching materials, improvement and increasing the attractiveness of education in branches providing secondary education with an apprenticeship certificate – the so-called “apprenticeship” (vocational training) system, or of increasing motivation by granting regional or business scholarships for selected branches. Other systemic measures include support of the participation of experts from practice in the teaching, in final examination commissions, practical exams, through support of education in the field of technical and natural sciences by the use of “templates”, that is, pre-prepared standardised projects, funded by the unit cost method.

The Government will continuously supervise the improvement of the teaching quality and systematic evaluation of the quality of general education in secondary vocational education programmes (particularly branches with three-year study and an apprenticeship certificate) and an effective link between education and practical needs and involvement of employers in cooperation with schools.

In accordance with labour market requirements, the Government will promote higher attractiveness of secondary vocational education, including the further development of “apprenticeships”. In the context of competencies performed by the state, the Government will also consider forms of support to the creation of co-operating entities consisting of schools and businesses in some sectors, which would establish closer links for pupils to practice and would enable employers to establish contact with potential future members of the labour force. The Government will take into account the fact that the major part of potential measures in this area falls within the competencies of self-administration units.

The Czech Republic intends to implement a project of promotion of vocational education in the years 2012 – 2014.

4. Promotion of further education of adults

The Government intends to respond to the very low percentage of adults participating in further education. The main emphasis will be put in the coming period on the support and promotion of further education as a way to strengthen competitiveness and the completion of a single system of further education, particularly by the implementation of the results of the systemic project “Further Education Concept”. It is essential to gain sup-

port for recognition of further education results by employers and to promote participation of individuals in further education by a combination of various means. In this respect, the Government will also consider the possibility of further financial support in this area.

A special emphasis will be put on the simplification of the accreditation system of retraining courses and on the strengthening of their links to practice. The key activities in this respect include the completion of the project "Implementation and Development of the Lifelong Learning System" (of the further education system in the context of the UNIV 3 project), the implementation of the National Qualifications System and validation of education to attain qualifications based on the National Occupations System, as well as the introduction of other innovative forms and methods of further education of adults.

The implementation of the European Credit System for Vocational Education and Training will be also prepared.

Last but not least, it is necessary to complete the system for monitoring of the labour market needs and to implement it into the system of further education and counselling in the lifelong learning and careers.

An important direction of the development of the further education system in the following period will be the learning of foreign languages, ICT, financial literacy and civic competencies, as well as the emphasis on education in branches with a high potential for increase of competitiveness of the Czech Republic and gaining practice by means of practical training with employers or by the institutionalisation of professional qualification of teachers involved in further education.

A comprehensive offer of further education programmes, which will be developed, will respond efficiently to the labour market needs. At the same time, it is necessary to prepare an evaluation system of such programmes, for example, by means of rating of educational institutions.

The technical amendment to Act No. 179/2006 Coll. on verification and recognition of further education results, which will become effective from 1 April 2012, was taken as the basis for the amendment of Decree No. 208/2007 Coll. This will be followed by *the preparation of a material amendment to the Act on Recognition of Further Education Results*, which should also regulate other areas relating to the system of recognition of further education results.

In the period of 2011 – 2015, further education will be funded through the operational programme Education for Competitiveness, with the schedule of performance of approved activities for the years 2009 – 2015.

5. Informal and special interest education

It will be necessary to strengthen the role of informal education, including special interest education of children and youth in support of individual development of knowledge, skills and specialisations in out-of-school activities,

and to deepen the incorporation of 'special interest' education of children and young people in the concept of lifelong learning and its implementation. It is also necessary to strengthen the recognition of informal education for better placement of young people in the labour market.

6. Reform of financial of the regional educational system

The pupil/student will no longer be the single criterion in the *new model of norms for financing of the regional education system*, which will be elaborated and submitted for approval. This model will include other parameters, which will contribute to the optimisation of the network of schools. The capacity of secondary (and basic) schools should match demographic development.

It will be also important to set standards for the results of educational activities for basic school pupils in accordance with the needs of the changing world and with the future shape of the labour market.

The reform of financial of the regional school system will take into account all types of special educational needs and will provide support to the basic schools involved in the integration and provision of mainstream education with the aim of educating pupils with special educational needs and setting adequate equalisation of opportunity and ensuring supportive measures for all. Such equalisation and supportive measures for pupils with special educational needs will be elaborated in the catalogue form, with consequent funding of each such measure. The reform will not transfer financial costs of compulsory school attendance to municipalities.

Legislative standards of funding of the regional school system will be set in 2012 and are expected to be implemented in the school year 2013/2014.

Consistency of Measures with the International Competitiveness Strategy and the Focus of EU Cohesion Policy

The The reform measures of this chapter are further detailed in the International Competitiveness Strategy. The objective of the project "Changes in Basic and Secondary School System" is to implement such measures as the introduction of standards for results and monitoring of their achievement (only in respect of basic schools), improvement of the quality of teachers, improving the quality of the work of school management and of the quality of career counselling at schools. The vocational education system with its recognised links to specific segments of local labour markets requires the introduction of measures that promote the involvement of employers in vocational training.

In the preparations for the programming period of the 2014+ EU Cohesion policy, the measures mentioned in this chapter are aimed at the same targets as the priority of education, research, development and innovation.

Consistency of Measures with the Targets of the Europe 2020 Strategy

The measures for implementation are based on the targets of the Europe 2020 Strategy which concerns education, on the related recommendation no. 9. of the Integrated Guidelines and on the targets of the Strategic Framework for European Cooperation in Education and Training ET2020.

Certain common points may be found in specific aspects of the affected areas with approved flagship EU incentives, namely with the communications "Youth in Motion", "Agenda for New Skills and Jobs" and "Innovation Union".

Further, the Euro Plus Pact considers lifelong learning and creation of pre-requisites for lifelong learning of the young generation as the basic recommended employment promotion measures.

III.3.3 Reform of the Higher Education System

According to the communication of the European Commission of September 2011 on the modernization agenda for universities, university education has an invaluable importance for the European society and its competitiveness. Despite the foregoing, the higher education system has not yet received sufficient support for full utilisation of its potential in this respect. This applies also to the Czech Republic. Hence, the higher school system reform will also represent one of the basic pillars of broader national reform steps aimed at the promotion of growth and competitiveness.

The reform targets in the higher education system have the following basic directions: improvement of quality, excellence and relevance of educational and other activities performed by higher schools, diversification of higher education institutions according to their specific mission and achieved performance; openness of higher schools to the national and regional context and to the needs of various social partners; efficient use of legislative, economic and other instruments of the state to ensure rational orientation of the development of the higher education system.

The main instruments to achieve these targets have both the legislative and non-legislative nature. Essential instruments in this respect are the new Higher Education Act, which will provide for financial participation of students, and the Act on Financial Assistance. These Acts are the basic legislative materials concerning the higher education system and which will newly define, among others, the basic types of higher schools, will balance the competencies of the main bodies of public higher schools and will ensure comprehensive regulation of the relation between the state and the higher schools.

The articulated version of both these Acts will be presented to the Government by the end of 2012. These Acts

will represent comprehensive legislative regulation of the Czech higher education system.

The Government approved in September 2011 the National Innovation Strategy and the International Competitiveness Strategy. These documents also form the basis for subsequent reform steps. Significant changes in the rules of funding of higher schools have been made and the works on the elaboration of a system of quality and performance indicators have also witnessed significant progress. The approved amendment to the decree on the application for accreditation provides a new possibility to monitor creative activities of higher schools. For the first time in 2012, support has been provided to institutional development plans of higher schools as a prerequisite for their strategic planning.

Evaluation of the Implementation of Reform Measures under the 2011 NRP

The most important reform measures, the Higher Education Act, has been prepared in the form of material intent and its articulated version will be presented to the Government for review in the second half of 2012.

The related Act on Financial Assistance to Students has been also prepared in the form of a material intent and its articulated version will be presented to the Government for review in the second half of 2012.

Based on the specific Council recommendation for the Czech Republic of 21 July 2011 regarding the establishment of a transparent system of quality evaluation of academic institutions and linking it to its funding, the Czech Republic has begun working on a system of indicators, which will allow for mapping of Czech higher education system and for the evaluation of the focus and quality of each institution with regard to its specific mission and for the differentiation of various quality dimensions in the main areas activities performed by higher education institutions.

Based on the Principles and Rules of Financing of Public Higher Education Institutions, 20% of funds are newly divided in 2012 on the basis of the system of qualitative indicators (i.e. not in accordance with the number of students). This method of financing is also used in other EU Member States (such as The Netherlands). At the same time, a material containing the system of performance indicators for the higher education system, which will allow for monitoring of the development of each higher education institution in comparison with the entire system, is also being elaborated. Works are also carried out on the mapping of creative activities of higher education institutions with the aim of using these data in further evaluation of the quality of the higher education system.

Specific Reform Priorities with Particular Reference to 2012

The reform steps are concentrated mostly to the years 2012, 2013 and also 2014. Articulated versions of key legislation, i.e. of the *Higher Education Act* and the *Act on*

Financial Assistance to Students, will be prepared and presented to the Government by the end of 2012.

1. Diversification of higher education institutions

An emphasis will be put on changes in the network of existing higher education institutions with the aim of ensuring efficient use and sharing of the existing capacities of higher education institutions focused on the similar or complementary study branches and the achievement of synergies in the performance of common tasks or of regional or (if appropriate) also national institutional integration. This should be assisted by the elaboration of strategic plans of higher education institutions and by provision of support to their implementation. The Government will also endeavour to improve the structure of the study programmes with regard to the declared mission of each institution. Important links will be established between master and doctoral programmes and the scientific, research and other creative activities of higher education institutions. On the other hand, support will be provided to professionally focused bachelor and master study programmes, including the promotion of transformation of some branches of higher vocational studies to such programmes. A stronger emphasis will be put on the excellence of higher education institutions in various fields of their activities so that more such institutions can win a prominent position in international comparisons.

2. Enhancement of the quality of higher education institutions, involvement of external stakeholders in planning and evaluation of activities of higher education institutions

The common denominator of all activities performed by higher education institutions will be their high quality and societal and academic relevance. To date, quality has been associated primarily with excellent results in research and development, while other creative activities (relating directly to education and to the performance of a broader societal (the so-called third) role of higher education institutions) are more difficult to grasp. Therefore, it is necessary to define more distinctly both the research and the educational dimension of the higher education system (including the introduction of a category of higher education institution focusing primarily on research) on the basis of predetermined quantitative and qualitative indicators corresponding to various areas of activities performed by higher education institutions.

As indicated in the previous sub-chapter, the system of qualitative and performance indicators will allow for better mapping of the Czech higher education system and for the evaluation of the fulfilment of public interest, of the focus and quality of each such institution with regard to its specific mission and for the differentiation among various quality dimensions in the main areas of activities performed by higher education institutions (education, research, the third societal role). It is evident that the multi-criteria evaluation of higher education institutions

will follow similar trends fostered abroad and will use primarily the procedures and tools elaborated in the European Union (such as the international projects U-Map, Eurostudent, Reflex, U-Multirank, etc.).

Beside the external evaluation of higher education institutions, a principal role within the autonomous institutions will be played by their internal evaluation system, which will stress the responsibility of higher education institutions for the quality of their activities. A balanced relation has to be established between both evaluation systems. Support will be provided to the adoption and implementation of the basic framework of the Standards and Guidelines for Quality Assurance in the European Higher Education Area.

The evaluation of the quality of higher education institutions will also take into account of the role played by these institutions in the transfer of results of their activities for the benefit of the society as a whole. These indicators will be also used in discussions on changes of the rules of financing of higher education institutions from the state budget.

The state policy will no longer strive to increase the number of students in higher education institutions, but to ensure the quality of education and its relevance with regard to the needs of the society and of the national economy. Therefore, it is not possible to provide support from public funds to further increase of number of students in branches and institutions whose graduates cannot find an adequate place in the working life. Of course, this cannot be based on mere monitoring of the current situation at the labour market, but also on systematic and periodic evaluation of future qualification requirements and forecasts of future labour market requirements. It is necessary to prevent the risk that some significant sectors/industries/branches will lack adequately educated labour force.

In the framework of the reform of the higher education system, the Government will restrict the possibilities of establishing new faculties at public higher education institutions, taking into account, among others, the requirements and needs of the economy.

Despite a number of positive shifts in recent years, the ties between higher education institutions and broader societal expectations are still perceived as insufficient. Therefore, it is necessary to promote the adaptation of activities of higher education institutions to such expectations. It is still necessary to further strengthen the knowledge triangle and the general cooperation with the application sphere. The application sphere will be involved in the preparation and implementation of the contents of study programmes. It is also necessary to introduce knowledge transfer strategies at higher education institutions. Support will be provided to the cultivation of the dialogue between higher education institutions and their partners. Increased attention in planning and evaluation of activities performed by higher education institutions will be paid to the requirements of external stakeholders, taking into account at the same time the profile and mission of

each such institution. The potential of higher education institutions may be also developed by their involvement in strategic regional development plans. In the introduction of the qualification framework, closer ties should be also established between study branches at higher education institutions and the job placement of graduates. The scope of information provided to applicants for studies, students, graduates and the public and public administration will increase after the establishment of the information portal of the higher education system.

3. Financing of higher education institutions

The Czech higher education system has been suffered for a long time from insufficient funding. In comparison with the other Member States of the European Union, the expenditure per student in the Czech Republic is still very low and the situation has been getting even worse in recent years. At the same time, comparative surveys have proved that the amount of unit costs is related to the quality and performance of higher education institutions. Therefore, distinct improvement has to be also achieved in this respect.

Beside public funds, which will still be principal, private sources, funds from the business sphere and households, should be more involved in the funding of higher education institutions. Therefore, tax incentives are counted on to increase financial funds invested by business sphere in the research and development in higher education institutions and in other public institutions. At the same time, a system of provision of financial assistance to students will be prepared, which will allow for subsequent introduction of tuition fees. The Government plans to introduce since the academic year 2013/2014 financial participation of students in covering of the costs of their studies and as a regulatory instrument for higher education institutions.

The role of the number of students as the key for allocation of funds from public sources will be gradually reduced; instead of this, the weight of the quality and performance of the higher education institution, its scientific, educational and other activities performed for the society will be increased, as it was the case in 2011. Funding should contain elements of competition; therefore, the state will carry on the initiated changes of the rules of allocation of the higher education budget and will promote the improvement of their objective criteria and parameters. The fundamental shift from quantity to quality, which is also supported now by the majority of higher education institutions, will be also naturally reflected in the numbers of fresh students. The stability of budgets of higher education institutions has to be strengthened by the contractual funding elements.

The number of first entrants to higher education institutions calculated in accordance with OECD guidelines has increased to 70% of the relevant age group. In the opinion prevailing at higher educational institutions and in the public, such number is too high, affects the quality and reduces the motivation to achieve best results. The share

of fresh students entering higher education institutions is to fall below two thirds also in the upcoming period of decline of the relevant age cohorts. The share of graduates from full master studies in the total number of higher education graduates should be decreased (both in absolute numbers and relatively) in favour of vocational bachelor programmes and shorter cycle programmes with the aim of ensuring that the share of graduates from bachelor study programmes who continue their studies in consecutive master programmes would not exceed 50%. This will improve the quality of master and doctoral studies.

Consistency of Measures with the International Competitiveness Strategy and the Focus of EU Cohesion Policy

The improvement of the quality of higher education is also reflected in the project of Higher Education Reform, which is a part of the International Competitiveness Strategy. Important measures in this respect include a change of the accreditation system and the introduction of a system of evaluation of results of research and development carried out at higher education institutions. The share of graduates from bachelor programme should increase in relation to the share of graduates from master programmes and special support should be provided to the development and offer to vocationally oriented bachelor and also master study programmes.

In the preparations for the programming period of the 2014+ EU Cohesion Policy, the measures mentioned in this chapter are aimed at the same targets as the priority of education, research, development and innovation and contribute to the achievement of the targets set in the National Innovation Strategy of the Czech Republic.

Consistency of Measures with the Targets of Europe 2020

The proposed measures are based on the targets of the Europe 2020 strategy which concern education, on the related recommendation no. 9. of the integrated main directions and on the targets of the strategic framework for European cooperation in education and training ET2020.

These measures are further implemented in accordance with the key incentive "Youth in Motion", which is focused on the promotion of mobility of students and pedagogues of higher education institutions (not only quantitative but also qualitative). Furthermore, they are associated with the EU agenda concerning modernization of higher education, with the preparation of an EU internationalization strategy and with the discussion on the creation of a student loan system funded by the European Investment Bank.

Moreover, the support of higher education accommodates the targets of the Euro plus Pact focused on the strengthening of competitiveness and on the fulfilment of the indicator of reduction of unemployment of young people.

III.4. Support of Business, Digitisation and the Development of the Digital Market

Introduction

The character of the Czech business sector arises from the nature of the Czech economy as an export oriented production basis, which is currently focused mainly on markets in Europe and its close vicinity. The Czech Republic should continue to make use of its geographic position and should adapt to this advantage also the structure of its business promotion policy.

The major part of production is still focused on processing of primary materials, on semi-products and on the assembly of products designated to be exported for final processing. On the contrary, production segments with a higher added value, such as research and development of new technologies, production of more complex parts and product modules and services associated with placement of product at the final market have a smaller share.

The state policy should focus on the creation of conditions for the development of such still marginalised sectors (e.g. by promotion of research and development – see chap. III. 5.). On the other hand, this policy should ensure the continuation of the existing production. The essential role in the Czech economy will be further played by the industrial sector and its maintaining and development remains a key priority. Therefore, the objective of all measures will be the maintaining of competitiveness of the Czech industry (among others well-prepared educated and skilled labour force matching the requirements of the industry, a high quality transport, communication and energy infrastructure and technological support). This priority will be also promoted by the Government at the European level, where it will stimulate further strategic steps towards the creation of a European strategic industrial policy.

A significant role in the development of the business environment is played by the measures described in other chapters of the 2012 National Reform Programme. Beside the foregoing measures, this includes the Government efforts to reduce taxation and labour costs (see chap. III.1. and III.2.), increasing the efficiency of public administration and combating corruption (the system of transparent public tenders and introduction of an electronic system of their procurement) or promotion of education for qualified labour force and its competitiveness. Due to the foregoing, the following chapter of the National Reform Programme cannot be viewed as a comprehensive business support strategy, because it contains only a part of the areas and measures through which the business sector in the Czech Republic can be supported. However, the business support objective is reflected across the entire National Reform Programme.

A special attention in all business support steps should be paid to small and medium enterprises, which need further implementation of start-up business support programmes, improved access to funding and provision of bank guarantees, reduction of administrative load, simplification of administrative procedures and promotion of innovations. As regards the evaluation of legislative impacts, it is necessary to foster the principle “think small first” and the use of the “SME test” in the presentation of legislative proposal regulating business conditions.

The new measures prepared by the Government, which are focused on further fiscal consolidation with regard to the negative economic outlook, should take into account the necessity to maintain pro-growth reform potential. In particular, such measures should not have a negative impact on small and medium enterprises. As regards other measures concerning flat tax rates for self-employed persons, the misuse of such rates should be eliminated.

The following chapter will focus on several specific areas, where it is possible to remove some specific business development barriers. In the first place, this concerns the elimination of administrative and regulatory obstacles for business and development of the society. Such obstacles include, for instance, excessively complicated tax administration procedures, difficult start-up and termination of business activities, insufficient access to funding, particularly for small and medium enterprises, difficult enforcement of contracts or absence of economic competition in network industries. Such obstacles further include a generally low responsiveness of the authorities to business activities, insufficient support to starting businesses and a number other partial problems.

A specific but essential area for the improvement of business conditions is the sphere of technological preparedness, particularly the expansion and adaptation of information and communication technologies (“ICT”). The Czech Republic continues to lag behind in the offer and use of high-speed internet, particularly in rural and remote areas. A significant potential for the increase of efficiency of public administration and its “user friendliness” towards individuals and businesses exists in the area of eGovernment. Rational use of ICT increases work productivity and leads to significant cost savings.

Main Reform Objectives

With regard to the above-mentioned shortcomings of the business and legal environment, the Government will focus primarily on the following areas:

As regards the national objective of reducing administrative load, this load is to be re-measured in 2013 in

12 selected areas and this re-measurement will become the basis for proposed amendments to individual laws, which will lead to their simplification.

Another key reform step is the environmental audit, which aims at the elimination of redundant or ineffective requirements embodied in current environmental laws.

Beside the removal of obstacles to business activities, it is necessary to adopt other measures in support of positive steps towards the establishment of businesses and further development of business activities. Such measures include an expansion of the powers of entrepreneurs in the management of companies, reduction of registered capital requirements, an increase of responsibility of statutory bodies or abandonment of the formal concept of contracts. A pilot project that will be implemented in 2012 will focus on the verification of possibilities to improve the business environment through the introduction of unified effective dates of Government regulations with impact on businessmen. Furthermore, it will be necessary to improve the availability of high quality information relevant for the business public and to ensure assistance to the entrepreneurs in their activities at the EU single market (the project "BusinessInfo.cz").

The measures that may be classified as simplification of administrative procedures for businessmen may include, among others, measures associated with the simplification of reporting and tax administration. This is represented by the initiation of the reform consisting of simplification of the income tax system, maintaining the tax relief for self-employed people in the form of flat tax rates and of the establishment of the Single Collection Point (SCP) for collection of taxes and health and social insurance premiums (details see chapter III.1.2.).

The main reform incentive aimed at the deployment of high-speed internet consists of the package of measures summarised in the conceptual material "State Policy in Electronic Communications – Digital Czech Republic". The key measure in the field of eGovernment, which will provide for the adoption of a number of other subsequent incentives for the improvement of business environment and for increased efficiency of public administration, is the project of basic public administration information registers.

III.4.1. Reduction of Administrative and Regulatory Load of Entrepreneurs

III.4.2. Institutional and Legislative Support of Business Development

III.4.3. Improvement of Access to High-speed Internet and Development of eGovernment

III.4.1. Reduction of Administrative and Regulatory Load of Entrepreneurs

Reduction of redundant administrative and regulatory load imposed on entrepreneurs is one of the essential steps towards removal of business obstacles. Of course, it is not a sufficient condition, because some obstacles may be also found outside the administration and extent of regulation. These other obstacles and tools for their resolution are mentioned in other parts of this document.

Measures planned in the area of administrative load will contribute to the simplification, transparency and better predictability of the legal environment pertaining to business activities in the Czech Republic and thus also to the increase of the country's attractiveness for influx of foreign investments. Further measures consist in the removal of redundant or ineffective requirements in the regulations, which exceed the framework of EU law and have no clear justification. In this respect, it is necessary to assess the impacts of transposed European legislation into the national legal system in order to prevent redundant load.

The national objective aiming at the reduction of administrative load up to 2020 has been determined with regard to objectives Europe 2020 strategy as follows:

Reduction of administrative load for entrepreneurs by 30% in comparison with the year 2005.

The basis for each such measure is represented by the *Plan of Reduction of Administrative Load for Entrepreneurs*.

Based on an analysis of the current course and fulfilment of the National Programme, the Government approved in December 2010 an increase of the current objective consisting in the reduction of administrative load for entrepreneurs up to 2012 to 25 % (the method of measurement of administrative load is based on the standard costing model used in the EU). An indicator of the fulfilment of this task is the reduction of the administrative load in comparison with 2005 by 31 December 2012. At the same time, the Government decided to continue the implementation of the project of reduction of administrative load for entrepreneurs in the following stage. Information duties were identified in the legal regulations applying to 12 selected public administration authorities, in 12 selected areas where the most evident results and the highest savings for entrepreneurs have been anticipated (e.g. the start-up of business activities, commercial law, issue of permits). A survey with the aim of identifying of time costs of the completion of each of the 16 administrative activities and duties that are perceived as most stressing by the entrepreneurs during the performance of their activities. These activities were identified by an independent survey performed by a third-party firm directly with the entrepreneurs.

The Government is aware of the necessity of an intensive dialogue with the affected stakeholders, particularly with

business companies. At the same time, it will pay attention to the fact that a part of the re-measurement relates to the regulations which have been or are being modified.

Evaluation of the Implementation of Reform Measures under the 2011 NRP

In the environmental legislation area, the Government took notice at the beginning of March 2011 the proposals of the relevant inter-ministerial commission that are to assist, through the revision of environmental legislation, in the strengthening of the competitiveness and business development. This joint project of several ministries – the so-called environmental audit – contains 96 specific proposals to remove redundant or ineffective requirements contained in these regulations, which exceed the requirement of EU law and lack clear justification. The implementation of the proposed measures will contribute to an increase of competitiveness of Czech businesses and to the simplification of the legal environment in which they operate.

Specific Reform Priorities with Particular Reference to 2012

1. Reduction of administrative load for entrepreneurs

Works are currently performed according to the time schedule and the activities are based on the data identified in the previous period. The basic evaluation of these works in the current period is a part of the Report on the Performance of the Plan of Reduction of Administrative Load for Entrepreneurs by 31 December 2011. At the same time, works have begun in 2012 on specific proposals presented by the business public and the Czech Republic will continue to follow this trend on the basis of the project of re-measurement of administrative load.

The re-measurement of administrative load is scheduled to be completed by 30 June 2013, when a final report will be presented to the Government. Such measurement of the load constitutes naturally only the basis for further steps. Hence, the formulation of such steps should follow in the form of a conceptual document, which will be followed by proposed changes of specific legal regulations to reduce redundant load.

The budget requirements for the implementation of the second stage can be determined only after the identification of the scope of information duties and data provision requirements.

2. Removal of redundant or ineffective requirements in environmental protection regulations

As regards the elimination of regulatory load imposed upon entrepreneurs, it is possible to refer at the first place, with regard to the structure of Czech economy, to the environmental legislation. Although the objectives of the regulation in this area are not problematic, the methods of their achievement are often completely redundant and, given their final purpose, represent a burden for the

business sector. This applied, after all, also to the substantial part of the regulation at the EU level. Therefore, the environmental audit project will continue in 2012. The Government will be further presented by 31 December 2012 with an updated list of measures together with a report on the current progress of their implementation. Such reports will be then presented biannually to the Government. Legislative proposals will form part of the legislative action plan of the Government for the relevant calendar year.

3. Simplification and unification of procedures in zoning and building proceedings

The basis is the change of the legislative framework for unification of zoning and building proceedings in accordance with the Building Act, reduction of administrative load in these proceedings and the change of the quality and contents of the proceedings by means of digitisation of the processes. The adoption of the Amendment to the Building Act is expected in 2012.

Consistency of Measures with the Targets of Europe 2020

Measures aiming at the reduction of administrative load are related to the key incentive of the Europe 2020 strategy “Integrated Industrial Policy for the Globalisation Era” and are interlinked with the recommendation no. 6 of the Integrated Guidelines “improve the business environment, and modernize the industrial base”, because they are aimed at the enhancement of competitiveness, particularly of small and medium enterprises.

At the same time, these are the steps in support of competitiveness, which are also requested by the Euro Plus Pact.

III.4.2. Institutional and Legislative Support of Business Development

While the elimination of business development barriers represents the necessary basis of the state economic policy, it has to be supplemented by measures providing active support to the formation and development of enterprises. Beside measures in the taxation and social area (including tax and social security administration) or of the research and development policy and creation of infrastructure, it is necessary to mention here reforms of public administration institutions focusing on improved responsiveness to entrepreneurs.

With regard to the structure of the Czech economy, pro-export policy should become one of the pillars of business support. In 2011, Czech firms exported goods in a record value of three trillion crowns. The main part of the exports (83%) was directed to EU countries. In the period of lasting crisis in the EU and of the parallel boom of economic of such countries as BRICs, it is in the strategic interest of the Czech Republic to enhance exports to third countries. Another export challenge is the diversification of goods:

more than one half of the exports consist nowadays of exports of transport equipment and machinery.

Evaluation of the Implementation of Reform Measures under the 2011 NRP

With the aim of increasing business development support, the Government adopted in March 2012 the Export Strategy of the Czech Republic for the period 2012-2020. In addition to EU Member States, this strategy defines 12 other priority states to which the Czech Republic should pay increased attention. Beside the above-mentioned BRICs, such states include Iraq, Ukraine or the United States. The Strategy also includes an increase of insurance funds and of the capital of the Czech Export Bank. The Government will also focus in future on the possibilities and forms of strengthening of trade representation of the Czech Republic, among others in cooperation with CzechTrade or CzechInvest agencies.

Another strategy adopted in this respect is the International Competitiveness Strategy of the Czech Republic for 2012 – 2020: Back to the Top (ICS). This strategy assesses competitiveness in nine pillars and includes a total of forty three projects, detailed in specific measures, with the aim to create favourable conditions for creative business activities, innovation and sustainable growth of the living standard.

At the same time, the Government of the Czech Republic approved the establishment of the Seed/VC Fund, which will support, among others, the formation of new SME and the development of innovative and technologically oriented companies by means of investments in equity. This new fund will provide venture capital from public sources together with private investments (a maximum of 70% from public sources, a minimum of 30% private investments into a supported SME project).

The Chamber of Deputies of the Parliament of the Czech Republic approved in February 2012 the Act on Mediation in Non-criminal Matters. The purpose of the Act is to enshrine in the Czech legal system a new possibility of an alternative (out-of-court) dispute resolution with the assistance of a third neutral party (a registered mediator), who will conduct the negotiations between the parties to the dispute to achieve a mutually acceptable agreement. Hence, one of the consequences of the entry of the Act on Mediation into effect should be lifting the workload of courts, which would result in shortening of the civil judicial procedure.

Specific Reform Priorities with Particular Reference to 2012

1. The state administration responsive to business

Since the substantial majority of the Czech business sector is concentrated on the assembly of products designated for further processing, i.e. on the middle part of the production chain, it is a necessary condition of success of this type of business activities the speed of the supply of

manufacturing parts and of the export of processed products.

At the same time, it is necessary to *also adjust as much as possible the operation of other state administration authorities to the needs of the business sphere*. This applies, for instance, to the length of the office hours and to quick access to important information, particularly labour market data (see also below). It is necessary to simplify the administrative work connected with employment of citizens of third states. The *new legislation concerning the stay of foreigners*, which will be adopted for this purpose, will become the cornerstone of increased efficiency of the economic migration system and will take into account the demand for foreign labour force. The strategy of the *New Economic Migration System* will be continuously updated. A pilot project *Accelerated Procedure for Intercompany Transfer of Employees of Significant Foreign Investors* will be implemented until the year 2015. The use of green and blue cards will be also better promoted.

2. Strategic export support and economic diplomacy

The new export strategy will be implemented in 2012. Taken in the broader sense, economic diplomacy should be also active in promoting the interests of the Czech business sector and Czech exports in the creation of the European Union policies. This requires a coordinated process. Particularly in the context of the common trade policy, the Government strives to remove barriers to free trade, which have negative impacts on Czech exporters. In the context of all single market policies, the Government also fosters further liberalization and opening of the still closed sectors.

3. Promotion of the formation of new businesses

The Government will take steps towards the development of business activities in the sector of services with high added value, based on innovation technologies. This will be implemented by means of *support to infrastructure for the formation of clusters, incubators for new businesses and virtual innovation markets*, including the development of technological parks. In this context, the Government endeavours to establish closer cooperation ties with regional and local self-administration authorities and business representations.

In this context, the Government will particularly take further steps towards *strategic support of "start-ups"*. For this purpose, the Government has approved establishment of the joint stock company "*Český rozvojový, uzavřený investiční fond, a.s.*", the so-called Seed/VC Fund, designated to ensure, together with private investors, the funding of newly emerging innovative businesses.

4. Strategic support of industry

From the Government's perspective, the support of industry is a general agenda that has been reflected in all areas of the state economic policy and legal regulation. The implementation of all basic steps has to take into

account their impacts on industry. A specific role in this respect is played by the energy sector – with regard to the size of the industrial sector, the price of energy is more important for the Czech economy than for the economy of the other EU Member States. This has to be also taken into consideration in the promotion of interests in the EU energy and environmental policies.

5. Re-codification of substantive civil law and other legislative measures in support of business

Improved quality of the business environment in the Czech Republic will be helped by the *re-codification of substantive civil law*. The new Civil Code will simplify the legal environment, for instance by removing the duality of obligations, which will be regulated only in the Civil Code. It will also introduce new institutes that may be used in business, such as trusts. Consequently, it will also reduce formalism in legal relations, which will facilitate business activities. The Government will pay attention to appropriate publicity of the new legislation to make it comprehensible to individuals and companies.

The *Act on Business Corporations*, which was passed in 2012 with the effect from 1 January 2014, will improve conditions of operation of both the limited liability companies and joint stock companies. In respect of the former, the Act will allow differences in ownership interests in a limited liability company and the issue of common shares; in particular, it will be possible to form a limited liability company for mere 1 CZK. Joint stock companies will be newly allowed to manage the company in two modes (monistic and dualistic). According to the Act, a joint stock company that keeps accounts in euros will be able to denominate its registered capital in euros.

The Government is also preparing new rules to improve the quality of the business environment, among others by *amendments to the Commercial Code*, abandonment of mandatory appraisals by a court-appointed expert or by simplification of the register procedure. The prepared measures are to promote out-of-court dispute resolutions mechanisms, which will lift the workload of courts. The specific measures include:

The new *Register Act*, prepared on the basis of the re-codification of substantive civil law will cover the issues relating to the existing Commercial Register. In this respect, it is considered, for instance, to interlink the current Commercial Register and Trades Register and to take certain steps to simplify the register procedure. It is also considered to introduce powers of notaries to make direct entries in the register, provided that such entries are based on documents written by the notaries. This measure will reduce the workload of register courts.

The amendments to the Civil Procedure Code, the Execution Code and other laws will partly reduce the large formal agenda that is currently resolved by the courts in relation to executions, specifically by authorising the executor to carry out the execution. This will release staffing capacities required for supervision over the executors, which will

improve overall efficiency of the court activities. Another change that will have a positive effect on enforcement of law will be the introduction of new methods of enforcement of judicial decisions. This Act is currently reviewed by the Chamber of Deputies.

An evaluation of a non-legislative act concerning *Out-of-court Settlement of Consumer Disputes*, which became effective in January 2012 with the aim of relieving the courts of small consumer claims, will be completed by the end of August 2012. At the same time, a proposal for the introduction of online dispute resolution, which is to assist the acceleration out-of-court dispute resolution, will be presented in August 2012.

Other measures will include steps towards better enforcement of law in execution proceedings by shortening the overall enforcement period. Works will be also performed on the *improvement of insolvency law* and on reducing misuse of insolvency proceedings in the competitive struggle. A project of education for public administration authorities in the field of insolvency law (since April 2012) is also being prepared.

As regards the process of improving the quality of operation of civil judiciary, certain measures focused on improving the efficiency of the judicial system will be prepared. Such measures will include, among others, an acceleration of judicial proceedings by reducing the share of appeals returned to lower instance courts for the issue of a new decision and restricting the possibility of submission of an appeal to the Supreme Court in civil matters.

Consistency of Measures with the International Competitiveness Strategy and the Focus of EU Cohesion Policy

The business support measures will be effectuated through the implementation of the projects of Improvement of the Business Environment and Cooperation between Enterprises within the scope of the International Competitiveness Strategy. This concerns primarily increased opportunities for businessmen in the management of their companies (reduction of requirements for registered capital, increased responsibility of statutory bodies, abandonment of the formal concept of contracts) and the pilot verification of the possibility of introducing unified effective dates of legal regulations that have an impact on the business sphere with the aim of simplifying orientation in the legal framework of business activities. To facilitate access to information required for business, the portal BusinessInfo.cz and the counselling systems (such as ProCoP, JKM, Solvit) that assist businessmen in the resolution of problems at the single market will be further developed. The International Competitiveness Strategy focuses also on the export policy.

The Government will take into account business support priorities also in the formulation of priorities in the use of financing from the Structural Funds in the next programming period.

In the preparations for the programming period of the 2014+ EU Cohesion Policy, the measures mentioned in this chapter are aimed at the same targets as the priority of increasing the competitiveness of the economy, including improvements in the quality and efficiency of public administration.

Consistency of Measures with the Targets of Europe 2020

The reform measures are directed at the improvement of the business environment and on facilitation of business activities and should result in the creation of jobs and in the promotion of innovative enterprises. Hence, they are evidently based on the goals of increase of employment and promotion of investments into science and research and on the recommendation no. 6 of the integrated Guidelines "improving the business environment and modernising the industrial base".

III.4.3. Improved Access to High-speed Internet and Development of eGovernment

Evaluation of the Implementation of Reform Measures under the 2011 NRP

The Government of the Czech Republic adopted in January 2011 the State Policy in Electronic Communication – Digital Czech Republic, with the aim of decreasing the "digital divide" in access to high-speed internet between the countryside and cities.

Also the data boxes witnessed in 2011 a number of improvements with the aim of providing more user friendly and comfortable services. Progress was also made in the development of the single contact point of public administration – Czech POINT, which was available by the end of 2011 almost at 6 800 places, and Czech POINT branches operate in the majority of municipal and local authorities. The process of preparation for launching the issue of electronic identification cards (eID) and the issue of eIDs began on 1 January 2012.

Specific Reform Priorities with Particular Reference to 2012

The Government of the Czech Republic will continue to actively promote the development of electronic communications establishing advanced information society based on the use of information and communication technologies (ICT). These activities will lead to the improvement of the business environment and of the efficiency of public administration and services for citizens, corporations and small and medium businesses.

As regards high-speed internet, the Czech Republic has not offered yet any financial incentives. Individual measures are aimed at the creation of suitable conditions for private investments. It is a question, however, whether in this situation the qualitative and geographic parameters of the objectives specified in the Digital Agenda for Europe will be fulfilled. Financial requirements relating to

eGovernment measures are significant, but hardly quantifiable due to the complexity of this issue.

1. Improved access to high-speed internet

Based on the objectives set forth in the above-mentioned Digital Czech Republic strategy, access to high-speed internet is to be provided until 2013 in all inhabited localities in the Czech Republic with the minimum transmission speed of 2 Mbit/s (download) and in cities with the minimum transmission speed of 10 Mbit/s. A medium-term objective is to ensure until 2015 access to high-speed internet in rural communities with the transmission speed equal to at least 50% of the average speed in cities. At the same time, 30% of households and firms in cities should have access to connections with the transmission speed of at least 30 Mbit/s.

The key measures to achieve the above-mentioned objectives include:

- Use of the radio spectrum released by transfer from analogue to digital TV broadcasting (the "digital dividend") for provision of access to high-speed internet;
- Creation of a scenario for support of investments into less inhabited areas;
- Submission of amendments to laws and secondary legislation, which will allow and improve the efficiency of the development of access to high-speed internet.

The achievement of these objectives will be also assisted by support of demand for services provided through high-speed internet networks and increased consumer confidence in this sector.

An update of this state policy, which will be prepared in the first half of 2012, will adjust in accordance with the objectives of the Digital Agenda the goals that are to be achieved by 2020.

The Reworked and Expanded Strategy "Digital Czech Republic" will contain measures associated with the use of ICT for the increase of competitiveness of the Czech Republic. Individual measures included in this strategy will be focused on the digital single market, on the interoperability, trust and security, research and innovations, improvement of digital literacy, skills and inclusion, on the contribution of ICT to our society and on the international aspects of the digital agenda.

2. Development of eGovernment

According to the objective set out by the Government of the Czech Republic in the eGovernment area, eGovernment services are to be used by the end of 2015 by at least 50% citizens and 95% companies.

Another eGovernment project is *the establishment of basic public administration registers* until July 2012. Thanks to this register system, the citizens and businesses will no longer be forced to provide repeatedly the same data in their communication with the authorities, because such data will be shared by the public administration. The registers

will also reduce the administrative burden and will represent a significant qualitative jump in the use of eGovernment by the citizens and businesses. The Government of the Czech Republic will also pay attention to the method of financial coverage of the delegated competencies and of the related acts that are not covered by the state.

The project *eSbirka (eCollection)* and *eLegislativa (eLegislation)* will be focused on ensuring access to and transparency of information about laws and the quality of such information. Details of both these projects are described in part III.1.4.

The objectives set out in the Digital Agenda and in the European Action Plan for eGovernment for the period 2011-2015 will be also considered in the new *Strategy of Electronisation of Selected Public Administration Agendas*, which will be prepared by the Government of the Czech Republic. This strategy will focus in particular on the use of electronic services related to study, work, healthcare, housing or pensions anywhere in Europe. The strategy will also cover the possibilities of further development of the information system of data boxes and contact points of the public administration Czech POINT, which have been already operating in the Czech Republic and which facilitate and accelerate public administration processes for citizens and businessmen. It is also planned to place banking licence holders at individual contact points Czech POINT.

In connection with the implementation of the Digital Agenda for Europe, it will be still necessary to follow the objectives set at the European level and their reflection in the project of data boxes and in other eGovernment.

The Czech Republic welcomes in this context the incentive of the European Commission concerning support of the information society, which calls upon the Member States to establish the post of a *digital champion*, which can contribute significantly to the achievement of the objectives set by the Digital Agenda for Europe, to the overcoming of the "digital divide" and to the promotion of competitiveness. The best candidate who is currently being selected should assume the post of the Czech digital champion in spring 2012.

3. National Strategy of Digitisation of the Cultural Content

The digitisation of the cultural content, which takes place under the State Cultural Policy for the years 2009 – 2014 approved in 2008, will contribute to improved efficiency of processes in the field of culture and administration of cultural works. This strategy will be further specified on the basis of the *National Strategy of Digitisation of the Cultural Content for the Period 2011 –2016*, which will be presented to the Government of the Czech Republic in an extended deadline by the end of 2012. The Government prepares at the same time an amendment to the Copyright Act, which will resolve, among others, the legal authorship aspects of digitisation of the cultural content, particularly with regard to the so-called orphan works.

Consistency of Measures with the International Competitiveness Strategy and the Focus of EU Cohesion Policy

The measures mentioned in this sub-chapter are detailed in the International Competitiveness Strategy as a part of the project of Implementation of the State Policy Digital Czech Republic and Facilitation of Access to the Public Administration Services.

In the preparations for the programming period of the 2014+ EU Cohesion Policy, the measures mentioned in this chapter are aimed at the same targets as the priority of increasing the competitiveness of the economy, including improvements in the quality and efficiency of public administration.

Consistency of Measures with the Targets of Europe 2020

These measures are closely associated with the flagship incentive of Europe 2020 Strategy Digital Agenda for Europe and with the Action Plan for eGovernment for the period of 2011 – 2015.

"Specific efforts" in support of innovations and infrastructure are also mentioned in the Euro Plus Pact.

III.5. Support of Growth Based on Research and Innovation

Introduction

The support of research, development and of the innovation potential of the economy represents continuously one of the main government priorities and is therefore a key component of the National Reform Programme of the Czech Republic. The measures scheduled for 2012 are based on steps taken in the past year. One of the main challenges is still the necessity to find forms of motivation for all participants in the innovation process.

Increased attention has to be focused primarily on research, development, innovation and demonstration of technologies with potentially high added value for the economy of the Czech Republic both on the domestic level (e.g. in the energy sector) and in the area of export (e.g. in the processing industry, which has a decisive effect on the growth of GDP), and on support focused on the creation and search for innovative solutions. The promotion of the basic research has to be aimed at effective use of the existing and future R&D infrastructure and of human and financial resources. At the same time, however, it is also necessary to take a realistic approach to the planning of objectives, taking into account the above-mentioned basic structure of the national economy. Future development of the Czech Republic will be based on new knowledge, which will be consistently applied in the introduction of all types of innovation in the business and public sector.

R&D investments in the Czech Republic amounted in 2010 to 1.61% of GDP¹ (almost 60 billion CZK). The state budget share in R&D expenditure represented in 2010 0.61% of GDP (0.64% of GDP of public expenditure). After a year-on-year decrease of the total R&D expenditure in 2008 and a mild increase of this expenditure in 2010, the Czech Republic witnesses a significant year-on-year increase of R&D investments. This year-on-year increase by 3.7 billion crowns is the result of private domestic business investments into research and development, which increased by 4.2 billion (17%) comparing to the previous year. Almost one half of the total R&D expenditure in the Czech Republic originated in 2010 from domestic business sources. The share of the state budget of the Czech Republic was 40%,

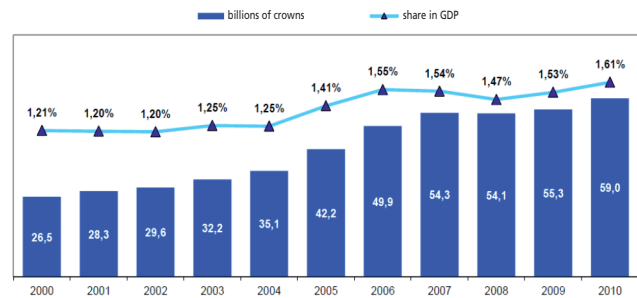
¹ Note: The increase of this indicator concerning R&D expenditure in the last two years was caused by a year-on-year decrease of GDP in current prices by almost 2% in 2009.

² 62% of the total R&D expenditure in the Czech Republic in 2010 was spent on research and development in businesses, 20% of this expenditure was spent by the government sector and the remaining 18% by the higher education sector.

³ Analysis of the State of Research, Development and Innovation in the Czech Republic and its Comparison with the situation abroad in 2011.

the share of foreign companies was 7% and the remaining 4% originated from international organizations, particularly from EU funds and programmes.

Total R&D expenditure in the Czech Republic



Source: Czech Statistical Office 2011, Annual statistical survey of research and development VTR 5-01

The business sector continues to be the key actor also with regard to financial funds consumed in research and development and to financial funds spent on research and development activities.²

Nevertheless, funding of research, development and innovation by the private sector is below the EU average. Moreover, the share of private business sources in the financing of research, development and innovation in the Czech Republic began to decrease in 2007. An increase in research funding in this sector occurred in 2010.³

The increase in R&D expenditure in the business sector is accompanied by a mild increase in the number of patent applications filed by businesses. However, the Czech Republic still lags significantly behind the European average in the number of patent applications and granted patents.

The persisting weakness of the innovation system in the Czech Republic is the low extent of cooperation between research institutions and universities with businesses, which is affected to some extent by the system of public support of research, development and innovation. This is evident particularly in the share of business resources in the research and development carried out by universities (1.1%) and by the government sector (4.7%), which reflects to some extent the transformation of research of the 1990s, which witnessed the dissolution of a large part of applied research institutions. These values are deeply below the European average. Such results are also supported by data from innovation surveys, according to which neither the universities nor public research institutions are key partners to businesses in their innovation activities.

With regard to the fact that a significant role in the innovation system of the Czech Republic is played by businesses under foreign control, the establishment of closer and longer-term ties between these enterprises, their needs, research and potential on the one side and the gradually revitalised applied research in the Czech Republic on the other side represents a certain challenge in this respect.

Despite significant progress in this area in the past period (adoption of the amendment to Act No. 130/2002 Coll. on support of research, experimental development and innovation, the National R&D&I Policy for the years 2009 – 2015 and of the National Innovation Strategy, the Government's approval of the principles for preparation of national priorities of research, experimental development and innovation in April 2011), many problems are still outstanding. A major challenge will be particularly the reflection of oriented research priorities in the public support system (such as the reflection of specific needs in the energy sector and creation of flexible instruments for involvement in the SET Plan at the EU level).

Problems that can be identified in the state policy are reflected in the low willingness of the private sector to invest into research and development. The objective of the state in this area should be the achievement of a balanced development of individual pillars of the knowledge economy to streamline its contribution to the enhanced creation of knowledge, its use in innovation and in the development of new technologies and of knowledge and skills in the government sphere (adoption of decisions based on knowledge, research and development) and in the general population. The major problem on the government side is the funding structure, which does not sufficiently reflect the relation of the supported areas to the economic opportunities and to the demand in the business sphere.

Other continuous shortcomings include the absence of market evaluations of results, reasonable and transparent allocation system of public funds in accordance with the national priorities and the absence of clear evaluation criteria (including the evaluation of the quality of higher education institutions involved in the research). It is also necessary to improve the links between strategic management of research and development, education, legislative regulations and more intensive use of the potential of protection of intellectual property.

Another continuous problem is the very varying quality and quantity of results of research, development and innovation, which is related to the inappropriate funding structure. A factor that is by far more important than the volume of funds is the mechanism of their spending, including their allocation between the public and the private sector. It is necessary to seek vertical synergies of research, development and innovation and appropriate tools for their implementation.

The inappropriate public funding system of science, research and development has naturally its impacts on the

support from the part of the private sector. Increased efficiency of the entire innovation process, which should become a priority, depends on the existence of high quality research institutions and on synergies between projects funded from public and private sources. One of the solutions can be the enhancement of the role of jointly supported projects. Public funding has to be increased in proportion to GDP and has to be focused on areas of interest of the business sector to ensure the maximum possible interest of this sector in the participation in such funded activities. The development of the basic research is an important prerequisite of sustainability of the innovative environment. This does not mean the resignation on the support of other kinds of research (including support of the basic and applied research in social sciences) to the extent sustainable by means of public funding and corresponding to public demand and to the quality of such research. Of course, the number of researchers and scientists cannot be the main future criterion for R&D funding. Greater emphasis has to be put on the quality and on the relevance of the research activities.

Main Reform Objectives

Despite some improvements in the area of research, development and innovation (see above), there is still a number of challenges. This requires further efforts for an overall increase of quality and consequently also of competitiveness of institutions in the field of research, development and innovation, together with the establishment of closer ties with demand in the business sector and compliance with predetermined national priorities. In this respect, measures should be taken to improve financing, the quality of evaluation of researchers and research institutions, to evaluate them in accordance with the quality of their activities, to increase the use of protection of intellectual property, to improve communication among sectors and finally to improve the environment for the development of venture capital.

As regards strategic documents concerning research, development and innovation, the National Research, Development and Innovation Policy of the Czech Republic for the Years 2009-2015 will be updated by the end of 2012 based, among others, on the outputs of the Final Report on the project of International Audit of Research, Development and Innovation and on the requirements to ensure compliance of the National Research, Development and Innovation Policy with the National Innovation Strategy of the Czech Republic.

New priorities of research, experimental development and innovation will be adopted by 30 June 2012 in connection with the improvement of the method of funding of research, development and innovation.

Further steps in the Seed/VC Fund project will be taken to promote an increase of private investment into research, development and innovation. According to the project schedule, specific capital outputs to innovative start-ups should be prepared as soon as in August 2012.

The Chamber of Deputies of the Parliament of the Czech Republic should pass in the course of 2012 the amendment to Act No. 72/2000 Coll. on investment incentives. The purpose of this amendment is the creation of an attractive investment environment in the Czech Republic for domestic and foreign investors so that the investment incentives may be drawn beside investors into the manufacturing industry also by companies involved in industrial research, development and innovation of technically developed products and technologies or in Centres of business support services closely connected with development of information technologies.

A specific proposal for support of research, development, entrepreneurship and innovation will be prepared by the end of 2013 for the purpose of drawings from the Structural Funds in the period after 2013. A special emphasis will be also put on the use of new financial instruments and their flexibility for the purpose of a more profound involvement of the Czech Republic in HORIZONT 2020 and in SET Plan.

The support of oriented research will be focused in accordance with the predetermined priorities on social challenges and on the establishment of mutual ties with the interests of the Czech economy in the energy and industrial sectors, in agriculture or in security research. The social challenges in the field of research and development and priorities of the oriented research will be supported financially and by other systemic instruments. With regard to the strategic importance and specifics of the energy sector, it will be necessary to introduce strategic management of public support of research, development, innovation and demonstration of technologies for this specific area, which has crucial importance for the economy and operations of the state. The Government will prepare a long-term programme of applied research, which will suit the specific needs of the energy sector and will review the possibility of co-financing of this chapter from sources generated by it (such as the proceeds of sole of emission permits). With regard to the long-term construction and operation cycle, the energy sector needs strategic management of support of research from public sources in accordance with the priorities of this sector and of the industry as a whole.

However, it is not and cannot be the task of the state to determine main directions of basic research or the scientific branches that have a good potential. However, the foresight method has to be used in case of applied research. The state has to support adequately such research and to create conditions to ensure that the private sphere could and would wish to support research activities in accordance with its own demand, while the state policy should also leave considerable room for bottom-up activities, where the public support of research has to be neutral with a view of individual sectors and should be based mainly on their provable measurable quality. The quality evaluation should be based on the comparison with the activities that achieve the best results in the international context.

III.5.1. Investments into Research, Development and Innovation and Evaluation of Their Outputs and Impacts

III.5.2. Increase of the Innovation Potential of the Czech Economy

III.5.1. Investments into Research, Development and Innovation and Evaluation of their Outputs and Impacts

Evaluation of the Implementation of Reform Measures under the 2011 NRP

An important step taken in 2011 towards support of the policy of research, development and innovation was the approval of two strategic documents of the Government (the National Innovation Strategy and the International Competitiveness Strategy), which were further detailed in specific measures.

As regards legislative proposals, the Government of the Czech Republic reviewed and approved on 19 October 2011 the draft amendment to Act No. 72/2000 Coll. on investment incentives and submitted this draft on 27 October 2011 to the Chamber of Deputies of the Parliament of the Czech Republic for further review. Act No. 458/2011 Coll. on the amendment to certain laws in relation to the establishment of the single collection point and on other amendments to tax and insurance laws, which came into force on 30 December 2011, will permit the businesses to deduct from their tax base in connection with the change of the Income Tax Acts also the costs of services provided in relation to the implementation of a research and development project, which were purchased from a public higher education institution or from a research organisation.

The Government also elaborated in 2011 the Action Plan of the Development of Human Resources for Research, Development and Innovations.

The Government of the Czech Republic approved in November 2011 a proposal for the establishment of a new joint stock company "Český rozvojový, uzavřený investiční fond, a.s." as a part of the project of the seed/VC fund. The support provided through this joint stock company will be designated, among others, for the formation of new small and medium enterprises and for the development of innovative and technologically oriented companies and will have the form of direct capital inputs. For the first time in the Czech Republic, there will be a fund that will provide venture capital from public sources for the development of innovative project with the participation of private investments (a maximum of 70% from public resources, a minimum of 30% of private funds invested into a supported SME project). Beside the involvement of private investors in the financing of start-up innovative companies, the project should also test a new form of support by means of revolving capital funds and prepare for the

following programming period, where this financial instrument is to be further expanded.

The Government of the Czech Republic will further focus primarily on ensuring sufficient amount of investments into research, development and innovation. This does not concern only the amount of such investments; an important factor is also their structure (public and private investments), the effectiveness of their spending and evaluation of their outputs and impacts. It is necessary to complete in the Czech Republic systemic instruments that would provide effective support to the entire innovation cycle (i.e. to all its stages beginning with basic research, through experimental development up to the use of new knowledge in business innovations and in new products and services). The Government will also adopt reform measures relating to support of scientists and researchers.

Specific Reform Priorities with Particular Reference to 2012

1. Improvement of the method of funding of science, research, development and innovation

The most urgent problem concerning innovation continues to be the low level of private investments (in absolute figures and percentage points). The Czech Republic has been showing very low competitiveness at the European and international level and low interlinking of all stakeholders in the innovation chain.

Beside the low level of private investments, the Czech Republic also lags behind in the R&D financing from public funds. No tax relief has been set in the venture capital environment.

Therefore, the Government will adopt, as its national target, measures to ensure that public expenditure on science, research, development and innovation in the Czech Republic reaches a level of 1% of GDP in 2020. The Government will also take all possible steps to enhance an adequate increase of the share of the private sector in funding so that the Czech Republic contributes to the EU-wide target set in Europe 2020 Strategy.

The effective allocation of the funds spent has the same importance as their total amount. The Government will take steps to prevent ineffective funding. At the same time, the Government intends to support total year-on-year increase of expenditure on research and development. This adjustment was made in connection with the amendment of the Income Taxes Act, which is contained in Act No. 458/2011 Coll. on the amendment to certain laws in relation to the establishment of the single collection point and on other amendments to tax and insurance laws, with the effect as of 1 January 2015, which is intended to be shortened to 1 January 2014. This measure also contributes to the improvement of co-operation between the research and business sector (see part III.5.2.1.).

In connection with the improvement of the method of financing of support of research, development and innovation, the Government will submit an amendment to Act No. 130/2002 Coll. on support of research, experimental development and innovation. New research, experimental development and innovation priorities will be also adopted this year. Such priorities should be newly defined as a specific, concrete subject of state interest, which will be a combination of a long-term objective and multi-sector focus and which will be applicable and desirable for the society as a whole, for the achievement of which the Czech Republic possesses sufficient material and personnel prerequisites, which will be solvable in the long-term perspective and which may be achieved by research, experimental development and innovation.

The time schedule of the *Seed/VC Fund project* will be implemented gradually so that it can be started or launched in the business environment in the second half of 2012.

The project CzechEkosystem under the OPEI has already been launched to support preparation of projects of small and medium-sized enterprises as the potential applicants among others to the Seed/VC Fund. The CzechEkosystem project will offer to small and medium-sized enterprises a possibility to obtain professional counseling services of coaches and advisors in the finalisation of their projects, including their subsequent presentation to potential investors.

2. Improvement of the performance of research, development and innovation

There are currently no objective criteria that would inform about the effectiveness of investments into research, development and innovation in an international comparison. In cooperation with the professional public, the Government will prepare new guidelines for the evaluation of performance of research and development institutions. The preparatory process began in February 2012 and is scheduled to be completed by the end of 2013. Based on the foregoing, the Government will create conditions for long-term financing on the basis of quality and increased support of the best research teams. The legislation regulating the allocation of financial funds on research, development and innovation will be closely connected to the evaluation guidelines. The quality assessment criteria will be transparent and objective to the maximum extent and will be based on international standards. It is necessary to also adjust in this respect the conditions of operation of the grant agencies. The aim is to create a system that will be strictly oriented on the evaluation of project quality based on the international standards.

The evaluation system has to be principally changed and improved both in basic and in applied research and in experimental development. The applied research cannot be given unilaterally a priority over the basic research (and vice versa). It is necessary to create conditions for enhancement of applied research and development, particularly at technical universities and to establish closer

cooperation between universities and the application sphere, including the strengthening of the ties of the activities performed by research and development centres to the industrial production.

The needs of the existing and new R&D infrastructure are evaluated continuously in the context of priorities embodied in strategic documents adopted by the Government of the Czech Republic and of the needs of a competitive business system in the Czech Republic.

An essential element of assurance of the R&D quality is the deepening of international cooperation. The Government will continue to finance international cooperation programmes in science and innovation and will support the involvement of Czech research institutions in the framework programmes and other activities in this area. A key role will be played by an adequate regulation of support instruments to enhance the involvement of the industrial sphere like in the other EU Member State. The absence of appropriate motivation instruments is probably one of the reasons of the low participation of the Czech Republic in the EU framework programmes.

The Government has further prepared a programme for funding of large infrastructure projects and for ensuring sustainability and development of newly built centres, which will be implemented in the following period. The Government will also assess the *strategic programme for support of research and development of innovation in the entire energy sector chain*. This programme is to be adopted at the end of 2012 and the beginning of 2013.

Based on large-scale investments from the European sources into eligible regions and on the related increase of the performance of research, development and innovation in these regions, the Government will consider appropriate use of the R&D potential in the territory of the Capital City of Prague. Simultaneously with this process, it will also monitor the development, needs and maximum use of investments which have already been made.

3. Support of scientists and researchers

The age structure of the group of scientific and research workers has been inadequate in the Czech Republic for a long time, particularly with regard to lack of these workers in the middle generation. The main cause is the low financial attractiveness of the employment in the relevant fields both in comparison with the other professions in the Czech Republic and with the remuneration of scientists and researchers abroad. This results in the departure of young workers into whose training the state has invested significant funds to the private sphere or abroad.

As a part of the improvement of quality, it is necessary to prevent the outflow of top scientist and to support the inflow of such scientists to the Czech Republic. Their remuneration has to be competitive in the international comparison. It is paramount to focus in the evaluation on the quality and to allow for higher flexibility of remuneration of top workers beyond the scope of the tariff

system. Based on the National Innovation Strategy, specific measures directed at the stabilisation and support of human resources by means of several interlinked financial instruments and programmes have been prepared.

The Government will finance mobility programmes for researchers, their return to the Czech Republic and the development of their carriers.

These measures will ensure the return on public investments into the training of high quality researchers and scientists, both by means of their better remuneration and by the expansion of professional infrastructure for high quality research (including libraries), as well as by targeting the support of young scientists on the most promising workers with the best achievements. Despite the low numbers of researchers in the Czech Republic, it is necessary to give priority to quality over quantity.

The Government will ensure financial support to research, development and innovation projects, particularly to the cooperation between research and industry, as well as support to the training and lifelong learning of top experts for the needs of industry and state administration, particularly in branches facing generation problems.

The Government will further prepare instruments for an increase of attractiveness of the Czech research environment among foreign scientists, for support of long-term practice of foreign researchers and university pedagogues in research institutions and universities in the Czech Republic, including the relevant legislative changes.

The Government will also create career development programmes for young scientists returning from parental leave and programmes of popularisation of research activities, particularly in natural and technical science branches of secondary schools.

Consistency of Measures with the Strategy of International Competitiveness and the Focus of the EU Cohesion Policy

Strengthening the importance of research, development and innovation in connection with education as a source of competitiveness of the Czech Republic is detailed in the Innovation pillar of the Strategy of International Competitiveness. The relevant measures are aimed at increased efficiency of policies and instruments in the field of research, development and innovative business activities. This means, in particular, the creation of an expert system for the evaluation of the innovation potential and its barriers, including the setup of roles and relations among institutions of the national innovation system.

For the sake of the preparation for the programming period of the 2014+ EU Cohesion policy, the measures mentioned in this chapter are aimed at the same targets as the priority of education, research, development and innovation.

Consistency of Measures with the Targets of the Europe 2020 Strategy

The national priorities in this area are focused on the fulfilment of the objective of Europe 2020 Strategy consisting in ensuring the flow of the 3% share in GDP to research and development. At the same time, they fulfil the recommendation No. 4 of the Integrated Guidelines concerning the optimization of support for R&D and innovation, also by means of tax incentives for support of private investments into research and correspond to the measures for increase of productivity proposed by the Euro Plus Pact.

III.5.2. Increase of the Innovation Potential of the Czech Economy

Evaluation of the Implementation of Reform Measures under the 2011 NRP

As regards the non-legislative area, the Government approved on 27 September 2011 the National Innovation Strategy of the Czech Republic, which is focused on four areas: excellent research, transfer of knowledge between the business and the academic sector, support of innovative entrepreneurship and human resources development.

Ongoing support is provided to entities involved in R&D and innovation by means of programmes and of counselling and assistance services, including support of internationalisation of companies, particularly small and medium-sized innovative enterprises.

Specific Reform Priorities with Particular Reference to 2012

1. Improvement of cooperation between the research sector and the business sphere

Under the current situation, it is still necessary to focus on better commercial use of the results of science, research, development and innovation. The Government considers as a continuous problem at the national level the weak motivation of universities and research institutions towards commercial use of their R&D results. On the other hand, businesses are still incapable of clearly defining new requirements and of making use of the acquired knowledge. The transfer of R&D knowledge to practice should be improved in both the industrial and the agricultural sector. The low capability of adopting new technologies based on research affects both the public and the private sphere.

The establishment of links between the public research sector and the private sphere is also hampered by insufficient coordination between the research sphere and the educational system. The higher education system has to clearly define the mutual relation between the research and the educational dimension and should enhance at the

same time the third role of universities. In the context of the *new higher education strategy* will support the diversification and division of higher education institutions into educational and research institutions, focused on top research and adequately funded for such purpose, which will be closely interlinked with the private sector. On the other hand, the needs of the innovation process have to be considered in education and the content of education should be adapted to such needs. An important role in this respect will continue to be played by various types of educational institutions.

Furthermore, the Government will prepare in cooperation with the Technological Agency specific programmes of support of cooperation of industrial enterprises, universities and public research institutions, including support of more efficient use of strategic partnerships between universities and key industrial players (e.g. in the form of investments made by industry into schools), which will help in the setup of the strategic direction of university.

With regard to the scattering of competencies in the administration of the innovation system among several central state administration authorities, the Government will develop in the years 2012 and 2013 efforts to specify the relevant coordinating mechanisms, which would facilitate efficient cooperation in the definition of strategic objectives in the area of research, development and innovation in the context of the European innovation policy. The role of agencies established for this purpose (particularly the Technological Agency of the Czech Republic and the Investment and Business Development Agency CzechInvest) will be also further specified in the context of the broad innovation policy.

2. Focus on the innovation potential

With the exception of some branches, Czech R&D results are not sufficiently visible and the competitiveness of the Czech Republic in foreign technological market remains low.

The primary role in research and innovation should be played by the private sector. However, only a small part of research projects has been supported from the outset by the private sphere. As stated above, it is necessary to make use of synergies between public and private investments to ensure an inflow of private investments to the Czech Republic. The Czech industry should be interlinked with Czech research and closer and long-term ties should be also established with enterprises under foreign control.

In the context of support of the innovation potential and its development in the Czech Republic, it is necessary to improve the awareness of businesses about the importance of the use of patent protection and of the protection of intellectual property in general as an instrument of increase of competitiveness. It is necessary to focus on better orientation of businesses in the relevant laws and on dissemination of information about measures and projects of support of innovation. The Government will con-

tinue to strive to improve the enforceability of rights and to fight against counterfeiting and piracy.

A substantial element of support of innovation-based business activities is also the increase of awareness about such activities and about the possibilities of their development. Therefore, the Government will take in the course of 2012 and 2013 specific steps to stimulate the offer of educational programmes focused on this area, both in the higher education system and in the lifelong learning sphere.

In cooperation with other subjects based on the Strategy of International Competitiveness and with regard to key technologies (ICT, bio, nano technologies and life sciences), to the National Innovation Strategy, which also takes into account priorities set up at the EU level (the Europe 2020 Strategy and the Innovation Union) and to the needs of the energy sector arising from the prepared modification of the State Energy Concept (which is to be submitted to the Government in June 2012), the Government will submit a limited number of priority directions of oriented research together with a proposal of allocation of funds to cover such priorities. Given the significance of the energy sector for the Czech Republic, it is the paramount interest of the Government to ensure sufficient public support in this area with strategic focusing of this support on the achievement of the objectives of the State Energy Concept of the Czech Republic and on the enhanced involvement in international cooperation.

In the context of the SET Plan, the Government will assess the infrastructure for research, development and demonstrations of new energy technologies with the aim of enhancing the competitiveness of the energy supply industry (suppliers of technology) and energy research, development and innovation. As mentioned above, the Government will prepare at the same time an update of the National Policy of Research, Development and Innovation for the Years 2009 - 2015, which will be presented by the end of 2012.

Consistency of Measures with the Strategy of International Competitiveness and the Focus of the EU Cohesion Policy

An increase of the innovation potential based on excellent research is detailed in the Strategy of International Competitiveness. This concerns mostly measures focusing on support of the development of cooperation for transfer of knowledge between enterprises and the research and development sector and on the development of services supporting commercial use of R&D results. Other measures are focused on systematic monitoring of technological areas of strategic importance for the economic growth of the Czech Republic, as well as timely identification of social, economic and technological trends. For the sake of the preparation for the programming period of the 2014+ EU Cohesion policy, the measures mentioned in this chapter are aimed at the same targets as the priority of education, research, development and innovation.

Consistency of Measures with the Targets of the Europe 2020 Strategy

The reform measures reflect both the objectives of the Strategy and of the Integrated Guidelines and the flagship initiative relying upon the EC Communication "Innovation Union". The main directions outlined by this document ("collective, responsible, strategic, all-encompassing and business oriented policy for science, research, development and innovation, which will increase competitiveness and ensure jobs"), are also fulfilled by the national strategy contained in this Reform Programme and in other conceptual documents mentioned above. The support of the competitiveness of the domestic economy and of the knowledge-based growth is thus one of the main state policy principles in this area.

In connection with the Europe 2020 Strategy, it is also possible to mention the paramount interest of the Czech Republic in the completion of the project of the European Research Area and in the launching of the project of European innovation partnerships and evaluation of its success.

The support of research, development and innovation should be further positively reflected in the development of the indicator of the unit costs of labour, which will be monitored in the context of the Euro Plus Pact.

III.6. Support for a Low-carbon, Environmentally Friendly Competitive Economy

Introduction

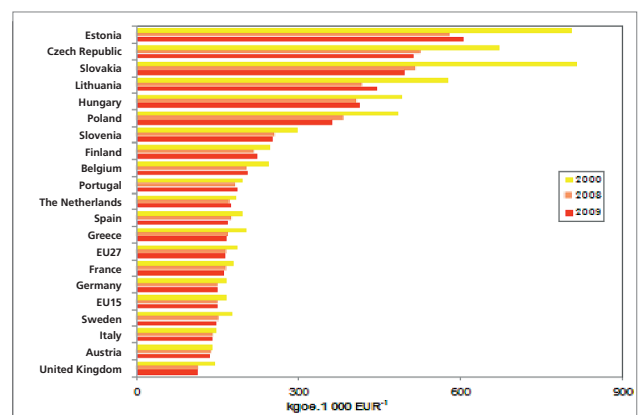
Support for a low-carbon, environmentally friendly competitive economy must be based on the indivisibility of the fundamental pillars of the EU energy policy: competitiveness (supplies at acceptable prices), reliability of supply and long-term sustainability. The basic energy requirements for the Czech Republic are limited energy cost increases for end users and reliability of supplies, especially stability of the transmission network and the assurance of sufficient reserves in installed capacity for electricity generation, reliability of the transit system in the gas industry together with sufficient gas storage capacity and reliability of crude oil pipeline network to allow variations of crude oil supplies, with adequate emergencies stocks in case of crises. Economic policy targets and environmental targets should not find themselves in any form of intractable opposition. Rather, all opportunities should be used to achieve synergies between these areas. The promotion of environmental targets without regard to economic growth is unsustainable, as is a growth that fails to reflect the scarcity of material resources on which it is based. Economic growth leading to a degradation of the environment is contradictory to its own purpose, to serve the society.

It must be taken into account that the Czech Republic is one of the countries with the highest share of industry in its GDP in the EU, which can be labelled as the main reason for high energy consumption. However this industrial potential - as already mentioned in another part of the 2012 Nation Reform Programme - offers a range of options for further systematic growth, which will enable the economy to retain its comprehensive global competitiveness and avoid dependence on extremely volatile and enormously mobile sectors. For this reason measures adopted in the area of energy and climatic targets without analysing the realistic options might fundamentally limit the competitiveness of industry. At a time of economic recession the latter has made a significant contribution to softening its impact. For this reason realistic targets must be set, not only with regard to long-term environmental sustainability but also in respect of international competitiveness. It is important to reflect the fact that the Czech Republic is already achieving one of the fastest rates of reduction in energy consumption and is applying very strict emission limits for industrial companies.

The significant opportunities which the Czech Republic currently offers, and which can also strengthen the growth of its competitiveness both on the European and the global level, includes in addition to an economically efficient reduction in energy and raw material costs in

relation to GDP and an increase in energy efficiency, reserves in the efficient use of waste materials (although a significant part of primary energy consumption in the graph derives from the structure of primary energy sources and indeed will actually grow with the increasing share of nuclear energy).

Graph: International comparison of economies' energy requirements, 2000, 2008, 2009



Source: Eurostat

One of the keys to growth and employment is consistent implementation of the principles of economic efficiency and assessment of the impact on GDP of all our measures, including effective energy source management. One basic task consists of finding a way to increase the efficiency of transformation of the various primary energy sources into the end-use forms entering the economy and reducing the energy demands on the consumption side, in both service, industrial and communal areas. The greatest opportunities to improve efficiency are in companies and in central heating system (central heating system represents 50 % of heat production in the Czech Republic), and especially in achieving synergy of these. Another important area is a more effective management of waste from both industrial and domestic sector, including the extension of activities aimed to improve energy use of waste. The use of nuclear power as a non-air-polluting source which respects all safety standards makes a major contribution in reducing greenhouse gas emissions and ensuring sufficient energy supply. This approach further strengthens the competitiveness of the energy sector and energy security, and generally assists in the transition to a low-carbon economy. However a basic necessity is to strengthen research, development and innovation and the demonstration of new technologies directed as part of the Czech Republic's priority needs and making maximum use of the synergy arising from international co-

operation. The Government will promote the rational development of nuclear energy; this will be specified as part of the update of the State Energy Policy.

Main Reform Objectives

The Government will push to ensure the indivisibility of fundamental targets of energy policy while reducing pollutant emissions. This also includes energy savings and efficient energy management in manufacturing, distribution and consumption.

In the improvement of energy efficiency the Government sets a national target to contribute to a maximum extent to the EU targets for 2020 in respect to the specific conditions within the Czech Republic, while at the same time meeting both of the other pillars of the European energy policy, competitiveness and reliability of supply, the impact of which is fundamental to maintaining employment, living standards and the competitiveness of the Czech economy. The Government will also take further steps to improve environmental quality.

III.6.1. Increasing Energy Efficiency

III.6.2. Increasing the Share of Energy from Low-carbon Sources

III.6.3. Improving the Quality of the Environment and Reducing Greenhouse Gas Emissions

III.6.1. Increasing Energy Efficiency

The indicative target set under the Europe 2020 strategy for the EU as a whole is aimed at improving energy efficiency at the EU level by 20 %. The Government is not setting any targets for 2020, but regards improving energy efficiency and savings on an economically efficient basis as one of its priorities for strengthening international competitiveness and supporting economic growth.

Evaluation of the Implementation of Reform Measures under the 2011 NRP

The State Energy Policy plays a fundamental role in reliable and long-term safe supplies of energy at affordable prices in accordance with the principles of sustainable growth, having regard to the environment and efficient energy policies. Work on updating it continued in 2011, and its presentation to the Government is planned for the middle of 2012.

To achieve the targets of the forthcoming State Energy Policy, the first phase of the transformation of the energy sector (2014- 2020) will be supported with a view to the Czech Republic's sustainable energy until 2050, reflecting EU targets (sustainable energy - sufficient primary resources, minimisation of environmental impact, including greenhouse gas emissions, at affordable prices and with secure supplies to final consumers while taking account of

the impact on GDP, that is, making maximum utilization of domestic primary energy resources).

The State Energy Policy and the Energy Efficiency Action Plan of the Czech Republic set national targets for energy savings (final energy consumption), and energy efficiency. Measures were taken in 2011 to improve energy efficiency, and were presented in an updated version of the Energy Efficiency Action Plan dated September 2011, which is a response to the European Parliament and Council Directive No. 2006/32/ES. Under the updated State Energy Policy and Energy Efficiency Action Plan, the means will be assessed of meeting commitments under EU legislation using an analysis of costs and benefits and impact on GDP. One of the examples of possible measures and also the greatest opportunity to improve energy efficiency consists of retaining and especially modernising and streamlining the central heat supply system, including the necessary infrastructure, which is now very outdated. In this regard it would be irresponsible to abandon this system, which secures a high level of cogeneration, or indeed its further expansion. A further area is the energy efficiency of industry. It is particularly important to make use of synergy in using waste to generate electricity and heat.

Year 2011 saw the continuation of the execution Czech Government decree No. 299/2001 Coll., part of which is the improvement of the thermal characteristics of housing, and the subprogramme Support for the Construction of Subvented Housing, announced at the end of 2010, which prioritises buildings which are energy efficient. The newly adopted Czech Housing Policy to 2020 also includes targets and priorities for housing policy in the improvement of energy efficiency. This was approved by Czech Government resolution No. 524 in July 2011.

During 2012 and the period which follows close attention will be paid to preparing future EU cohesion policy following 2014. The priorities in this area include not only energy efficiency, particularly in heating and support for low-carbon energy sources, also research, development, innovation and demonstration of new energy technologies including involvement in international cooperation with priority given to the SET Plan. Attention will be paid both to the business sector and to the public sector, which should be an example to other sectors in its economically efficient approach to energy efficiency. Similarly support as part of the 2nd pillar of the Common Agricultural Policy will be focused on supporting efficiency use of resources and support for the transition to a low-carbon economy in agriculture, the food industry and forestry, including the use of excess capacity in the energy use of biomass and dendromass.

In the longer-term context, with a growing proportion of electricity with low variable costs it will be necessary to take a more comprehensive view of energy efficiency compared with the use of cheap surplus electricity, instead of constructing expensive storage facilities (demand side management).

Specific Reform Priorities with Particular Reference to 2012

Most of the measures in this area are implemented on an ongoing basis within support programmes and non-legislative initiatives. By June 2012 the Government will be presented with the *Updated State Energy Policy* which will focus mainly on achieving a balanced energy mix, improving the use of renewable resources and the development of intelligent networks.

1. Promotion of energy efficient buildings

In currently running programmes, the Government promotes cuts in energy consumption by improvements in the thermal properties of buildings and the insulation of houses and apartment buildings.

One of the specific tasks of the Czech Housing Policy to 2020 is to create a *unified stable instrument for supporting an improvement in the energy efficiency of housing*.

At the end of 2020, new buildings must meet high standards consistent with the requirements of Directive 2010/31/EU on the energy performance of buildings. Increasing the energy efficiency of buildings is also important for ensuring the energy security of the Czech Republic. It offers major potential for savings, particularly of heat, since it reduces the energy consumption required for the operation of district heating systems, with sources without cogeneration, based on gas.

In conjunction with the implementation of Directive 2010/31/EU *proposals for financial instruments* to support this area in the business, public and private sectors will be prepared. These instruments will be prepared for use both in the upcoming EU programme period, as well as for national resources.

When adopting measures to improve the thermal properties of new and existing buildings, the Government will take account of technical and economic parameters in an effort to achieve maximum energy savings along with a technically durable solution, while minimising overall costs.

2. Promotion of lower energy intensity in production and transport

Under current programmes, the Government intends to continue its support of projects that contribute to reductions in energy intensity in industrial production and projects to promote the use of energy from renewable sources, with its priorities using an analysis of costs and benefits and impact on GDP. Voluntary commitments to save energy will be motivated by the opportunity for final consumers of energy who commit themselves to a certain reduction in energy consumption to apply for grants.

The Government continues *investment support for the upgrading of equipment and infrastructure in rail transport*. Emphasis will be placed on the construction of combined transport facilities, creating rail corridors and completing

electrification. An important role is also played by support for decentralized energy production in agriculture.

3. Promotion of lower energy consumption in other sectors

The Government recognizes the importance of expanding the role of the public sector in the promotion of new technologies. It supports the implementation of the *Energy Star* office equipment agreement again using an analysis of costs and benefits and impact on GDP.

Research, development, innovation and demonstration of new technologies and approaches in energy efficiency and savings will continue to be supported. Finally, the Government realizes the importance of advisory and consulting services to raise public awareness about the implementation of innovative technologies, processes to increase the efficiency of energy use and greater use of renewable resources.

In the first phase of the transformation of the energy sector, attention will need to be paid to the heating sector and electricity use in the transport sector. There is significant potential for increasing the conversion efficiency of energy in the combined generation of electricity and heat. In transport there will be support for alternative fuels, including compressed natural gas (CNG) and electric cars.

4. Introduction of a system to verify the environmental performance of innovative products in the Czech Republic

On 15 December 2011 the European Commission launched the EU pilot ETV project, in conjunction with the Action Plan for Eco innovation. This programme defines a specific path for supporting the development of eco-innovative technologies and contributing to the resolution of a wide range of environmental problems. Through this the Czech Republic puts its approach to Strategy 2020 into concrete terms.

This is a pilot EU project to verify the performance parameters for environmental technologies (EU ETV system) which is to help SMEs through increasing the credibility of their eco-innovation products. Verified information on the actual environmental benefits of products is crucial for environmentally based decision-making by investors. Involvement in this programme should be advantageous especially for manufacturers, innovators and suppliers, who by this means can draw attention to their products at European and global market level.

Consistency of Measures with the International Competitiveness Strategy and the Focus of EU Cohesion Policy

The aforementioned measures are contained in the State Energy Policy and Strategic Direction in the Strategy for International Competitiveness.

As part of the preparations for the EU Cohesion Policy 2014+ programme period, the measures referred to in this chapter are aimed at the same targets as the priority of improving the economy's competitiveness, including improving the quality and efficiency of public administration.

Consistency of Measures with the Targets of Europe 2020

In this area, the National Reform Programme is based on the targets of Europe 2020 strategy to increase energy efficiency by 20% for the EU as a whole. The Czech Republic is giving particular priority to this area, using an analysis of costs and benefits and taking account of the specific conditions, the national mix of primary sources, its growth and impact on GDP in such a way that all the pillars of energy policy are met and economic growth supported. The measures being implemented are in accordance with Recommendation 5 of the Integrated Guidelines on more effective use of resources and reduced greenhouse gas emissions, and also with Recommendation 6 on improving the business and consumer environment and upgrading the industrial base. Individual steps will also be linked to the key European Commission initiatives "Energy Efficient Europe", "An Industrial Policy for a Globalised World" and the "Innovation Union".

III.6.2. Increasing the Proportion of Energy from Low-carbon Sources

Under Directive 2009/28/EC, the binding target of the share of renewable energy sources in gross final energy consumption for the Czech Republic is 13% in 2020. This includes a binding target of a share of renewable energy in all modes of transport in gross final energy consumption in transport of 10% in 2020. The Czech Republic's National Action Plan for energy from renewable sources elaborates on this minimum binding target under Directive 2009/28/EC, based on an analysis of costs and benefits. In the National Action Plan, this elaborated target will be constantly reviewed and may be modified according to developments.

Evaluation of the Implementation of Reform Measures under the 2011 NRP

During 2011 measures were adopted to support an increase in the proportion of energy generated from renewable sources in sustainable conditions, in particular the National Action Plan for Energy from Renewable Energy Sources. A law on supported energy sources and other legislative amendments was put into the legislative process, developed in line with the target of achieving a 13% share for renewable energy sources in end energy use in the Czech Republic by 2020. This target is defined by Directive 2009/28/ES, part of which is the target of increasing the share of renewable energy sources in all forms of transport. The main non-legislative measure for achieving these targets is the National Action Plan for

Energy from Renewable Sources (dated July 2010), by means of which long-term, stable and sustainable support conditions for energy generation from renewable energy sources were established. An assessment of the National Action Plan is being conducted as at 30th March 2012, with an update due on 30th June 2012.

The legislative measure for implementing renewable energy sources within the Czech energy mix is the Act on Supported Sources and changes to other legislation, which implements the European Parliament and Council Directive No. 2009/28/ES. Completion of implementation of this Directive in Czech legislation is expected during the current year.

Specific Reform Priorities with Particular Reference to 2012

The Government intends to promote renewable energy and low-carbon technologies by using grant schemes in the transitional phase of development until they become competitive on the electricity market but until 2020 at least. The tools used will be set in a balanced way to encourage the operators of these resources to be as efficient as possible in their choice of location, technology, connection method and nature thereof with regard to climatic conditions in the Czech Republic.

The measures proposed will be thoroughly analysed from the perspective of their impact on energy prices, the competitiveness of the economy and the living costs of the population using instruments enabled by the National Action Plan for Renewable Energy Sources. The preparation of a detailed *analysis of further measures* will allow us to avoid adopting ill-considered measures with unexpected consequences. The Government will assess and adjust its support for renewable energy sources and low-carbon technologies using grant schemes and will put into these its practical experience from 2009 - 2011 with the negative impact of the distortion of the energy market on electricity prices.

1. Investment support

The Government will continue to support projects that contribute to an increase in the share of renewable energy sources and low-carbon technologies. These are projects for the construction and reconstruction of local and central heat plants using renewable energy for heating, cooling and hot water, and low-carbon technologies for heating, cooling and the heating up of water. Other projects include the construction and reconstruction of wind plants and small hydropower plants and the construction of geothermal power plants and power plants burning biomass (solid, gaseous or liquid). This support also covers the cogeneration of heat and power: cogeneration plants burning biogas, landfill and sludge gas, biogas stations; cogeneration facilities that use solid biomass and combined heat and power generation from geothermal energy.

The Government also plans to support the use of available

agricultural land for energy purposes (through subsidies). This support covers all types of biomass energy (dendromass and phytomass) used primarily to produce liquid (e.g. FAME, bioethanol), gaseous (biogas) and solid (used for direct combustion) fuels originating in the agrarian sector. Support should be channelled into projects not only for the construction of new decentralized biomass-fired plants, but also for the upgrading and expansion of existing plants which would ensure, for example, greater use of heat or residual biomass. The use of secondary livestock products (e.g. manure) and plant biomass as raw materials for the production of biogas (or energy) is supported in the Czech Republic as part of the processing operation at biogas plants.

Support for energy generation from biomass will be based on predetermined parameters based on an annual assessment of the National Action Plan for Renewable Energy Sources, taking account of the impact on protection of the countryside and waste management (a preference for using local bio waste and surplus biomass instead of cultivated biomass).

As part of further development of the transmission and distribution networks, the problem must be resolved of over-flows of electricity from neighbouring countries which directly threaten the stability of our national transmission and distribution networks. In the area of its networks, the Czech Republic intends to prioritise the question of reliability of supply, both in the gas industry and electricity generation.

In the gas industry there will therefore be an effort to make maximum use of bi-directional use of the transport system, its connection to other gas systems particularly in the north-south direction, and the construction of new or expansion of existing gas reservoirs. These measures consist of *modernisation of the transmission and distribution networks* and securing adequate operation reserves. Further measures can be expected in improving the international integrity of transmission networks. These projects can mainly be supported through the Instruments for Connecting Europe in the areas of transport, the energy industry and information and communication technologies. A further important measure will be the *simplification of permitting processes when preparing the construction of new energy infrastructure*. However the basic problem is how to achieve this over a short time, since it is necessary to change the legislation and in many cases find a way to accelerate the processes while at the same time adhering to other EU directives.

Investment support for new facilities and the renovation of existing facilities in order to increase the use of renewable energy sources for the use of renewable energy sources and low-carbon technologies for generating heat and electricity, as well as their co-generation, is based on existing operational programmes, the Rural Development Programme, the *National Programme to Promote Energy Savings and the Use of Renewable Energy Sources*, and other programmes. The Government in this regard will be pre-

sented with the National Action Plan for Energy from Renewable Sources National Action Plan for Energy from Renewable Sources which will be evaluated as at 30th June 2012.

2. Operational support

The Government intends to continue using a system for the operational support of electricity production from renewable energy sources and low-carbon technologies in the future particularly in the form of a guaranteed price and similar instruments in line with the update of the State Energy Policy currently being prepared.

Consistency of Measures with the International Competitiveness Strategy and the Focus of EU Cohesion Policy

As part of the preparations for the EU Cohesion Policy 2014+ programme period, the measures referred to in this chapter are aimed at the same targets as the priority of improving the economy's competitiveness, including improving the quality and efficiency of public administration.

Consistency of Measures with the Targets of Europe 2020

In this area, the National Reform Programme is based on the targets of the Europe 2020 strategy to increase the share of renewable energy sources. The measures being implemented are carried out in accordance with Recommendation 5 of the Integrated Guidelines on the more efficient use of resources by technological improvements in the energy sector, including the implementation of SET Plan measures, and a reduction of greenhouse gas emissions, and with Recommendation 6 on improvements to the business and consumer environment and the upgrading of the industrial base. Individual steps will also be linked to the key European Commission initiatives "Energy Efficient Europe", "An Industrial Policy for a Globalised World" and the "Innovation Union".

III.6.3. Improving the Quality of the Environment and Reducing Greenhouse Gas Emissions

The reduction of the greenhouse gas emissions is motivated by the efforts to make the life cycle of natural resources more efficient and contribute to reduction of material and energy intensity of the Czech economy. The measures are being adopted primarily with the aim of improving the quality of the environment. The measures given here are also reflected in preparations for the future EU Cohesion Policy programme period after 2013.

Government measures in this area, in line with the Sustainable Development Strategy of the Czech Republic, the State Environmental Policy of the Czech Republic, the State Energy Policy, the Czech Raw Materials Policy and the Czech Strategy for International Competitiveness to 2020, will focus on making the life cycle of natural re-

sources more efficient and will contribute to reduction of material and energy intensity of the Czech economy. These efforts should ultimately lead to a reduction in costs, support for economic growth, to motivation among businesses to develop and implement new efficient technologies, and, finally, to the increased competitiveness of the domestic economy. They should also help to increase the adaptive capacity of ecosystems and mitigate the overall impact of climate change. These measures will be manifested in an overall improvement of the environment, which should be reflected in public health leading to potential savings in the health system.

Evaluation of the Implementation of Reform Measures under the 2011 NRP

The basic framework for the adoption of measures in this area is provided in the *Strategic Sustainable Development Framework of the Czech Republic* and the updated *State Environmental Policy of the Czech Republic*, which should be approved during the first half of 2012, as well as the State Energy Policy and Raw Materials Policy of the Czech Republic.

A new law on the conditions of greenhouse gas emissions trading permits is expected to be presented to the Government during the first half of 2012. By the same date an amendment to the Act on integrated prevention should be presented to the Government.

To improve air quality and reduce emissions, it will be essential to approve a new Act on Air Protection (to come into force as of 1st July 2012), as well as an update to the *Czech National Emissions Reduction Programme* (to be prepared within a year of the Act coming into force) and air quality control improvement programmes (to be prepared within two years of the Act coming into force). Attention will be paid to limiting the use of poor quality fuel in households heating, tackling the fine dust that constitutes a very serious health risk, reducing emissions of ozone depleting substances (a new Act on ozone-depleting substances and fluorinated greenhouse gases), support for greener transport and green spaces in housing settlements.

1. Reduction of Greenhouse Gas Emissions

For greenhouse gas emissions outside the EU ETS (Emissions Trading System), the maximum allowable increase for the Czech Republic up to the end of 2020 is set at 9% compared to 2005 (this value was adjusted by the Effort Sharing Decision in accordance with the EU goal to reduce overall greenhouse gas emissions by 20% by the end of 2020 compared to 1990). The Czech Republic also contributes to the EU's approved reduction target via the EU ETS market. Specific measures to achieve the target in question will be part of the State Energy Policy, which will be augmented in this area with material from the *Czech Policy on Climate Protection*, to be approved by the Government by the end of 2012.

2. Materials handling

In materials handling our target is to accomplish maximum resource efficiency and to support the use of secondary raw materials. This target will be achieved by meeting the measures proposed in *Czech Raw Materials Policy*, a separate part of which is also *Secondary Raw Materials Policy*. The Secondary Raw Materials Policy will be presented to the Czech Government in June 2012.

Another target in this area is a reduction in the measured output of waste, regardless of the rate of economic growth. This target is supported by a new *Waste Act*, a new *Recycling Act*, a new *Packaging Act* and a new *Waste Management Plan*. It sets long-term priorities for the management of municipal and hazardous waste, the prevention of the generation thereof, and the obligation to return products, appliances and packaging. The Czech Republic will support the substitution of secondary materials for primary raw materials, the use of waste for energy generation, as well as an improvement in the recycling of waste, an increase in share of use of renewable resources, low-carbon technologies and measures leading to energy savings.

3. Use of water resources

In terms of water resources, the Czech Republic aims to reduce the consumption of water, and to increase the availability of higher quality drinking water. Priority and a higher level of protection should in particular go to high-quality sources of ground water, other sources of lower quality should then be used for industry. A small amendment to Appendix No. 2 of the *Water Act* will be prepared (starting in 2013) in order to achieve this plan. Attention will also be paid to streamlining of waste water management - increasing the proportion of treated waste water, increasing the numbers of citizens connected to sewage systems.

Reducing the risk of flooding is of fundamental importance for the Czech Republic. With this in mind the Czech Republic will support implementation of engineering and nature-friendly anti-flood measures.

4. Nature and Landscape Protection

In the area of nature and landscape protection as a space for economic development while concurrently improving the quality of life and strengthening environmental stability, the Czech Republic will strive for sustainable use and responsible management and planning of the countryside. Attention will also be paid to the protection of soil. The preparation of an explanatory memorandum on the *Soil Protection Act* will be completed in the first half of 2012.

Appropriate restoration measures on watercourses and in floodplains will be identified, and measures to increase water retention in the countryside will be drawn up, with the aim to create a situation where the landscape is naturally capable of suppressing extreme weather events and optimizing the water cycle in the landscape system.

The Czech Republic will also support the migratory permeability of water courses. Of similar importance will be the support for efficient protection of the soil against erosion.

5. Integrated pollution prevention and control

In integrated prevention and pollution control, the priority in 2012 and subsequent years is an *amendment to Act No. 76/2002 Coll.*, which will take account of the requirements of the new industrial emissions directive (IED) following the current legislation. In this regard particular emphasis is put on economically efficient use of the Best Available Techniques (BAT), which in general is an essential prerequisite for further control of environmental pollution and a reduction of the energy intensity of the Czech Republic. The required deadline for transposing the Directive by means of Act No. 76/2002 Coll. is set for January 2013. It will also be essential to change the relevant accompanying regulations in accordance with the amended Act.

6. Safe environment, analysis and management of environmental risks

The Czech Republic will strive for efficient *elimination of old environmental burdens, support for recultivation and cleaning up of waste dumps*. Attention will also be paid to analyses, prevention and resolution of the impact of natural disasters and catastrophes associated with climate change.

Consistency of Measures with the International Competitiveness Strategy and the Focus of EU Cohesion Policy

The aforementioned measures are contained in the State Energy Policy and Strategic Direction in the Strategy for International Competitiveness.

As part of the preparations for the EU Cohesion Policy 2014+ programme period, the measures referred to in this chapter fall under the priority of improving the economy's competitiveness, including improving the quality and efficiency of public administration. The measures given in this part can also be taken as additional to EU Cohesion Policy and implemented as part of the 2nd pillar of the Common Agricultural Policy - rural development and particularly as part of the Renewal priority, retention and improvement of ecosystems dependent on agriculture and forestry and the priority entitled Support for Efficient Use of Resources and Support for the Transition to a Low-Carbon Economy in agriculture, the food industry and forestry.

Consistency of Measures with the Europe 2020 Strategy Targets

All measures are consistent with the Europe 2020 strategy initiative "Resource Efficient Europe" and are thus in line with Guideline 5 "Improving resource efficiency and reducing greenhouse gases". The measures proposed reflect the Commission's proposals in their communiqué a Roadmap to a Resource Efficient Europe.

III.7. Promoting Competitiveness by Improving Transport Infrastructure

Introduction

The Czech Republic's geographical position makes it a transit country providing transport services and moving goods and services across Europe. Together with the strong export orientation of the Czech economy, this places considerable demands on the capacity and quality of the Czech transport network. The completion of the backbone transport infrastructure and the connection of the remaining regions to the main Czech and European routes is therefore essential if the adverse business situation in these regions is to be improved and the competitiveness of the Czech economy as a whole is to be enhanced.

The current state of the Czech transport network, in terms of quality and functionality, is well below the level of the original 15 EU Member States and is seen as one of the main obstacles to the attainment of a higher rate of economic growth in the Czech Republic.

Deficiencies can be seen in many areas: the backbone transport network is not complete, the existing road routes are of poor quality and are often inappropriately routed through built-up areas. In particular, suburban and urban roads suffer from congestion because of the lack of by-passes, causing frequent traffic jams. The inadequate infrastructure also causes increased emissions of air pollutants, noise pollution, especially in built-up urban areas and, not least, a high number of road accidents ending in serious injury or death. The high accident rate causes traffic jams, which further exacerbate the negative effects on economic performance resulting from inadequate infrastructure capacity.

Problems of the poor quality and capacity of transport infrastructure are also faced by rail transport, as a consequence of which it demonstrates a lack of competitiveness when compared with road transport over most of the important routes. In order to improve the efficient use of resources and reduce negative impacts on the environment, it is desirable to increase the use of railways in freight transport as this would relieve the congested road network. With regard to ensuring the most efficient use of available transport capacity, it is necessary, by introducing an effective system of traffic management and toll charges for individual modes of transport, to achieve the efficient combination and integration of these transport modes. To a significant extent, greater use of rail transport is also dependent on growth in the network of multimodal terminals for passenger and freight transport, which must also be defined in the legislation as an integral part of transport infrastructure.

The share of inland waterway freight transport, which is one of the more environmentally friendly modes of transport, is also low. However, the possibility of using waterways for long distance freight transport is limited by restricted access to a maritime port due to the lack of navigability of key sections of the Elbe.

An indispensable role in fast long-haul transport is played by air transport. The quality of airport infrastructure is a significant factor in global trade and competitiveness. In connection with the steady increase in the volume of air transport, strengthening the capacity of Prague – Ruzyně airport is a priority. At present there is already airspace congestion at the main European airports. In view of the expected growth in long-distance transport the European Commission has therefore proposed resolving this problem through expansion of the network of high-speed train tracks (HST). The aim is to gradually transfer transport over distances up to 1000km on to the railways. The HST network in Western Europe is expanding towards Central Europe and the Czech Republic should not be left aside, since it could become a peripheral territory even at the heart of Europe. It is therefore necessary to begin preparations for HST on Czech territory even now.

The use of intelligent transport systems to enhance safety, speed and traffic flow, reduce its negative impacts on the environment, optimise infrastructure capacity, and to ensure international interoperability (i.e. the removal of technical barriers between countries and the promotion of a uniform system of toll collection for users), can also be regarded as inadequate.

Cycling, which can be used for both tourism and as a full part of the transport system, continues to account for a low share of passenger transport due to the insufficient and inconsistent infrastructure, particularly in urban areas.

Main Reform Objectives

The principal targets related to the improvement of the transport infrastructure are an increase in capacity and quality through the completion of the backbone infrastructure network and adequate levels of repair and maintenance of existing infrastructure. At the same time, it is important to seek an effective involvement of all modes of transport to maximize use of existing capacity and reduce the negative effects of transport on the environment. These steps will contribute significantly to the competitiveness of the Czech Republic and will also help to remove regional disparities. To achieve these targets, the Government will shortly introduce legislative and non-legislative measures to speed up and streamline

the planning, preparation and implementation of traffic engineering.

A key issue will be the necessary financial resources, their stabilisation and their effective and efficient use in projects selected on the basis of thorough strategic planning. In this connection one should take into account the need for additional measures leading to fiscal consolidation, which will be adopted this year, having regard to the negative outlook for the Czech economy.

III.7.1. Strategic Planning of Transport Infrastructure Development

III.7.2. Ensuring Effective Financing for the Completion of the Backbone Network

III.7.1. Strategic Planning of Transport Infrastructure Development

If the transport structure is to contribute to the competitiveness of the Czech economy, it is necessary for individual projects to be based on thorough, rational strategic planning and to form part of a well-designed concept. Therefore, the Government will submit an updated transport strategy up to 2040 (Transport Sector Strategies, 2nd Phase); this will form the basis for setting priority projects in transport infrastructure and the timetable for their implementation, subject to a professional estimate of the Czech Republic's financial options. To expedite the preparation and the actual implementation of projects, the legislative framework must be modernized.

Evaluation of the Implementation of Reform Measures under the 2011 NRP

In 2011, following an agreement with the European Commission, the Transport Sector Strategies - 2nd Phase project was started. The first significant output by April 2012 is a multimodal transport of the Czech Republic with detail at the level of those towns with higher level functions, and with links to the TEN-T network in other European countries. The second major outcome was the development of a scenario for the growth in transport demand, by individual transport type.

The year 2011 also saw the start of the project entitled Model for Long-Term Financing of Transport Infrastructure.

The first plans for transport services were drawn up in 2011, at both national level (a national order for railway long-distance transport) and regional level (transport services for individual regions).

The other reform measures, including those which were started during 2011, are specific in that their implementation is possible only over time horizons of several years (preparation of transport infrastructure construction requires a period of up to 10 years or more, with actual

construction taking 3-4 years).

Specific Reform Priorities with Particular Reference to 2012

1. More effective strategic planning

Currently the Czech Republic's new draft Transport Policy for 2014-2020 and *Transport Sector Strategy, 2nd Phase and Medium-Term Plan for Transport Infrastructure Development, With a Long-Term Outlook* are in preparation; these will include a Strategic Environmental Assessment (SEA) and a detailed assessment of individual structures, with an outlook up to 2040. Both of these documents will be approved by the Government by April 2013.

Other planning measures aiming at improving transport safety and efficiency include an *update of the existing National Road Safety Strategy* and the forthcoming *Strategic Plan of ITS Development for the Czech Republic*.

Under the project "Development of a Long-Term Model of Transport Infrastructure Financing", the Government is examining the possibility of reforming the whole system of transport infrastructure financing. The project will also place a major emphasis on the need to involve private capital, which would be repayable from future revenues generated by the infrastructure when built. A crucial element in the financing of transport infrastructure projects could be a state-owned company, which would form an effective interface with private capital. Models used abroad have been analysed, e.g. Asfinag (Autobahnen- und Schnellstraßen-Finanzierungs-Aktiengesellschaft) in Austria, HAC (Hrvatska autoceste d.o.o.) in Croatia, and NDS (Národná diaľničná spoločnosť, a.s) in Slovakia. These are public limited companies in charge of the planning and construction of roads and highways, toll collection and management, etc. They are wholly owned by the State. Based on this experience from abroad proposals for possible institutional changes in the financing of transport infrastructure will be discussed, which would permit an efficient use of private capital to develop transport infrastructure while not affecting the level of state debt and deficit, in line with the ESA 95 methodology.

The Government will incorporate these conceptual plans into an *amendment to Act No 13/1997 Coll., on Roads*, and into an *amendment to Act No 416/2009 Coll., on the Accelerated Construction of Transport Infrastructure*, and into an *amendment of Act No. 104/2000 Coll., on the State Transport Infrastructure Fund*, the discussion of which will take place during 2012. Measures to speed up the construction of the backbone transport network include the preparation of an *amendment to Act No 184/2006 Coll., on the Withdrawal or Restriction of Ownership Rights to Land or Buildings*, which is now in legislative process.

2. Major transport infrastructure projects

The major transport infrastructure projects of European and national significance include:

- The completion of the basic network of motorways and expressways within the so-called Trans-European Transport Network (TEN-T); those within the core network (by 2030) and the comprehensive one (by 2050);
- Modernisation of Class 1 roads with a focus on building freeways and by-passes for towns and in sections with sufficiently dense traffic flows, the reconstruction of selected Class 1 roads into motorways (by 2050);
- Completion of railway transit corridors (by 2018) and modernisation of the other routes within the TEN-T network and tracks of national importance (connection of all regions to high-capacity railway infrastructure (by 2050));
- Modernisation of railway junctions on the TEN-T network (by 2018, the Prague and Brno junctions by 2030);
- Modernisation of routes which are important for servicing large industrial zones (e.g. Mladá Boleslav, Kvasiny, Nošovice and others);
- Secure interoperability of the railway network, introduction of GSM-R (Global System for Mobile Communications – Railway), secure interoperability of the railway network, introduction of ETCS (European Train Control System);
- Construction and modernisation of inland water routes within the core TEN-T network, including RIS;
- Development of the logistics of freight transport, building a network of multimodal transport terminals to parameters based on the AGTC agreement (European Agreement on Important International Combined Transport Lines and Related Installations);
- Support for the introduction of intelligent transport system in all modes of transport including on-board applications (on an ongoing basis).

The main projects of related transport infrastructure of regional significance include:

- Modernisation of those railway tracks which are important for urban and suburban transport (solving transport problems in densely populated areas), modernisation of tracks of regional significance where there is potential to introduce backbone lines for regional transport services;
- Modernisation of Class 2 and 3 roads which on a regional level secure connections to transport infrastructure of national and European importance (metro, tram systems, tram-train systems, trolleybus systems);
- Support for the development of infrastructure for rail-based urban transport;
- Modernisation of regional airports (in accordance with the Air Transport Development Policy);
- Support for the development of infrastructure for non-motorised transport;

- Intermodal terminals for personal transport (connecting points for rail, bus, urban, personal and non-motorised transports), introduction of ITS and new technologies for public transport;
- Management systems for urban road traffic.

3. Improvements in legislative conditions

Suppliers of project and construction work will be selected strictly on the basis of the best ratio of quality to bid price (a dominant role will be played by factors such as life cycle cost and the principles of "green public contracts", when applying European Directive No. 2004/18/ES and the Green Paper on the Modernisation of EU Public Procurement Policy.

During 2012 the Government will adopt a number of legislative measures based on a reassessment of the approval process for transport construction in accordance with current legislation.

A substantial acceleration in approval and preparation of projects will be brought about by the *amendment to the Construction Act* currently in preparation; this is to simplify approval processes and streamline the activity of planning offices. The Act on Compulsory Purchase and associated regulations is also due to be amended; this will respect private ownership rights, nevertheless the speculative behaviour of certain landowners must no longer be allowed to be an obstacle to the construction of public works and implementation of the Public Private Partnerships (PPP) model.

Consistency of Measures with the International Competitiveness Strategy and the Focus of the EU Cohesion Policy

The measures in this chapter are being prepared within the Infrastructure pillar of the International Competitiveness Strategy.

As part of the preparations for the EU Cohesion Policy 2014+ programming period, the measures referred to in this chapter are aimed at the same targets as the priority of improving competitiveness of the economy, including improving the quality and efficiency of public administration and as a priority, building of the backbone infrastructure.

Consistency of Measures with the Targets of Europe 2020

Transport-related measures are linked to the Europe 2020 strategy flagship initiative "Sustainable growth - for a sustainable, resource-efficient and competitive economy".

III.7.2. Ensuring Effective and More Stable Financing for the Completion of the Backbone Network

The systematic security of long-term sources of funding will be a key factor for the continued financing of transport infrastructure projects. The volume of resources available at national and European level concurrently determines the time framework for completing backbone infrastructure. This requires investment of the order of hundreds of billion of Czech crowns, where it will be possible to finalize the budgetary details only after the approval of the relevant strategy documents in the field of transport.

Government attention will therefore be devoted to stabilising the financial resources allocated for the development, maintenance and modernisation of infrastructure from the state budget, and to models for securing financing for infrastructure building in part from funding from private sources and in part from the expansion of toll roads.

Evaluation of the Implementation of Reform Measures under the 2011 NRP

The measures given in the National Reform Programme in this area are of a medium-term to long-term nature. The year 2011 saw the start of preparations to expand the network of toll roads, but the application of this in practice must be in line with the existant contract with Kapsch.

Specific Reform Priorities with Particular Reference to 2012

1. New sources of funding

Given the high cost of transport projects and the urgent need to implement them in an optimum form and as quickly as possible, the Government will seek to find alternative ways to finance them. In addition to increased resources from public budgets, by expanding toll roads and drawing on co-financing from EU programmes, it will investigate the possibility of financing infrastructure projects from private sources, in the form of Public Private Partnerships (PPP). Projects selected as being suitable for financing in the form of PPP will then be implemented on the assumption that this form of financing is the most suitable instrument from an economic standpoint.

Increases in available resources will be provided by the gradual expansion of toll roads to include Class I roads and selected Class II and Class III roads, the preparations for which have been launched in 2011 but will not be implemented until after 2013. The system should also ensure the internalisation of external costs. The result should be a situation where the cost incurred by traffic, such as noise and air pollution, will be shared by those causing it (the principle of polluter pays).

2. Promotion of transport infrastructure in future EU Cohesion Policy

The Government regards the EU Cohesion Policy as an important tool not only for balancing differences between less and more developed regions, but also for enhancing competitiveness, both of individual regions and the national economy as a whole. Therefore, in determining priorities for the future Cohesion Policy 2014–2020 programming period, it assumes support for transport infrastructure, including intelligent transport systems, as this represents an essential condition for a competitive economy based on industry and exports.

Consistency of Measures with the International Competitiveness Strategy and the Focus of the EU Cohesion Policy

The measures in this chapter are being prepared within the Infrastructure pillar of the International Competitiveness Strategy. The aim of these measures is to build faster, more reliable, system-coordinated and more comfortable transport routes and transport services for a competitive environment for the country, including finding cost effective means to finance it and strengthen and efficient competitive environment in this sector.

The connections to preparations for the EU Cohesion Policy 2014+ programming period are described in the preceding subchapter (2. Promotion of transport infrastructure in the future EU Cohesion Policy)

Consistency of Measures with the Targets of Europe 2020

The flagship initiative in the chapter "Resource Efficient Europe" refers to the need to use a combination of public and private investment (PPP), public demand incentives, regulation and the development of infrastructure (including trans-European networks) to support the transition to a low-carbon, technologically advanced economy with a high utilization of ICT. This can be achieved by meeting the environmental commitments of the EU and Member States, reducing greenhouse gas emissions and reducing the energy intensity of the economy by at least 20% by 2020, among the five main targets of the strategy. Similarly, the measures contribute to the relevant Recommendations 5 and 6 of the Integrated Guidelines.

The Euro Plus Pact also encourages efforts to develop infrastructure as a way of increasing productivity.



IV. Conclusion

IV.I. Summary

The 2012 National Reform Programme is the Czech Republic's updated contribution to meeting the common targets of economic policy coordination under the Europe 2012 Strategy. It thus follows on from the 2011 National Reform Programme, assesses progress achieved in the period April 2011 - April 2012 and specifies the direction and timetable for the relevant reform priorities of the Government. The basic principle pursued by all the proposed measures is to increase the competitiveness of the Czech economy as a necessary precondition for long-term sustainable economic growth and the achievement of all the other tasks of a democratic social market state.

Individual priority areas of the 2012 National Reform Programme are based on the geographic, social and economic conditions of the Czech Republic and reflect its character as a small, very open, dynamic and export-oriented economy with a dominant role played by industrial production. These specific features mould the content of concrete reform measures to remove obstacles to economic growth and strive for the competitiveness of Czech enterprises in European and international comparisons.

The focus on exports, particularly in industrial production and services, requires an appropriate government policy designed to promote the functionality of the EU internal market, reduce labour costs and, in particular, apply measures to promote non-price competitiveness. At the same time, the Government will continue to strive to remove barriers in world trade and to support diversification of export markets.

At the level of specific measures, the Programme stresses a favourable business environment with a minimum legislative and administrative burden, efficient support for science, research and innovation, closely linked with the private sector, enabling the rapid practical application of the latest findings.

The building of a research and technology base which can withstand global competition requires comprehensive reform of the education system so that it is on the one hand capable of responding more flexibly to the dynamic demands of the labour market and on the other hand able to ensure (particularly at the tertiary level of education) the adequate quality of higher education institutions graduates and researchers who will maintain the innovation potential of Czech industry to a world-class standard.

A key prerequisite for the achievement of the targets of Europe 2020 Strategy is the further consolidation of public finances, which, in addition to funds from the Cohesion Policy and other EU sources, will secure the sustainable financing of reform and support measures. The updated 2012 National Reform Programme stands on the efficient implementation of already approved reforms as well as on the adoption of new initiatives aimed mainly at further streamlining of public administration, simplification of the legal environment, a tightening up of the fight against corruption, and greater flexibility and openness in the labour market.

Finally, a more competitive economy, which is a prerequisite for improving the welfare and quality of life of society, is aided by measures to reduce energy intensity, to protect the environment and to reduce bureaucracy through the digitization of agendas, databases and proceedings. It is equally important to complete a transport infrastructure with sufficient capacity and quality, meeting the needs of the Czech economy. In contrast to the "old Member States", the lack of transport infrastructure is a major comparative disadvantage of the Czech economy. Therefore, the Government considers this area to be a significant part of its contribution to Europe 2020 strategy.

IV.2. Further Steps towards Meeting the Targets of the National Reform Programme

The measures presented in the National Reform Programme are the Czech Republic's medium-term development priorities conceived by the Government for the period up to 2020. They will be implemented continuously; the bulk of the reforms will take place in the first half of this decade, particularly with regard to the fact that the Government's ability to act is limited to the term of office of the Chamber of Deputies. Considering that Europe 2020 Strategy is spread over the entire coming decade and represents a particular thematic keystone of Union policies, the 2012 National Reform Programme has nevertheless been conceived for a longer period, but necessarily reflects the above-mentioned limitation on the opportunities for its implementation. This longer-term understanding is relevant particularly in the context of negotiations over the multi-year finance framework of the EU and preparations for the programme period of EU cohesion policy after 2014. For this reason also, the preparation of the Programme was discussed with representatives of both Chambers of the Czech Parliament and social dialogue partners.

The 2012 National Reform Programme is a crosscutting document which defines the key priorities and reform directions in various areas of government economic policy against the backdrop of Europe 2012 strategy. It thus integrates - at the same time presenting in a consolidated form - reform processes, while monitoring key coherence at the level of meeting the International Competitiveness Strategy and directing interventions in the future EU

Cohesion Policy period. It does not replace or supplement the Government's existing strategy and policy documents concerning the economy and sustainable development. Rather, it complements them, with added value delivered by its clarity and comprehensive nature.

The individual priority areas set out in this programme are or will be described in more detail in specific strategy documents drawn up by the competent institutions, especially ministries. These documents are annexed hereto, or will gradually be added as appendices as it is updated. On the other hand, this programme also identifies priority areas across the whole of the Czech Republic's economic policy, on which basis sectoral conceptual materials should be shaped in the future. Therefore, this programme is not merely an informative overview of current reforms, but also a normative conceptual text.

It follows from the nature of the National Reform Programme, as the Government's initial document setting out the Government's priorities under Europe 2020 strategy, that it is not intended to contain detailed specific measures, and therefore neither does it specify any cost estimates. This will be part of the subsequent, sector-specific strategy papers. A more detailed macroeconomic scenario and fiscal outlook are the subject of the Convergence Programme of the Czech Republic 2012, which in this aspect augments and renders more specific the 2012 National Reform Programme.

IV.3. The Government's National Targets under Europe 2020 Strategy

Further to the principal targets of Europe 2020 strategy, the Integrated Guidelines of the Strategy, and individually identified major obstacles to the realization of common

targets, in 2010 the Czech Government set specific quantified national targets which have been outlined as follows in this National Reform Programme:

1. Employment:

- 1a. to increase the employment rate of the population aged 20-64 years to 75%;
- 1b. to increase the employment rate of older people (20-64 years) to 65%;
- 1c. to increase the employment rate of older people (55-64 years) to 55%;
- 1d. to reduce unemployment among young people (15-24 years) by one third compared to 2010;
- 1e. to reduce unemployment among the low skilled (ISCED 0-2) by a quarter compared to 2010.

2. Poverty:

- 2a. to keep the number of people at risk of poverty, material deprivation, or living in jobless households in 2020 at the same level as in 2008;
- 2b. to reduce the number of people at risk of poverty, material deprivation, or living in jobless households by 30 000 ;

3. Education:

- 3a. a maximum dropout rate of 5.5%;
- 3b. 32% of persons aged 30-34 years with tertiary education.

4. Business environment:

- 4a. to reduce the administrative burden on businesses by 30% compared to 2005.

5. Science, research and innovation:

- 5a. public expenditure on science, research, development and innovation in the Czech Republic at 1% of GDP.



Appendix

Appendix I: Table Showing the Link of the National Reform Programme and International Competitiveness Strategy with the Priorities of Cohesion Policy

Europe 2020 Strategy targets	NRP Chapters	SMK Projects	Links to Cohesion Policy priorities (2014+ programme period)
-	III.1.1. Tax Reform and the Tax System	12 Competitive system	1. Improving the competitiveness of the economy including the quality and efficiency of public administration
-	III.1.2. Reform of Healthcare System and Social Health Insurance	15 Streamlining the financing of the health service 16 Streamlining the operations of the health insurance companies 17 Restructuring in-patient care in the Czech Republic	4. An efficient labour market, social inclusion, fight against poverty and development of health care
-	III.1.3. Fiscal Framework Reform	11 Budgets - transparent and sustainable public finances	1. Improving the competitiveness of the economy including the quality and efficiency of public administration
-	III.1.4. Effective Governance and the Fight against Corruption	1. Effective and efficient public administration 4. Higher quality and accessibility of regulation	
Efforts to achieve 75% employment for men and women in the 20-64 age group, inter alia through the greater involvement of young people, older workers and low-skilled workers and better integration of legal immigrants.	III.2.1 A Modern Social System and Labour Laws	25 Development of the labour market	1. Improving the competitiveness of the economy including the quality and efficiency of public administration
	III.2.2 Integration in the labour market	24 Work-life balance 28 Migration policy for qualified workers	4. An efficient labour market, social inclusion, fight against poverty and development of health care
Promote social inclusion, in particular through the reduction of poverty, by aiming to lift at least 20 million people out of the risk of poverty and exclusion.	III.2.3 Social Inclusion and Poverty Reduction	23 Changes in education content 25 Development of the labour market 29 Implementation and development of a life-long learning system	
	III.3.1. Improving the Quality and Availability of Preschool Education	20 Improving the Quality and Availability of Preschool Education	1. Improving the competitiveness of the economy including the quality and efficiency of public administration
Improving the level of education, in particular through reducing the dropout rate below 10% and increasing the proportion of people in the 30-34 age group with completed tertiary or comparable education to at least 40%	III.3.2. Systematic Improvements in the Quality of Education and Reform of the Education System	21 Changes to elementary and secondary education	4. An efficient labour market, social inclusion, fight against poverty and development of health care
	III.3.3. Higher Education Reform	22 Higher Education Reform	

-	III.4.1. Reducing Administrative and Regulatory Burdens for Businesses	33 Business environment:	1. Improving the competitiveness of the economy including the quality and efficiency of public administration
-	III.4.2. Institutional Support for Business Development	33 Business environment: 41 Inter-company cooperation	
-	III.4.3. Improved Access to High-speed Internet and the Development of eGovernment	3 Simplified access to public administration services 10 Implementation of the Digital Czech Republic policy	
Improving the conditions for research and development, in particular aiming to ensure that public and private investment in this sector reaches 3% of GDP in total.	III.5.1. Investment in R&D and Innovation and Evaluation of Outputs and Impacts	38 A framework for coordinating the development of an innovative ecosystem. 39 Environment for excellent R&D	
	III.5.2. Increase in the Innovation Potential of the Czech Economy	40 Development of cooperation between the business and R&D sectors 42 Foresight and technology areas of strategic significance	
A reduction in the emission of greenhouse gases by 20% compared to 1990 levels; an increase in the share of energy at end-user level from renewable sources of 20%; a shift towards improved energy efficiency of 20%	III.6.1. Increasing energy efficiency	9 State Energy Policy and Strategic Direction	1. Improving the competitiveness of the economy including the quality and efficiency of public administration
	III.6.2. Increasing the Proportion of Energy from Renewable Sources	9 State Energy Policy and Strategic Direction	2. Completion of backbone infrastructure
	III.6.3. Improving the Quality of the Environment and Reducing Greenhouse Gas Emissions	9 State Energy Policy and Strategic Direction	
-	III.7.1. Strategic Planning of Transport Infrastructure Development	6 Road transport 7 Rail transport 8 Air and water transport	1. Improving the competitiveness of the economy including the quality and efficiency of public administration
-	III.7.2. Ensuring Effective Financing for the Completion of the Backbone Network	6 Road transport 7 Rail transport 8 Air and water transport	2. Completion of backbone infrastructure 5 Integrated territorial development

Appendix II: Overview of Government Strategic and Conceptual Materials Related to the National Reform Programme

Initial Remarks

The following overview contains the most important conceptual documents approved by the Government or currently in course of preparation, containing measures used by the state to meet the targets of Europe 2020 Strategy. It is neither a complete nor an exhaustive overview. The complete list including deadlines for the submission of concept documents is contained in the approved Government Legislative Tasks Plan for 2012, the outlook for 2013-2014, as well as the Government Non-legislative Tasks Plan for 2012. The individual contributions to meeting the targets in the Strategy in question can also be found in a number of other documents. The list which follows contains only the principal materials. At the same time many of them, because of their horizontal nature, affect areas covered by more than one chapter of the National Reform Programme. In order to avoid unnecessary repetition, each document is referred to only once, for the first chapter in the NRP for which relevance can be claimed. This does not however mean that it has not also been taken into account in subsequent chapters. In particular a strong link can be observed between the introductory horizontal Chapter 11.2, which contains the context for the NRP, and Chapter III.4, which has led to an apparently reduced number of strategic documents adduced directly for Chapter III.4. The reason for this is the approach already given, as a result of which most of the relevant material is referred to for Chapter II.2.

Division by NRP Chapter

II. Context of Economic Policy

International Competitiveness Strategy for the Czech Republic 2012-2020 Administrator: Ministry of Trade and Industry of the Czech Republic
Macroeconomic Predictions for the Czech Republic (April 2012) Administrator: Ministry of Finance of the Czech Republic
Security Strategy of the Czech Republic Administrator: Ministry of Foreign Affairs of the Czech Republic
National Strategic Plan for Countryside Development 2007-2013 Administrator: Ministry of Agriculture of the Czech Republic
National Strategic Reference Framework for the Czech Republic 2007-2013 Administrator: Ministry for Regional Development of the Czech Republic
Territorial Development Policy of the Czech Republic Administrator: Ministry for Regional Development of the Czech Republic
Consolidated draft direction for future EU Cohesion Policy after 2013 for the conditions of the Czech Republic Administrator: Ministry for Regional Development of the Czech Republic
Strategic Framework for Sustainable Development of the Czech Republic Administrator: Ministry of the Environment of the Czech Republic
Economic Growth Strategy 2007-2013 Expert Study
Regional Development Strategy for the Czech Republic for 2007-2013 Administrator: Ministry for Regional Development of the Czech Republic

III.1. Consolidation of Public Finances

Convergence Reform Programme of the Czech Republic 2012 Administrator: Ministry of Finance of the Czech Republic
Long-term Programme to Improve the Health of the Population of the Czech Republic - Health for All in the 21st century Administrator: Ministry of Health of the Czech Republic
Action Plan for Patient Safety and Healthcare Quality for 2010-2020 Administrator: Ministry of Health of the Czech Republic
Efficient Public Administration and User-friendly Public Services - Strategy for the Implementation of Smart Administration for 2007-2015 Administrator: Ministry of the Interior of the Czech Republic
Proposal for medium-term expenditure frameworks for 2013-2015 Administrator: Ministry of Finance of the Czech Republic
Strategy for the Fight against Corruption for 2011 and 2012 Strategy for the Fight against Corruption for 2012 and 2013 Administrator: Office of the Government of the Czech Republic
Strategy for Improving Regulation 2007-2013 Administrator: Ministry of the Interior of the Czech Republic
Concept for Completing the Reform of Public Administration Administrator: Ministry of the Interior of the Czech Republic

III.2. A Functioning Labour Market and Social System as a Prerequisite for a Competitive Economy - National Employment Plan

The Concept of Support for the Transformation of Social Services into Other Types of Social Services Provided in the User's Natural Community Administrator: Ministry of Labour and Social Affairs of the Czech Republic
National Action Plan to Transform and Unify the Care of Vulnerable Children 2009-2011 Administrator: Ministry of Labour and Social Affairs of the Czech Republic

National Strategy for Protecting the Rights of Children Administrator: Ministry of Labour and Social Affairs of the Czech Republic
Action Plan for fulfilling the National Strategy for Protecting the Rights of Children 2012-2015 Administrator: Ministry of Labour and Social Affairs of the Czech Republic
National Policy to Support Families with Children Administrator: Ministry of Labour and Social Affairs of the Czech Republic
Development Priorities for Social Services Administrator: Ministry of Labour and Social Affairs of the Czech Republic
Housing Policy of the Czech Republic to 2020 Administrator: Ministry for Regional Development of the Czech Republic
Strategy for the Fight against Social Exclusion for 2011-2015 Administrator: Office of the Government of the Czech Republic
Strategy for the Prevention of Socio-Pathological Phenomena in Children and Young People within the Competence of the Ministry of Education for 2009-2012 Administrator: Ministry of Education, Youth and Physical Education of the Czech Republic
Strategy for Social Inclusion Administrator: Ministry of Labour and Social Affairs of the Czech Republic
Crime Prevention Strategy for 2012 to 2015 Administrator: Ministry of the Interior of the Czech Republic
National Plan for Creating Equal Opportunities for the Handicapped for 2010-2014 Administrator: Ministry of Labour and Social Affairs of the Czech Republic
The Mobility for All National Development Programme Administrator: Ministry of Labour and Social Affairs of the Czech Republic
National Strategy for Financial Literacy 2010-2015 Administrator: Ministry of Finance of the Czech Republic

Roma Integration Policy 2010-2013 Administrator: Office of the Government of the Czech Republic
National Programme of Preparation for Old Age 2013-2017 Administrator: Ministry of Labour and Social Affairs of the Czech Republic

III.3. Education as the route to competitiveness

Action Plan to Support Skills Training Administrator: Ministry of Education, Youth and Physical Education of the Czech Republic
The White Book - National Plan for Education Development in the Czech Republic Administrator: Ministry of Education, Youth and Physical Education of the Czech Republic
Long-term Plan for Education and Development of the Education System of the Czech Republic Administrator: Ministry of Education, Youth and Physical Education of the Czech Republic
Library Development Policy for the Czech Republic for 2011-2014 Administrator: Ministry of Culture of the Czech Republic
National Action Plan for Inclusive Education Administrator: Ministry of Education, Youth and Physical Education of the Czech Republic
Draft Policy for the Development of Information and Communication Technologies in Education for 2009-2013 Administrator: Ministry of Education, Youth and Physical Education of the Czech Republic
Strategy for Life-long Learning in the Czech Republic Administrator: Ministry of Education, Youth and Physical Education of the Czech Republic
Draft Plan of Activities for 2012 and 2013 for the State Policy Concept for Children and Young People for 2007 to 2013 Administrator: Ministry of Education, Youth and Physical Education of the Czech Republic

III.4. Business Support, Digitization and the Development of the Digital Market

Export Strategy of the Czech Republic for 2012-2020 Administrator: Ministry of Trade and Industry of the Czech Republic
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Policy for Supporting Small- and Medium-Sized Business 2007-2013 Administrator: Ministry of Trade and Industry of the Czech Republic
Plan for Reducing the Administrative Burden on Businesses Administrator: Ministry of Trade and Industry of the Czech Republic
Update list of measure and a report on progress to date on the Eco-Audit Project Administrator: Ministry of the Environment of the Czech Republic
National Strategy for Digitising Cultural Heritage 2011-2016 Administrator: Ministry of Culture of the Czech Republic
Report on the State of Implementing the International Competitiveness Strategy for the Czech Republic 2012-2020 Administrator: Ministry of Trade and Industry of the Czech Republic
Strategy for the Computerisation of Selected Public Administration agendas Administrator: Ministry of the Interior of the Czech Republic
Revision and Expansion of the State Policy on Electronic Communications - Digital Czech Republic Administrator: Ministry of Trade and Industry of the Czech Republic
Measures to Manage Economic Migration, Protection of Persons Migrating to Work, and Implementation of Repatriation Administrator: Ministry of the Interior of the Czech Republic

III.5. Support for growth based on research and innovation;

Analysis of the status of research, development and innovation in the Czech Republic and international comparison for 2012 Administrator: Office of the Government of the Czech Republic
Inter-departmental Policy for Security Research and Development in the Czech Republic up to 2015 Administrator: Ministry of the Interior of the Czech Republic

Update of the National Policy on Research, Development and Innovation of the Czech Republic for 2009-2015 Administrator: Office of the Government of the Czech Republic	National Action Plan for Energy from Renewable Sources Administrator: Ministry of Trade and Industry of the Czech Republic
National Priorities for Directed Research, Experimental Development and Innovation Administrator: Office of the Government of the Czech Republic	National Allocation Plan 2008-2012 Administrator: Ministry of the Environment of the Czech Republic
Proposed Allocation of Expenditure in the State Budget for Research, Experimental Development and Innovation for 2013, with an outlook for 2014 and 2015 Administrator: Office of the Government of the Czech Republic	Principal Watercourses Plan for the Czech Republic 2007-2012 Administrator: Ministry of Agriculture of the Czech Republic
Programme of Fundamental and Applied Research and Development and the Building of Centres of Excellence, Directed Specifically at Space Activities. Administrator: Ministry of Education, Youth and Physical Education of the Czech Republic	Waste Management Plan for the Czech Republic 2003-2012 Administrator: Ministry of the Environment of the Czech Republic
Framework Programme to Support Technology Centres and Strategic Services Centres Administrator: Ministry of Trade and Industry of the Czech Republic	Climate Protection Policy in the Czech Republic Administrator: Ministry of the Environment of the Czech Republic
	National Biodiversity Strategy of the Czech Republic Administrator: Ministry of the Environment of the Czech Republic
III.6. Support for a low-carbon, environmentally friendly competitive economy	State Energy Policy Administrator: Ministry of Trade and Industry of the Czech Republic
National Emissions Reduction Programme of the Czech Republic Administrator: Ministry of the Environment of the Czech Republic	State Environmental policy of the Czech Republic Administrator: Ministry of the Environment of the Czech Republic
Energy Efficiency Action Plan of the Czech Republic Administrator: Ministry of Trade and Industry of the Czech Republic	State Nature Conservation and Landscape Protection Programme Administrator: Ministry of the Environment of the Czech Republic
Biomass Action Plan for the Czech Republic 2009-2011 Administrator: Ministry of Agriculture of the Czech Republic	Raw Material Policy of the Czech Republic in the Field of Mineral Materials and Their Resources Administrator: Ministry of Trade and Industry of the Czech Republic
Health and the Environment Action Plan of the Czech Republic Administrator: Ministry of Health of the Czech Republic	III.7. Promoting Competitiveness by Improving Transport Infrastructure
Updated Support Programme for Environmental Technologies in the Czech Republic Administrator: Ministry of the Environment of the Czech Republic	Transportation policy for 2005 – 2013 Administrator: Ministry of Transport of the Czech Republic
Ministry of Agriculture Water Management Policy for 2011-2015 Administrator: Ministry of Agriculture of the Czech Republic	Revision and Update of the National Road Safety Strategy for 2008 – 2010 (2012) Administrator: Ministry of Transport of the Czech Republic



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