

Investing into European Competitiveness:

Contribution of the Czech Republic to Europe 2020 Strategy

National Reform Programme of the Czech Republic 2011

Courtesy translation



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I. Introduction

I.1. The Czech Republic and Europe 2020 Strategy

The National Reform Programme is the Czech Republic's contribution to the pursuit of the Europe 2020 targets set by EU Member States beyond the Union's competence in the voluntary coordination of economic policies. It is based on priorities defined by the political will of the Government. It also attempts to reflect the diverse interests resonating in society; to this end, during its preparation the document was frequently discussed with representatives of social partners, regional and local governments, academic stakeholders, and the National Economic Council.

In the production of the National Reform Programme, the Government respected the logic of the close interdependence of all measures both from the perspective of its reform priorities and in the context of the five basic targets of Europe 2020 strategy, the recommendations contained in the Europe 2020 strategy Integrated Guidelines and the European Commission's flagship initiatives.

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

1. to increase the employment rate of the population aged 20-64 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%, increase the proportion of energy from renewable sources in the energy mix to 20%, and reduce in CO₂ emissions by 20% with a possible increase in the reduction target to 30% (if other economically developed countries commit themselves to comparable emission controls and the more advanced developing countries are adequately involved in this effort);
4. to increase the number of people aged 30-34 years having completed tertiary education from the current 31% to at least 40%, and reduce the number of students dropping out of the education system from the current 15% to below 10%;
5. to promote social inclusion, in particular through the reduction of poverty, by aiming to lift at least 20 million people out the risk of poverty and exclusion.

Therefore, these targets constitute the joint political commitment of Member States of the European Union; their joint coordination of economic policies is aimed at achieving these targets. This commitment applies to all Member States and that is how the individual quantified targets should be grasped. Each State, therefore, taking into account the starting position of its economy, sets its own targets and priorities the achievement of which it considers to be a specific contribution to the common targets.

When setting their own national priorities and the overall format of their National Reform Programmes, Member States take into account the Integrated Guidelines and recommendations:

1. Ensuring the quality and the sustainability of public finances;
2. Addressing macroeconomic imbalances;
3. Reduce imbalances in the euro area;
4. Optimizing support for R&D and innovation, strengthening the knowledge triangle and unleashing the potential of the digital economy;
5. Improving resource efficiency and reducing greenhouse gases;
6. Improving the business and consumer environment and modernizing the industrial base;
7. Increasing labour market participation and reducing structural unemployment;
8. Developing a skilled workforce responding to labour market needs, promoting job quality and lifelong learning;

9. Improving the performance of education and training at all levels and increasing participation in tertiary education;
10. Promoting social inclusion and combating poverty.

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

Beyond the jointly identified targets and recommendations, in the implementation of national programmes States also reflect structural barriers to higher economic growth momentum as specified for each Member State by the Council (these were identified for the Czech Republic by the EU Economic and Financial Affairs Council at its meeting on 8 June 2010 – see the following subsection below), as well as the European Commission's recommendations contained in the annual growth report.

The national targets set by the Government in the framework of Europe 2020 strategy implementation at the State level take into account the above targets and recommendations, as well as the analyses and strategy documents prepared by the Government (cross-cutting documents include the Government's Policy Statement, the Strategic Framework for Sustainable Growth, the Czech Competitiveness Analysis and a number of other key documents listed in the Annex) and discussions with social and regional partners and representatives of other relevant institutions. The Government pushed for an approach that would be as realistic as possible, reflecting the potential of the domestic economy, national budget resources and constraints linked to its term of office. In order to make a concrete contribution to the European targets, it sought to determine quantified indicators to accompany the quantified European targets (which, incidentally, cannot be viewed as anything other than growth indicators). In some cases, however, with regard to these factors and their credibility, quantified indicator targets were not set, with the Gov-

ernment preferring to outline priority trends in the given area instead.

The National Reform Programme includes the Government's priorities and respects the competences of public authorities in the Czech constitutional system, including the division of powers between the State and lower self-governing units. In view of the fact that the European Union respects the constitutional traditions of Member States, the Czech Government cannot set the development priorities of its regions or municipalities. However, the National Reform Programme also aims to reflect the regional dimension of economic policy, especially with regard to the future of the cohesion policy. Primarily, however, it focuses on priorities within the competence of the Czech Republic's central government authorities. These are government priorities also falling, in many respects, within the sphere of legislation and are therefore subject to the approval of the legislature. Since the programme itself is a conceptual rather than a legislative document and is not subject to parliamentary approval, the measures it mentions should be viewed as the Government's policy targets. In the National Reform Programme, the Government merely sets out the reform paths it intends to follow in the coming years as a body of executive power.

Although the Reform Programme aims to achieve indicators set jointly at EU level, the measures contained in it are more broadly conceived with regard to the targets of the structural consolidation of public expenditure and, in particular, an increase in the long-term competitiveness of the Czech economy. The reinforcement of competitiveness respecting the principles of social solidarity that typify the tradition of a modern European State is the main motto of the Czech first National Reform Programme under the flag of Europe 2020 strategy.

The structure and focus of reform measures to strengthen the growth potential of the Czech economy are in keeping with the basic background of the Strategic Framework for Sustainable Development, and are thus one of the starting points into which the Czech Republic

should channel funds from the EU's future cohesion policy. The successful achievement of the cohesion policy targets necessarily presupposes a stable environment and consistency in the medium-term sectoral and regional development strategies and programmes. Various ministries are currently preparing fundamental documents, including a Strategy for competitiveness, the concept of pension reform, and the preparation of national development priorities for Cohesion Policy 2014+, etc. From this perspective, the National Reform Programme is a central document where the front lines of reform within individual sectors of central government policy in the spheres of economic growth, competitiveness and employment overlap or, in the future, will run into each other.

The National Reform Programme sets out the main principles of reform measures, while concrete steps and detailed proposals will include strategic documents prepared in different areas by relevant competent government authorities. The Programme provides a framework concept for the entire period up to 2020. To accelerate the growth-enhancing measures, the reform steps have been planned so that the most serious and most radical reforms take place in the first half of the 2010–2020 decade, with 2015 being the benchmark year. The National Programme will be updated annually within the scope of the so called “European Semester” to reflect the progress in the pursuit of Europe 2020 strategy targets at European level, the headway made in the Czech Republic and, of course, the developments in the Government's policy priorities as identified in the democratic decision-making process.

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

The breakdown of the chapters of the National Reform Programme is based on key areas for the promotion of competitiveness, taking into account the obstacles to economic growth in the Czech Republic identified by the EU's Eco-

nomical and Financial Affairs Council at its meeting on 8 June 2010:

1. High structural deficits and the long-term sustainability of public finances;
2. The continuing structural weaknesses in the labour market;
3. Continued barriers to business and a lack of efficient public administration and legal framework;
4. Lack of economic diversification resulting from a lack of support for innovative capacity and corporate research and development;
5. Low labour productivity due to inadequate knowledge and skills.

Further to the conclusions of the European Council of 17 June 2010, that list was supplemented by another major obstacle identified at national level:

6. Inadequate backbone transport infrastructure network.

During the preparations of the Reform Programme, the above obstacles were used to define the seven themes and their corresponding chapters, creating a coherent and internally consistent whole:

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

Each of these chapters has several subchapters. Each chapter, taken as a whole, is the responsibility of a single ministry (regardless of whether various measures in the chapter fall within the remit of several ministries). The role of coordinator of the preparation and implementation of the National Reform Programme as a whole has been assumed by the Office of the Government.

The Committee on the EU (at both working and government level) and a subgroup of the ministerial coordination group of the Office of the Government on Europe 2020 strategy will be used in particular as platforms for talks with the coordinators of individual areas. Individual ministries also use their own structures to discuss important policy materials.

The implementation of the National Reform Programme and the implementation of Europe 2020 strategy will be regularly tracked and monitored annually in cooperation with the European Commission according to jointly agreed methodology. Every year, the National Reform Programme will be updated (if necessary), approved and, by end of April, referred to the European Commission for an assessment of its macroeconomic and structural measures. The Government also approaches the Programme in the knowledge that this is a sphere outside the competence of the EU and is only coordinated within the framework of the “open method of coordination”. The Government views the role of EU institutions in that context, and is aware of the full and exclusive responsibility of national authorities of political power in determining the priorities and targets of national economic policy.

Although, at the time of submission of the National Reform Programme, the Czech Republic was not involved in the Euro Plus Pact, the Czech Government has not ruled out participation in the future. A number of measures contained in the National Reform Programme are, in fact, entirely consistent with the Pact’s recommendations, as pointed out by this document in the specific relevant parts.

I.3. Links between the National Reform Programme and the Government’s Competitiveness Strategy Documents

The content of the National Reform Programme is consistent with the Czech Government’s other competitiveness strategy documents. In particular, these include the Czech Competitive Analysis prepared by the Ministry of Industry and Trade in 2010, which is to be followed up by the Czech International Competitiveness Strategy, planned for submission in June 2011. It also offers coherence with the Competitiveness Strategy Framework presented by the National Economic Council in March 2011.

These strategy documents are based on the methodology of the World Economic Forum, which publishes an annual Global Competitiveness Index composed of 12 competitiveness pillars (factors). These pillars of competitiveness are:

1. Institutions;
2. Infrastructure;
3. Macroeconomic environment;
4. Health and basic (i.e. primary and lower secondary) education;
5. Higher education and training;
6. Goods market efficiency;
7. Labour market efficiency;
8. Financial market development;
9. Technological readiness;
10. Market size;
11. Business sophistication;
12. Innovation.

The Government considers assessments of progress in these 12 pillars to be significant in terms of achieving the international competitiveness of the State. Accordingly, the National

Reform Programme is methodically embedded in this global competitiveness evaluation framework and, in its subchapters, refers to the interdependence of reform measures and the relevant assessment pillars of the World Economic Forum.

**II. Context of Economic
Policy**

II.1. Macroeconomic Developments in the Czech Republic

The global economic recovery remains subject to many uncertainties. The main sources of risk for the Czech Republic are connected to the economic state of public budgets and the situation in the banking sector in some euro area countries.

GDP grew in 2010 by 2.3%. Due to fiscal consolidation measures, a moderate slowdown economic growth (1.9%) is projected in 2011. Growth this year should be driven mainly by foreign trade and to a lesser extent by gross capital formation. We expect GDP to increase by 2.3% in 2012; in subsequent years, economic growth should accelerate, reaching 4.0% in 2014.

Growth in consumer prices for 2011 is expected slightly above 2%, i.e. very close to the

CNB's inflation target. The inflation rate in 2012 and 2013 will be substantially affected by the planned VAT modifications; in 2014, consumer prices should correspond to the inflation target.

We expect the labour market situation to improve gradually. After two years of decline, employment should increase by 0.2% in 2011 and by 0.5% in 2012. In subsequent years, employment should grow only slightly faster. The unemployment rate should stand at 6.9% this year and decrease gradually to 5.5% in 2014. After two years of stagnation, the wage bill should increase by 2.1% this year. In subsequent years the wage bill should rise more dynamically - in accordance with nominal GDP developments - to almost 6% in 2014.

Although the current account to GDP ratio should remain at a sustainable level, the forecast is subject to a greater degree of uncertainty associated with the data revision for the years 2009 and 2010.

Table: Key macroeconomic indicators

		2007	2008	2009	2010	2011	2012	2013	2014
					<i>Prelim.</i>	<i>Forecast</i>	<i>Forecast</i>	<i>Outlook</i>	<i>Outlook</i>
Gross domestic product	<i>level, current prices</i>	3535	3689	3626	3670	3718	3904	4095	4335
Gross domestic product	<i>increase in % const.pr.</i>	6,1	2,5	-4,1	2,3	1,9	2,3	3,3	4,0
Consumption of households	<i>increase in % const.pr.</i>	5,0	3,6	-0,2	0,5	0,7	1,9	3,3	4,2
Consumption of government	<i>increase in % const.pr.</i>	0,5	1,1	2,6	0,3	-3,4	-2,5	-1,3	0,1
Gross fixed capital formation	<i>increase in % const.pr.</i>	10,8	-1,5	-7,9	-4,6	0,7	3,2	5,6	7,2
Contribution of foreign trade to GDP growth	<i>p.p., const.pr.</i>	1,1	1,3	-0,6	1,0	1,8	1,1	0,6	0,2
GDP deflator	<i>increase in per cent</i>	3,4	1,8	2,5	-1,1	-0,5	2,7	1,6	1,8
Average inflation rate	<i>per cent</i>	2,8	6,3	1,0	1,5	2,1	3,2	1,5	2,0
Employment (LFS)	<i>increase in per cent</i>	1,9	1,6	-1,4	-1,0	0,2	0,5	0,6	0,7
Unemployment rate (LFS)	<i>average in per cent</i>	5,3	4,4	6,7	7,3	6,9	6,5	6,1	5,5
Wage bill (domestic concept)	<i>increase in %, curr.pr.</i>	9,4	8,7	0,0	0,1	2,1	4,4	4,9	5,9
Current account / GDP	<i>per cent</i>	-3,2	-0,6	-3,2	-3,8	-4,0	-3,4	-3,6	-4,1
	<u>Assumptions:</u>								
Exchange rate CZK/EUR		27,8	24,9	26,4	25,3	24,1	23,5	22,8	22,2
Long-term interest rates	<i>%p.a.</i>	4,3	4,6	4,7	3,7	4,1	4,3	4,0	4,0
Crude oil Brent	<i>USD/barrel</i>	73	98	62	80	95	96	97	93
GDP in Eurozone (EA12)	<i>increase in % const.pr.</i>	2,8	0,4	-4,1	1,7	1,7	2,0	2,3	2,3

Source: Ministry of Finance, April 2011

II.2. Competitiveness as an Objective of Czech Economic Policy

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

Europe 2020 strategy 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 individual EU institutions and Member States in the preparation, monitoring and the adoption of measures for the realization of the common targets. Consensus on targets and indicators at EU level is a key principle of joint coordination. Meanwhile the Member States are free to choose the method 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 of the functioning of the European Union and its preservation is in the interest of all Member States.

At the same time, however, this diversity places increased demands on the possible form of economic coordination. In view of the fact that such coordination under Article 121 of the Treaty on the Functioning of the EU does not fall within the EU competences where it is possible to use the method of legislative harmonization, the democratically legitimized political will of governments and national parliaments of Member States continues to play a key role here.

The aim of Europe 2020 strategy is therefore not to establish common procedures and measures to achieve agreed targets, but to allow States, on the basis of their own political will and in accordance with the objective conditions of their economies, to shape systems for their economic policies so that the resulting effect attained at EU level is not centrifugal, but synergistic. In this respect, jointly established targets constitute the limits within which States should

remain and to which they should adapt their policies without having to surrender the democratic formation thereof in line with 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 strategy and as a framework built on trends in domestic economic policy for the coming years. Nevertheless, the actual form of this policy, including strategic decisions on partial measures, cannot be determined by the National Reform Programme, as it is not intended to be the main normative conceptual document at national level, but a Czech contribution to coordination at transnational level.

The Czech Republic believes that the main purpose of Europe 2020 strategy lies in joint efforts 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 outlined its National Reform Programme in accordance with the principal objective of the sustainable competitiveness of the EU. A prerequisite is the unleashing of the full potential of the internal market, representing the cornerstone of the European integration project. Therefore, the Government also drew up its National Reform Programme for 2011 under the motto "Investing for European Competitiveness".

II.2.2. Export and Industry as a 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 highly dependent on the international division of labour, on external economic relations and on the economic growth of those countries to which the overwhelming majority of Czech exports are headed (with Germany and the Czech Republic's other neighbours topping

the list). Competitiveness and economic growth in these States is hence a prerequisite for the growth of the domestic economy.

The Czech Republic's accession to the European Union has increased export links with those European economies with which we enjoy a highly active trade balance even more. In this light, cardinal issues to maintain the competitiveness of the Czech economy are the proper functioning of the internal market and the removal of remaining barriers.

The Czech economy's pro-export focus is related, inter alia, to the dominant role of industry in the domestic economy. With 37.1% of employees working in industrial sectors, the Czech Republic is a heavily industrialized country (the EU average is 24%). While these developments were aided by the recovery in the first half of the past decade, this orientation of the Czech economy continues to be regarded as an objective determinant for the coming years. Industry is also a branch in which long-term productivity growth can be observed in the Czech Republic; the same cannot be said of the service sector, although even there is potential for the future. Bearing in mind the Czech Republic's inclination towards exports, its favourable geographical location, and the focus of neighbouring economies, the Czech industry has the potential to find outlets in European and world markets. Simultaneously, in order to maintain or strengthen its competitiveness in the future, it is essential to provide strong backing for the transition to more sophisticated production by drawing on innovations and new technologies.

Czech exports should also branch into services with high added value. Here, the main task is to establish an institutional framework and create conditions conducive to the tapping of this potential.

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

National economic policy cannot, of course, be merely the result of functional needs arising from objective factors. The legitimate will, shaped by political, democratic procedure, plays a key role. This will 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 other values. The specific focus of economic policy will therefore always be based on specific normative conditions resulting from the political agendas of parties competing in democratic elections. A logical connection based on the principle of rationality should exist among objective factors and the subjective will of the political entity – the people – as articulated through elected representatives.

Reflecting this situation, the National Reform Programme incorporates trends combining objective conditions and the imperatives of political will; these establish the limits of the Programme, which must respect the Government's policy statement and the Government's political consensus on significant issues. At the same time, however, the Programme should reflect the 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 strategy

In light of the above objective and subjective determinants, several key priorities can be set as the basis for strategic guidelines and concrete measures of national policy in the upcoming period.

Business competitiveness

The underlying priority, based on the above concept of Europe 2020 strategy, 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 here, as defined by the Organization for Economic Cooperation and Development, can be grasped as the ability to produce goods and services which can withstand international competition while maintaining or increasing real GDP. At the same time, it can be viewed as part and parcel of a deeper objective, in particular a sustainable increase in the living standards of citizens, as individuals stand alongside businesses as a key factor when measuring the competitiveness of the economy.

This concept of competitiveness is the result of both immutable objective factors and of the activities of public authorities, which in the case of the Czech economy can be divided into state 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.

Central government measures, besides increasing the efficiency of public administration itself, should primarily be geared towards support for the competitiveness of domestic enterprises on both a European and worldwide stage. Here, it is necessary to reflect the fact that most companies operating in the Czech Republic are in the hands of foreign investors, and as such a favourable business environment needs to be nurtured which is open to foreign investment and its long-term retention in the Czech Republic.

With regard to the principles of the social market economy espoused long term by the Czech Republic, limits arising out of respect for elements of social solidarity, the guarantee of minimum living standards and social security for

workers need to be taken into account. From this point of view, although numerous measures can be taken to improve price competitiveness, the main *raison d'être* of the Czech economic policy should be to promote non-price competitiveness based on certain objective factors of the structure of the Czech economy.

Export promotion

As already noted, in the upcoming decade the Czech Republic will remain an export-oriented economy. In terms of sectoral distribution, engineering, representing more than half of all Czech exports (54.2% in 2009) will continue to be a key sector. Therefore, government policy should not allow state intervention to jeopardize this sector and employment here; rather, in the future it should continue aiming to promote growth conditions for this sphere in particular.

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

Although most Czech exports are headed for European markets (see below), the State should strive to increase the attractiveness of other foreign markets, especially among small and medium-sized enterprises. Aside from EU exports, there is still considerable untapped potential in the Czech economy, even in comparison with other EU Member States. In particular, Southeast Asia, including China, and Latin America are areas where Czech exports can clearly be promoted, which would improve the trade balance. The specific markets of third countries where the State's priority support should be focused will be identified, inter alia, in the updated Export Strategy and International Competitiveness Strategy of the Czech Republic.

Industrial policy

The essence of industrial policy lies in a system of State measures in the economic sphere focusing on cooperation between the public and private sectors with a view to developing new technologies and industrial production. This policy is also a priority area for the European Union under Europe 2020 strategy, as evidenced by the European Commission's pivotal initiative "Industrial Policy for the Globalization Era". Within the scope of the Czech Republic's national priorities, in light of the role played by the industrial sector in the Czech economy, this part of the strategy should be regarded as fundamental.

Measures by the State or public authorities can aim to underpin various industry bodies and sectors and influence the overall structure of this segment. However, the aim of all measures must be to promote competitiveness. In this respect, individual steps must not interfere with free competition, even in a European context, discriminate against taxpayers and consumers, or result in overall imbalances distorting market principles.

With regard to the constraints arising from the European model of a social-market economy, it is necessary to focus primarily on those areas where Czech industry can maintain its competitive advantage in the future. These include, in particular, a ready, educated and skilled workforce meeting the needs of industry, good transport, communication and energy infrastructure, and technological support. The industrial sector is currently the main driver of innovation potential.

The economic crisis of recent years has shown how sensitive industrial sectors are throughout Europe. The greatest degree of stability is in production, where maximum support must be concentrated in the future. This area should be promoted with regard to the key priorities of intelligent, socially integrating and sustainable growth. Nevertheless, the production cycle needs to be monitored throughout the value chain. This also applies to energy intensity,

where the complexity associated with transport and other infrastructure, the extraction of raw materials, subcontracting and subsequent recycling should be taken into account, regardless of geographical distribution. Then the negative implications of, for example, relocating production, which are subsequently reflected in other parts of the value chain, will become more evident.

To promote industry, the Government will continue to place an emphasis on supporting small and medium-sized enterprises, on links with the active employment policy, and on research and development. At the same time, however, the real opportunities available to the Czech economy and the consequences of its geographical position need to be borne in mind.

Support for the development of the internal market and small and medium-sized enterprises

In view of the fact that 85% of Czech exports are made to the EU's internal market, it is in the State's priority interest for the internal market to function as smoothly as possible. In this area, the EU shares competence with its Member States, and therefore it needs to be included in the National Reform Programme. Further support for the development of the internal market is a domestic priority of the Czech Republic aimed at increasing competitiveness and fulfilling the targets of Europe 2020 strategy.

As part of its European policies, the Government will therefore seek to remove barriers and open those sectors not yet liberalized, which poses a problem for small and medium-sized enterprises. The Government will promote initiatives aimed at improving the business environment, identified, for example, in the Monti Report and specified by the Commission's Communication on the Single Market Act and by the Small Business Act. The Czech Republic will continue to regard the internal market as one of the main instruments of European competition policy which should not be overshadowed by

alternative concepts. At the same time, the external dimension of the internal market should not be overlooked; here, the Government (e.g. in negotiations on the Single Market Act) will continue to support the elimination of barriers in international trade via the negotiations of EU institutions within the World Trade Organization.

Support for small and medium-sized enterprises, which play an important role in creating new jobs and, given their importance to the economy, have a significant impact on the overall economic and, by extension, social development of countries and regions, will remain a priority of the Government's economic policy in the future.

Reduced labour costs

One of the problems of the Czech economy is the high effective tax on labour, which leads to high labour costs, thereby adversely affecting price competitiveness. Over the last decade, the exchange rate has appreciated considerably and wages have risen, which, while having a positive impact on domestic demand, has had adverse effects on the global competitiveness of Czech products due to the sustained growth in labour costs. Compared to the services sector, the competitiveness of which has stagnated (although it is worth noting that this is a sector with long-term sound potential for growth and competitiveness), the manufacturing industry has proved best at responding to external influences (the economic crisis) and adapting its labour costs to productivity and external conditions.

In this regard, one of the targets of economic policy should be to reduce, in particular, non-wage labour costs in industrial sectors. The tax reform should steer the tax burden to the sphere of consumption, and, in parallel, labour taxation should be reduced. For the same reason, it would be inexpedient to make a unilateral hike in corporation tax without reducing the effective tax on labour, because this taxation is also reflected in labour costs.

Measures to increase productivity and to maintain a balance between wages and labour productivity also need to be made in other areas.

Development of the business environment and an effective institutional basis for the development of non-price competitiveness

Besides the possibility of directly influencing price competitiveness through labour costs, it is also necessary to support various steps leading to an increase in non-price competitiveness. In particular, attention needs to be paid to the quality of the institutional basis. The State's central policy should not be the mechanical contraction of the State sector, but also a change in its structure to better reflect the demands of the economy. State administration must be efficient, effective and better mutually coordinated. It is necessary to eliminate redundant costs resulting, for example, from the duplication of agendas, and to reduce opportunities for corruption.

State policy must be based on the premise that the only way to achieve long-term economic stability is to increase competitiveness. However, this is not limited simply to budgetary austerity measures. Much more necessary than a mere reduction in public resources is the reform of the individual areas where these funds are spent. In the context of public spending, a major emphasis must remain on public investment for the development of the business environment, including more effective support for science, research, innovation and the transport infrastructure, including with regard to the key role played by EU cohesion policy in this area.

In the support of institutions, attention should also be focused on educational and training institutions. Instead of blanket support based on student numbers and rather than focusing on the total number of students holding a secondary-school graduation certificate or a degree from higher education institution, the spotlight needs to be trained on the structure of

fields of study. Rather than numbers of pupils and students, priority must be given to the quality of education, as, from this point of view, a simple increase in university-educated people cannot benefit the economy if graduates study fields which have no connection with labour market demand. The inefficient financing of such education increases the costs incurred by the public and private sectors.

It is therefore necessary to adjust policy in the structure of educational institutions to market demand, although this must not result in the complete elimination of fields that are “not worth it” economically; rather, the number of students studying such fields must correspond to social needs and interests while taking account of the resources of the State and regions. More support needs to be concentrated on fields where skill shortages can be identified. In this context, attention also needs to be paid to the sphere of vocational education (or apprenticeships), with regard to the industrial nature of the Czech economy. The lifelong learning and retraining of lone traders and other groups, especially in regions with high unemployment, should not be neglected either.

Support of legislation for a competitive economy

Besides the institutional background, there should be a greater focus on the possibility of amending legislation to provide greater flexibility in the labour market and streamline the market in services and goods. The most important legal provisions need to be concentrated into codes that are comprehensible to ordinary citizens.

The priority must be to adopt a new Civil Code and to ensure consistent regulation, along with the upgrading of related legislation, such as the Labour Code. A key role in business development will be played by the modernization of the Commercial Code, aimed at promoting the principle of contractual freedom under the constraints of mandatory regulation.

Measures expanding labour market integration capacity must be enforced in legislation. Without losing sight of the best interests of the child, it is necessary to simplify the conditions for the establishment of childcare facilities. Fiscal measures and changes in social legislation can foster a greater sense of individual responsibility for improving one’s own social situation, including the motivation to enter the labour market.

Support of industry based on research and innovation

As mentioned above, industry plays a strong role in the Czech economy. State priorities in sectoral policies (support for science, research and innovation, and the promotion of energy education) need to be adapted to this. As the capacity of public finances is limited, priority interests need to be identified, even in those areas benefiting from strong State support.

The innovative potential of the Czech economy lies mainly in industrial production and services with high added value; the policy for the promotion of innovation, research and development should also reflect this. In these areas, the driver must be the private sector, accompanied by a properly-conceived national and regional policy.

Adequate support should continue to be channelled into primary research, which is the basis for further scientific progress and the development of industrial research. Nevertheless, the majority of public spending must constitute investment in competitiveness. Even in scientific fields not directly connected to usable outputs, priority must be given to those fields, institutions and scientists capable of competing internationally. Also, in terms of the number of students and institutional research capacity, quality must take precedence over quantity.

II.2.5. Public Investment from Aid under the EU Cohesion Policy: a Crucial Element in Enhancing Competitiveness

Public investment carried out thanks to the strong cohesion policy could be an important contribution to the fulfillment of Europe 2020 strategy for the Czech Republic. Therefore, the Government will take a very careful approach to debates on the future of the cohesion policy after 2013 and to the formulation of national development priorities and the creation of related operational programmes under the cohesion policy in the next programming period (2014–2020).

Government priorities under the future cohesion policy

The Government regards the cohesion policy as a tool contributing to inclusive, but also smart and sustainable growth. The future of the cohesion policy in the next programming period will be discussed in this light.

While the priorities of the Europe 2020 strategy are thematic and defined by a top-down approach, the focus of the future cohesion policy must reflect the wider needs of Member States and regions, cities and municipalities emerging from their analytical and strategy documents (a bottom-up approach). In this regard, the National Reform Programme is worded more broadly than the targets of Europe 2020 strategy. On the other hand, due to the clear division of competencies between the State and local government bodies, resulting from the constitutional order of the Czech Republic, the National Reform Programme approved by the Government can neither replace nor incorporate strategic plans decided by regions, cities and municipalities according to their needs and according to the democratically legitimized political will articulated at the relevant level.

The resulting focus of future cohesion policy in the Czech Republic must be the intersection

of transnational, national, regional and local (municipal) priorities, and must therefore reflect decision-making processes in the formation of interests in all three spheres. The Czech Republic is currently drafting development priorities for the focus of the future cohesion policy, which the Government will approve after following discussions with social and regional partners. The National Reform Programme is one of the bases used to determine development priorities. The designation of development priorities will also reflect other strategic and analytical documents prepared by the Government, regions, cities and municipalities so that, in July 2011, the “Draft Summary Focus of the Future EU Cohesion Policy after 2013 in the Czech Republic”, which will also include the draft development priorities, can be submitted to the Government. The development strategy contained in the National Reform Programme will form the basis for the further elaboration of priority areas in the document.

Priorities of the regions, cities and municipalities in the future cohesion policy

Priorities of the future cohesion policy will be formulated in close cooperation with regions and municipalities. Regionally and locally identified priorities can be viewed as a complementary element to the national priorities contained in the National Reform Programme and other strategy documents adopted by the Government. Regional and local priorities follow up on them in accordance with local needs and the competencies of local government bodies. In this respect, they will also reflect matters falling within spheres such as the culture, tourism, the promotion of social and public services, local and regional transport infrastructure and the completion of environmental infrastructure. The fulfilment of these priorities may ultimately be viewed as a contribution to the competitiveness of an economy based on the principle of sustainable growth, continuous improvement of living standards, and environmental quality.

II.2.6. Contribution of the Common Agricultural Policy

Besides the cohesion policy, the Czech Republic's increased competitiveness will also benefit from support under the Common Agricultural Policy (CAP), particularly with regard to increasing the competitiveness of agriculture, forestry, the food industry and, to some extent, tourism and business in rural areas. CAP-based investment in renewable energy also contributes to the targets of the Europe 2020 strategy.

III. Czech Reform Measures

III.1. Consolidation of Public Finances

Introduction

Public finance in the Czech Republic suffer from chronic structural deficits, also even during the growth period. The recent recession has thus emphasized the need for structural reforms and internal consolidation even more. A reduction in structural deficits, along with the reform of healthcare system and pensions, is a necessary condition for ensuring the long-term sustainability of public finances and thus the competitiveness of the Czech Republic.

The Government's medium-term objective is to balance a general government balance in 2016. In 2013, the deficit should fall below 3% of GDP and then gradually decrease to the medium-term objective. The outlook for balances, based on the ESA 95 concept, is shown in the following table:

in % of GDP	2011	2012	2013	2014
General government balance	-4,2	-3,5	-2,9	-1,9

Source: Ministry of Finance

Core reform goals

The sustainability of public finance is essentially an overarching objective which must 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 information on the budgetary impacts of the reforms described here is contained in the April 2011 update of the Convergence Programme of the Czech Republic.

There are several areas where it is necessary to carry out in-depth reforms precisely in order to reduce their budget demands in the long term, especially the pension and healthcare systems, which is where the adverse consequences of population aging will be reflected most.

At the same time, it is advisable to implement consolidation measures on the revenue side so that the tax system becomes simpler, less administratively demanding, and transparent, and so that the competitiveness of the domestic economy is either maintained or enhanced. It would also be appropriate to make legislative arrangements to ensure that government expenditure is correlated to revenue in the future.

An important condition of budgetary discipline is the effective functioning of State administration in the handling of public funds. In particular, there must be more transparency, and reform measures must be taken to combat corruption and waste. An effective anti-corruption strategy is a *conditio sine qua non* in relation to all other public expenditure reforms.

The Government intends to continue expenditure-cutting measures motivated not solely by the desire to cut spending, but also in an attempt to launch sustainable growth based on the promotion of competitiveness. The aim is therefore primarily to structure public expenditure properly so that public investment further strengthens competitiveness.

In this respect, reforms cannot consist solely of budgetary cuts; in particular, there must be pro-growth measures, including the creation of quality conditions for business and development.

III.1.1. Pension Reform

III.1.2. Reform of Healthcare System and Social Health Insurance

III.1.3. Tax Reform and the Tax System

III.1.4. Fiscal Framework Reform

III.1.5. Effective Governance and the Fight against Corruption

III.1.1. Pension Reform

In July 2010, in its Policy Statement, the Government of the Czech Republic committed itself to implement pension reform. Simultaneously, in accordance with Finding of the Constitutional Court No 135/2010, it had to make changes to the pension system (an amendment to Act No 155/1995) to mitigate the relative disadvantages faced by high-income groups in the calculation of the retirement pension.

The “small” pension reform has been approved by the Government and will be implemented during 2011. The “large” pension reform, overhauling the entire pension system, will come into force in 2013. The strategy, on which specific legislative changes will be based, has been prepared.

Concrete reform priorities

1. “Small” pension reform

Further to a finding by the Constitutional Court (CC), the following measures will shortly be implemented in the pension insurance system:

- A change in the equation for calculating pensions: the strengthening of the merit system for higher income groups;
- A change in the indexation method: elimination of the possibility for the Government to decide on higher indexation than that provided by law;
- Unification of the retirement age for all system contributors and an increase in the pace at which the retirement age is being raised for women (to six months per year) until the same retirement age as that for men is reached;
- A continued increase in the retirement age at the current pace (by two months per year) without no specific target set;

- An extension to the reference period for the calculation of retirement pensions to a whole-life term.

2. “Large” pension reform

In an effort to respond to demographic change and adapt the architecture of the social security system to these developments, the Government will propose pension reform relying on the following key principles:

- The possibility of a voluntary decision to redirect part of the contributions (3% of the basis of calculation) to the second pillar, subject to an increase in payment by a further 2% of the basis of calculation, without the option to change this decision;
- Contributors will be able to choose up to 35 years of age. Contributors who are older than 35 years at the time of the reform will have the opportunity to make a decision within six months;
- The option to increase the income of parents who are old age pensioners by 1% of the basis of calculation for contributions.

Implementation on the government level

The “small” pension reform should be effective as of 30 September 2011 pursuant to Act No 155/1995 on pension insurance and an amendment to Act No 589/1992 on social security. In accordance with the timetable proposed for the “large” pension reform, planned for launch on 1 January 2013, the Government will submit a draft Pension Savings Act and new pension scheme legislation, planned for approval in 2012.

Key changes proposed under pension reform are beyond the timeframe of Europe 2020 strategy and their impact on the budget depends on the solution chosen, the parameters of which have yet to be decided. The cost of transformation will be covered primarily from the unification of VAT rates. At the same time, the future settings in the PAYG pillar should strengthen the long-term balance the sustainability of the sys-

tem. The stability of the macroeconomic environment is the third pillar of competitiveness according to World Economic Forum methodology.

Consistency of measures with the targets of Europe 2020 strategy

Measures under the “large” pension reform are closely linked with Recommendation 1 of the Integrated Guidelines from 2010. Although the fiscal position will worsen in the period up to 2020, in the longer term pension reform will support the sustainability of the pension system (impending deficits exceeding 4% of GDP due to the absence of reform should be reduced to 0% to 1% of GDP after 2060).

Measures under the “small” pension reform are also in keeping with Recommendation 7 of the Integrated Guidelines as they gradually unify and increase the retirement age for men and women. This will go some way to restricting the possibility of leaving the labour market at a significantly lower age than 60 years and will thus contribute to a desirable increase in the participation of persons who are over 55 years old in the labour market.

Finally, measures under the “small” pension reform could help to reduce poverty among women by increasing the pace at which the retirement age for women is raised. Later retirement also means a longer period of insurance (longer involvement in the labour market), for which a higher pension is granted. Therefore, the measures also meet Recommendation 10 of the Integrated Guidelines.

The reform measures are also in full compliance with a core initiative of the European Commission – the European Platform against Poverty.

By taking into account national demographic trends and limiting the opportunities for early retirement, these measures are also fully consistent with the recommendations of the Euro Plus Pact as regards the sustainability of public finances.

III.1.2. Tax Reform and the Tax System

Tax system reform is essential for the long-term sustainability of public finances. The principal aim will be to make various adjustments to the tax system conceptually, with regard to the effective tax rate, including the burden faced by employers in the form of secondary labour costs. Tax reform must also contribute to the competitiveness of the Czech economy. Therefore, conditions must be set that enable economic growth and attract foreign investment. The Government will also focus on the streamlining and simplification of tax collection so that the whole system is friendlier to the taxpayer.

Concrete reform priorities

1. Simplification of the income tax system

The two-stage reform of direct taxes and contributions will fundamentally simplify the whole tax system and reduce the administrative cost to the State and the taxpayer. In the first stage, personal income tax will be harmonized with bases of assessment for social and health insurance contributions, and the procedures for the administration of income tax and insurance contributions will be unified. In the second stage, income tax law will be unified as a single piece of legislation and the plan to make the current system simpler and more transparent will be completed. An amendment to the Income Tax Act (Stage I) will establish a single base rate for natural persons and legal persons of 19%. As far as possible, the law will remove tax exemptions. Exemptions reflecting efficiency and systematism aside, only those exemptions consistent with the Government’s priorities will be preserved. One collective group that will continue to enjoy special advantages under the tax system is families with children, which offer long-term sustainability of the public system by raising children – future taxpayers. Exemptions will also continue to apply to the fixed-rate expense allowances for lone traders, support for research, development and innovation, old age security schemes, housing and altruism.

2. Other tax measures

The tax system still relies significantly on the high taxation of labour and capital income. The effective tax on labour in the coming period will not increase even as a result of the greater income tax burden on employers. Government steps in this period will focus on indirect taxes; the two existing value added tax rates will be unified at 17.5% from the 1 January 2013. The Government will not support the introduction of a tax on financial transactions unless a consensus is reached not only by the EU, but also by key players in a global context.

3. Better coordination of fiscal and social policies

Close coordination of fiscal and social policy will ensure that long-term economic inactivity is not effectively encouraged. This is related to the need to eliminate high effective taxation of certain groups. In family policy, in particular, fiscal and social policies will be better interlinked so as to avoid the duplication of allowances. Tax-based family support measures will increase the freedom and autonomy of families in their decisions on how to reconcile work and family life. At the same time, they must respect parental child care as a socially relevant, economically quantifiable activity. Greater family support within the tax system will facilitate the rationalization of social benefits for families above all where there they are currently duplicated. Blanket family support through tax credits and the current support through parental allowances, covering a large majority of families with children, has no justification because the group of beneficiaries is largely identical.

4. Integrated revenue agency (IRA) project

The reform of the tax system will also include the institutionally unified collection of tax, customs duties and social insurance and health insurance contributions. An integrated revenue agency will be created to improve efficiency in the collection of such revenue, increase the volume of funds collected, and reduce costs. From a formal institutional aspect, the integrated

revenue agency will be created based on current tax administration authorities (local financial institutions).

In terms of content, the integrated revenue agency project will consist, among other things, of the following measures:

- The reorganization of tax administration into a single organization headed by the General Financial Directorate with national competence, subordinate to the Ministry of Finance (this took place on 1 January 2011);
- A radical reduction in the number of tax offices, the closure of financial directorates, and the switch to a two-tier system of tax administration (planned for 1 January 2012);
- The transfer of competence to collect social and health insurance contributions from the Czech Social Security Administration and health insurance funds to an integrated revenue agency (planned for 1 January 2013);
- The transfer of fiscal powers, particularly the administration of consumption and energy taxes and divided administration, from customs authorities to integrated revenue agency bodies (planned for 1 January 2014).

5. Establishment of the General Financial Directorate

With regard to the objective of consolidating public finances and reducing the administrative burden on businesses (see Chapter III.4.), the General Financial Directorate was established on 1 January 2011. This step contributed significantly to the streamlining of the uniform management of tax administration and to economic and personnel centralization.

Implementation on the government level

The modifications proposed to the relevant laws as part of the above-mentioned first stage of direct tax and contribution reform should be submitted to the Government at the end of the first half of 2011, with a view for them to enter

into effect on 1 January 2013. At the same time, an amendment to Act No 235/2004 on value added tax will be submitted.

In the second stage, in 2012, Income Tax and Property Transfer Tax bills will be submitted by the Government.

The integrated revenue agency system will be set up in several steps: the first phase will begin on 1 January 2012 with the creation of the Financial Administration of the Czech Republic; the establishment of the integrated revenue agency will be fully completed by 1 January 2014. The draft Competency Act together with an amending law on the future system of bodies forming the integrated revenue agency for public budget revenues will be submitted by the Government in September 2011.

The reform of taxes and the tax system will be reflected positively in the third pillar of competitiveness – the macroeconomic environment – according to the methodology of the World Economic Forum and also in the sixth pillar of market efficiency in matters of taxation and the burden on the business environment.

Consistency of measures with targets under Europe 2020 strategy

The main objective of tax reform is to eliminate unnecessary administrative burdens on both the State and the business sector. It should help to build a competitive economy and ultimately create new jobs. From this perspective, it clearly contributes to the Europe 2020 strategy objective of increasing the employment of women and men. At the same time, the system of tax-based family support will facilitate the reconciliation of work and family life. These measures will promote the employment of parents and, thanks to the tax benefits granted to working parents, facilitate the care of children.

Tax reform and the integrated revenue agency project are directly linked to Recommendation 1 of the Integrated Guidelines from 2010. The goal of both actions is to reduce redundant administrative costs associated with tax administration. This will be achieved by means of an

institutional reduction (the integrated revenue agency system), the removal of exemptions from the income tax system, and the general simplification of the structure of this tax.

Streamlining the taxation of labour, reducing the bureaucratic burden while maintaining concessions in certain critical areas, including research, development and innovation, is among the measures recommended to increase competitiveness in the framework of the Euro Plus Pact.

III.1.3. Reform of Healthcare System and Social Health Insurance

Although the health sector is not covered separately under Europe 2020 strategy, it is mentioned in several flagship initiatives and via this the Czech Republic can significantly contribute to its implementation. The objective of the measures to be taken is mainly to ensure the sustainability of public finances through a meaningful healthcare system reform.

The main steps planned include clarification of the patients' status and their rights and obligations, setting of guidelines for healthcare provision, establishment of healthcare reimbursement standards, implementation of effective control mechanisms as regards introduction of new health technologies, streamlining of the education and training system for health workforce, revision of rights and obligations of health insurance funds to ensure greater transparency, and support for *eHealth* system and information technology. The regulation framework for long-term care will also be reviewed and newly defined.

Concrete reform priorities

1. Streamlining the legislative framework for the provision of health care

A new act on health services, as umbrella legislation for the entire field of healthcare provision, will lay down uniform conditions for the granting of authorizations to provide health ser-

vices for all providers. A fundamental emphasis will be placed on patients' rights, their awareness and their individual needs. The healthcare facility registration system will be simplified, and the obligations of individual stakeholders and good practices in the provision of care, including a new concept of patient rights and system for the enforcement thereof, will be reviewed.

The system of emergency medical services will also be reformed (by a new law on emergency medical services), primarily in order to establish uniform requirements for the provision of services, ensure their availability, and define the powers of the various authorities.

2. Improving the system of health worker training and the new nursing system

Under the Act on Non-Medical Professions, conditions for the registration of non-medical personnel will be simplified and conditions of their vocational education and training will be revised. In response to the growing need for provision of healthcare services to seniors outside inpatient facilities, these changes will be also followed by a new nursing system emphasizing the use of outpatient, home and community based care and services to seniors outside of inpatient facilities.

3. Reform of the regulation of rights and responsibilities of health insurance funds

The reform will aim at consolidating and simplifying the social health insurance system. It will facilitate the process of merging of health insurance funds, and include regulation of possible extension of the contractual network of healthcare providers.

In the medium term perspective, a new social health insurance act will be prepared as a common regulatory framework for all health insurance funds operating in the Czech Republic and will include their oversight. This act will define conditions for participation in social health insurance, along with obligations and entitlements of persons insured ("insurance/covered healthcare standard"). The risk-adjustment

scheme among individual health insurance funds will also be clarified based on the specific needs of persons insured with them.

Also the classification of medical devices will increase cost efficiency. The benchmark principle for health insurance reimbursement, i.e. the "same cost for the same outcome" principle, will have to be properly implemented.

4. Promotion of eHealth and information technology

One of the major pro-reform measures is to promote integration of eHealth technologies. This framework will support further deployment of medical informatics, statistics and information technologies in order to improve evidence-based policy making as these are important tools for management and monitoring of the impact of reform measures. The computerization of the health sector applies significantly also to the area of medicines surveillance and regulation.

Implementation on the government level

The core reform measures will be implemented within a time period between two to three years via amendments to existing legislation and adoption of new acts.

The Government plans to submit draft acts reflecting its reform plans in this area in the second quarter of 2011 and 2012. The main draft acts are as follows: the Act on Health Services and Conditions for the Provision Thereof, the Emergency Medical Services Act, the Social Health Insurance Act, the Health Insurance Funds Act, the Medical Devices Act, the Medical Device Prices and Reimbursement Act, and the preparation of a draft Act on Non-Medical Professions.

All reform steps will ultimately have a positive impact on the sustainability of public finances and will be reflected, inter alia, in the assessment of the pillar of Health and Basic (Primary and Lower Secondary) Education under the methodology of the World Economic Forum. These measures aim at increasing health system

revenues and enhancing the system efficiency, while accompanied by purely cost-saving steps.

Consistency of measures with targets under Europe 2020 strategy

In addition to the general objective to ensure long-term financial sustainability, the healthcare system reform measures also meet Europe 2020 strategy's employment targets as regards the demand for health workforce and, generally, the employability of EU citizens in terms of their health status, as well as the Strategy's targets in the fields of education and research and development.

From this perspective, there is consistency with Recommendation 1 of the Integrated Guidelines. The promotion of better accessibility to quality services also meets the targets of social inclusion and fight against poverty under Recommendation 10 of the Integrated Guidelines. The same purpose will also be pursued by the reform of the long-term care and nursing system, based on the greater use of outpatient care and the possibility of providing home and community-based care.

Improvements in the means and quality of education and training in medical and non-medical fields are consistent with Recommendations 8 and 9 of the Integrated Guidelines. The system of obtaining higher qualifications will be based also on the principle of lifelong learning.

III.1.4. 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 committed itself to the reform of public finances, along with the pension and health/social system. The Government's medium-term objective is balanced public budgets by 2016. The priority of fiscal policy for the coming period will be to consolidate public budgets, aimed not only at reducing deficits in the government sector, but also at improving structural

parameters such as the quality of public finances and enhancing the pro-growth attributes of the Czech economy. The Government's medium-term fiscal strategy and the planned changes in the institutional framework of fiscal policy will be drawn up in more detail in the Czech Republic's updated Convergence Programme for 2010–2014, which is currently being prepared by the Government and which will be subject to the approved medium-term expenditure framework.

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

One of the 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, the Government will evaluate the existing fiscal framework, and, on this basis and with regard to the obligation to implement the forthcoming EU Council Directive on requirements for budgetary frameworks of the Member States, will prepare a draft Act on budgetary discipline and accountability.

Concrete reform priorities

1. Submission of legislation strengthening budgetary discipline and accountability

New legislation¹ will define the principles of budgetary discipline and accountability and cover the fiscal framework by explicitly setting a fiscal target and follow-up fiscal rules for all public finances and for individual sub-sectors of the Government. 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 explicitly express executive responsibilities for the formulation of fiscal policy and for ensuring the overall stability of public finances for the

¹ At this stage no decision has been taken on whether this measure will be secured by an ordinary (overarching) Act or whether it will take the form of a Constitutional Act.

whole of the government sector, and will define the obligation to monitor and independently evaluate compliance with the principles of budgetary discipline and accountability.

2. Creation of the National Budget Council

Further legislative action championed by the Government relates to the establishment of a National Budget Council. The scope of its powers will be finalized following an evaluation of the existing fiscal framework.

Implementation on the government level

In line with the Government Plan of Legislative Work, the bill on budgetary discipline and accountability should be submitted to the Government in December 2011. The implementation of other cost-cutting steps should also be launched this year so that the new fiscal framework and conditions for its operation are set up by the end of 2013.

The new establishment of rules on budget accountability and other proposed measures will help to stabilize the trend in public finances. Other proposed austerity measures will contribute to the consolidation of budget deficits.

In this respect, the assessments within the scope of the third pillar of competitiveness – the Macroeconomic Environment – according to the methodology of the World Economic Forum is expected to have a major positive impact.

Consistency of measures with targets under Europe 2020 strategy

The proposed measures will significantly limit growth in government debt and directly contribute to the fulfilment of Recommendation 1 of the Integrated Guidelines from 2010, ensuring the quality and sustainability of public finances. These measures are also related to Recommendation 2 of the Integrated Guidelines, i.e. they address macroeconomic imbalances.

The legal establishment of budgetary discipline and accountability is also precisely the means called for by the Euro Plus Pact for the purposes of the sustainability of public finances.

III.1.5. Effective Governance and the Fight against Corruption

The effective functioning of public administration in the handling of public funds is one of the main paths leading to the sustainability of public finances on the expenditure side of the national budget. On the revenue side, its counterpart is an effective system of tax administration, eliminating the possibility of tax evasion. Both priorities can be met through the mutual balancing of three basic pillars – prevention, transparency and punishment. At the same time, increased efficiency in public administration is essential to strengthen the Czech Republic's competitiveness internationally.

In the public sector, it is important to focus not only on the following measures, but also on the consistent implementation of existing recommendations and projects stemming from the adopted Efficient Public Administration and Friendly Public Services Strategy (the Strategy for the Implementation of Smart Administration in 2007–2015).

Concrete reform priorities

1. Adaptation of labour costs in the public sector to growth and labour productivity

In the Czech Republic, there are 15 citizens per employee in the public sector. In this respect, the number of government employees is not high compared to other European States. A comparison also shows that not even a higher number of government employees is necessarily a barrier to economic competitiveness. It depends on whether public administration works efficiently and the funds spent are an investment in competitiveness. A reduction in the number of government employees is not in itself a structural solution.

On the contrary, it is essential to ensure a relationship between labour costs at public institutions and their productivity. The system of remuneration must reflect employee performance, especially in an environment placing

higher demands on qualifications and managerial or other specific skills.

The pressure to make State administration more efficient will not arise primarily from cuts in the number of employees, but primarily from structural measures designed to increase the productivity of State administration and, especially, its positive effect on competitiveness. It is essential to ensure that productivity in public institutions can be measured by statistical methods, with the introduction of modern management techniques leading to a more efficient public sector.

Legislative steps will be taken to professionalize State administration, ensure staff continuity in areas that require the channelling of more time and money into staff training in order to achieve the required expertise.

2. Effective and efficient public administration

a) Convergence of agendas and institutions, and customer-oriented approach

Austerity measures will be accompanied by reform measures preventing the duplication of agendas and even institutions. Synergies with the private sector can also be exploited. Specifically, a new institutional system for the collection of taxes and charges can be introduced here under the Integrated Revenue Agency (IRA) project. The system of social benefit payments will be administratively unified and the system will be centralized. All these steps will be carried out in order to maintain client convenience in full and increase the geographical and temporal availability of services while simplifying the system (the possibility of handling the maximum number of agendas in one place). An accompanying measure will be the fostering of a customer-oriented approach by public institutions in their relations with citizens. An analysis will be conducted to identify agendas which could be handled by private entities (associations) instead of the State. Subsequent transfer to these entities could significantly reduce the costs of public administration.

b) Sharing of administrative activities, including central purchasing and sales

Significant savings in public funds can be achieved by sharing the administration involved in the operation of institutions. In this context, the centralization of the system for buying and selling public assets must play a pivotal role while ensuring maximum transparency, e.g. through public electronic auctions. As of 2013/14, the centralized purchasing system should be solved by The Public Procurement and Concession Portal, e.g. the government electronic marketplace. A system operating on similar principles will be developed for a transitional period.

c) Computerization of public administration

Computerization projects in various areas of public administration are an important way of cutting costs. The interlinking of databases and information systems between institutions can also result in significant savings for private parties seeking information. An example of a well-functioning and open database is the insolvency register. The completion and interconnection of the central registers of public administration will be instrumental in facilitating the safe sharing of data between public authorities and will enable citizens and legal entities to have authorized access to the data kept in these registers. The main benefit will be the reduction in the number of actions needed to deal with a particular agenda in typical life situations and a decline in the demands placed by public authorities on citizens in terms of copies and extracts from such registers.

d) Public Administration as an information platform for the public

Public administration and other public institutions hold a large volume of data, statistics and analyses which, if published in the proper format and in a user-friendly manner, could be used by the private sector or the public. This would also reduce the duplication of analysis in central and local government. Furthermore, a conceptual system of disclosure will also help to

make significant savings in public budgets and in the budgets of businesses, educational and research institutions, etc. Platforms for the publication of information and data can simultaneously be used for the systematic collection of information from the public and businesses via online questionnaires and public debates, and give the public more control in the formulation of policy proposals.

e) Preparation of the Public Officials Act

A prerequisite for the greater professionalization of public administration includes the approval of a new Public Officials Act aimed at unifying legislation on the status of officials at central administrative authorities and regional government bodies while respecting necessary derogations. The law, the explanatory memorandum of which will be submitted to the Government by April 2011, will demarcate the boundaries between politically occupied posts and clerical positions in State administration, thereby contributing to greater professionalism, cost savings, reduced corruption, and nepotism, while reducing the periodic destabilization of public administration during election cycles. This is also a prerequisite for the introduction of a single human resources management at central government authorities with clear incentives for and accountability of officials.

3. Fight against corruption

Reducing 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 an Anti-Corruption Strategy for the years 2011 and 2012. This will be followed by a new strategy for 2012–2014, the draft of which will be submitted to the Government by 30 November 2012.

The latest measures will be concentrated into three spheres: public administration as a whole, public procurement, and changes in the activities of law enforcement agencies. A specific area not falling within scope of the executive or judicial power is the struggle against corruption in the legislative sphere.

a) Measures in public administration

A significant section of measures in this area focuses on local government units, where the lower intensity of public and media interest means there is greater potential for corruption. The aim is to increase transparency in decision-making processes, both in the decision-making of policy bodies (assemblies and councils) and in decision-making at official level. Conditions for the disposal of assets owned by local authorities will be made much more stringent through legislative changes without compromising the principle of autonomy. The Supreme Audit Office will be given the power to supervise local and regional government units; the relationship between assemblies and councils will be revised in order to prevent circumvention of the law, and assembly members will have easier access to information relevant to their decisions and supervisory activities. In addition to these steps, a register of violations will be introduced and public authorities will be required to prepare and publish a code of ethics.

b) Measures in public procurement

To increase transparency in the procurement procedure, legislative changes will be made that will improve the quality of the procurement process, increase transparency and facilitate computerization by ensuring public access to information about public contracts online, from the initial contract documentation to the final settlement of the contract. To accomplish these targets, the Government has adopted an eProcurement Strategy for 2011–2015, under which it will build national infrastructure for electronic procurement (NIPEZ). This infrastructure will contain the modules “e-marketplace” and “national electronic tool”, which will be used to implement public contracts.

Related measures aim to increase savings from computerization, to promote the computerization of activities related to public procurement, as well as interconnection with and adaptation to the eGovernment policy, and to ensure compliance with projects and initiatives within the European Union.

c) Measures related to the competence of law enforcement agencies

Measures in this field can be divided into legislative and non-legislative. In the first group, criminal penalties for corruption, especially among public officials, will be made more stringent in the fight against corruption and the State's capacity to prosecute those who commit corruption will be strengthened by an amendment to the Criminal Code. The concept of turning state's evidence will be clarified with a view to making the uncovering of organized and very serious crime more efficient. There are plans to expand the use of wiretaps and agents under the Rules of Criminal Procedure by modifying the conditions of admissibility. The access of law enforcement agencies to information will be expanded, and the system for obtaining information from financial institutions will be streamlined. The independence and accountability of public prosecutors is also to be reinforced.

Non-legislative measures include, in particular, lifelong learning and anti-corruption training for police officers and members of other law enforcement agencies, support for the computerization of criminal proceedings, changes in the territorial jurisdiction of these agencies in cases related to crime in public administration, and the establishment of specialized court chambers and prosecution services to deal with corruption.

d) Measures related to legislative power

In this area, in order to facilitate public access to data mandatorily released by public officials under the Conflicts of Interest Act, a central register of record-keeping bodies will be introduced, providing the contact details of all bodies responsible for managing such information. Simplifying access to such information on the Internet will contribute to the better control of public officials by citizens.

An amendment to the Rules of Procedure of the Chambers of Parliament will prevent depu-

ties and senators from putting forward ill-conceived amendments, abusing the technique of "riders" (provisions attached to one law which amend another unrelated law), and submitting opaque amendments in debates on the national budget.

This amendment introduces two tools: the Regulatory Impact Assessment (RIA) and the Corruption Impact Assessment (CIA), which must be conducted by the person submitting a proposal (including deputies or senators) and attached to the proposal.

Other measures include the introduction of the criminal liability of legal entities, the transparency of political party funding, and the production of codes of ethics for all elected representatives, intended to establish clear rules on admissible conduct. The opportunities to combat corruption in the private sector will also be analyzed.

e) Promotion of the moral integrity of society: long-term prevention of corruption

The best long-term prevention of corruption entails a society built on a moral order and ethical values that are indoctrinated in its members from birth. These values even exceed positive law, which must be complementary to them. A crucial role here is played not by the State, but first and foremost by a well-functioning family and by nongovernmental institutions geared towards the development and maintenance of moral values. Without this foundation, any anti-corruption policy based solely on instruments wielded by the State would be pointless. Therefore, the Government will promote the concept of the functional family, ethical studies in schools, and non-profit organizations, churches and religious societies in their actions aimed at promoting moral values stemming from the cultural legacy of Western society.

Implementation on the government level

Steps leading to the greater efficiency and financial sustainability of public administration, and thus to the strengthening of the first pillar

of competitiveness – Institutions – according to the methodology of the World Economic Forum will be taken by central government institutions in connection with the forthcoming reforms (e.g. the IRA project and the goal of unifying the payment of social benefits).

The implementation of measures contained in the Government's Anti-Corruption Strategy for 2011 and 2012 is planned by the end of 2012. Subsequently, in 2012–2014, a new anti-corruption strategy will be implemented, the draft of which should be submitted by 30 November 2012.

The performance of individual tasks will be checked at regular quarterly intervals.

In terms of legislative proposals, the Government will reflect conceptual plans, inter alia, in an amendment to Act No 137/2006 on public procurement, the submission of which has been set by the Government for June 2011. Furthermore, a draft Act on officials will be prepared and submitted to the Government in December 2011. The expansion of RIA methodology (Guidelines for Regulatory Impact Assessment) to include corruption impact assessments (CIA) as binding methodology for ministries will be submitted to the Government for approval by the end of September 2011.

The result should be an improvement in both the expenditure side of the national budget and (through the strengthening of market mechanisms) its revenue side. A precise quantification of the positive effects is currently impossible due to the fact that it concerns funds escaping into the "grey zone" of the national economy.

Consistency of measures with targets under Europe 2020 strategy

From the perspective of the targets of Europe 2020 strategy, reform measures in this area ultimately fall among actions in support of greater employment. The resulting effect will lead to savings in the budgets of the State and private entities by improving the conditions of free competition. In this respect, the measure will increase the potential for job creation.

Therefore, these reform steps are also consistent with Recommendation 1 of the Integrated Guidelines as they will make savings in public budgets. Equally, by improving conditions for entrepreneurship, they meet the requirements of Recommendation 6.

The linking level of labour costs with productivity in the government 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 Pre-requisite for a Competitive Economy

Introduction

Despite considerable progress in recent years, a number of structural problems remain in the labour market, resulting in the low employment (or high unemployment) of certain groups, such as young people, women or those approaching retirement age. The labour market continues to employ a number of people with low skills and specializations inconsistent with the needs of the economy. The low mobility of workers is another serious shortcoming.

Improvement is needed in particular in relation to those indicators for which the Czech Republic has set targets. The values of these indicators in 2010 were as follows:

the overall employment rate of persons aged 20–64 years is 70.4%, the employment rate of women aged 20–64 years is 60.9%, the employment rate of older people (55–64 years) is 46.5%, unemployment of young people (aged 15–24 years) is 18.4% and the unemployment rate of the low-skilled is 25.0%.

While some of these barriers can be attributed to existing social and cultural norms, others are more related to the substandard education and vocational training system. Many of them are also linked to the method of remuneration or are the result of discrimination in the labour market. There is still little interest among the economically active population in further professional training related to labour mobility.

In the immediate term of two to three years (2011–2013), stagnation or slow growth in employment levels is forecast as moves are made to ensure better matches between job-seekers' skills and vacancies. A more significant increase

in employment should occur in the second half of the decade.

National employment targets for 2020 are set with regard to Europe 2020 strategy as follows:

- Increase the overall employment rate of persons aged 20–64 years to 75%;
- Increase the employment rate of women (20–64 years) to 65%;
- Increase the employment rate of older people (55–64 years) to 55%;
- Reduce the unemployment rate of young people (15–24 years) by one third compared to 2010;
- Reduce the unemployment rate of low-skilled persons (ISCED 0-2) by a quarter compared to 2010.

There is a link between these targets and the Government's targets in the fight against poverty. The social security system should be viewed as an essential element playing a role in any strategy for competitiveness in countries that share a model of the social market economy as promoted on the European continent. Economic growth is a prerequisite for poverty reduction. In view of the common targets of Europe 2020 strategy, the Government has therefore set a specific national goal in the fight against poverty, the success of which depends directly on the fulfilment of the above targets:

Maintain the number of people at risk of poverty, material deprivation, or living in jobless households in 2020 compared to 2008. The Czech Republic is also making efforts to reduce the number of people at risk of poverty, material deprivation, or living in households without an employed person by 30,000.

Core reform goals

The main objective must remain a reduction in structural unemployment. Measures designed

to improve the functioning of the labour market and thus reduce its bottlenecks will increase its flexibility while respecting the principles of social solidarity (the “flexicurity” principle) for integrating new workers into the labour market in accordance with the concept of active inclusion. Labour market policy must go hand in hand with steps aimed at creating new jobs under the active employment policy, based on other parts of the National Reform Programme.

Labour market policy as an active employment policy should not be an obstacle to maintaining a high rate of economic growth in the global comparison. Even with an increase in price competitiveness, the employment and remuneration conditions in Europe will never be comparable with developing economies. Therefore, it is all the more important to concentrate on non-price competitiveness as a means of supporting business and employment in market segments with higher added value. Labour market and employment policy must reflect the limits designated by the principle of flexicurity.

The main objective of the reform measures should be to activate groups which, for various reasons, have generally been excluded from the labour market. In this respect, it is particularly necessary to remove mechanisms in the social and tax system which effectively stimulate economic inactivity. Interdependence with reform measures in other areas cannot be ignored here. The coordination of fiscal and social policies to improve the sustainability of public finances (see Chapter III.1) is thus simultaneously an instrument for the integration of persons in the labour market.

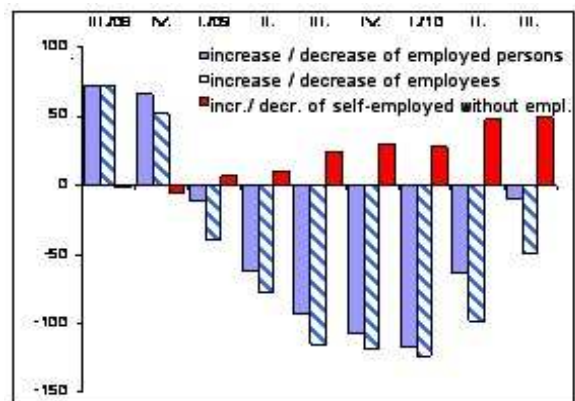
The starting point for reform must be the principle of strengthening individual responsibility for one’s own situation. All measures under social systems should be based on the fact that individuals in a difficult social situation should themselves try to improve their social status. Entry to the labour market should be the main solution here. Various reform measures should promote an individualized approach that will be facilitated by aid “tailored” to individuals.

Hand in hand with efforts to activate different groups of the population still largely excluded from the labour market, a skilled workforce must be developed that will respond to labour market needs. This can be achieved by changes in education and vocational training, and by life-long learning and education schemes.

An essential element of reforms will be changes in family policy. An increased, diversified range of childcare services will pave the way for greater employment among women and will make it easier for child-caring parents to return to and remain in the labour market. Therefore, the Government will remove the administrative burden associated with the establishment of childcare facilities and will make it easier for parents to choose how to reconcile family and working life.

Various reform measures in the field of employment policy are an important tool to combat poverty. The problems of poverty and social exclusion are the primary themes of social inclusion policy, which is in a mutually complementary relationship with employment policy.

Graph: Employed persons according to the Labour Force Survey (increases/decreases in thousands, 2008–10)



Source: Czech Statistical Office

III.2.1 A Modern Social System and Labour Laws

III.2.2 Labour Market Integration

III.2.3 Social Inclusion and Poverty Reduction

III.2.1. A Modern Social System and Labour Laws

A substantial part of employment policy comprises legislative measures in the fields of both social security law and labour law. Conceptual and legislative activities in both these areas must be closely coordinated in terms of the main goal, which is to streamline the functioning of the labour market and to remove all barriers, including increased flexibility in the housing market. This conceptual/legislative work will be separate from the implementation of employment policy, thereby streamlining the management and performance of this policy in its entirety.

Concrete reform priorities

1. Comprehensive social security reform focusing on growth and employment

The process of social reform in five key areas – in the benefit system, in care for people with disabilities, in the security of people in poverty, in labour law and in family policy and child care – aims to target social benefits more directly, reduce the administrative burden for service users, promote the reconciliation of family and working life among parents caring for children or another person in the household, improve the quality of care for children at risk by concentrating on the prevention of threats and the support of the all-round development of children in a family environment. The result will be an increase in the motivation of economically inactive persons to improve their social situation by entering the labour market.

In order to increase the efficiency and sustainability of benefit systems, the number of non-insurance benefits in social protection will be reduced and aggregated into larger units. Decisions on the granting and payment of benefits should be consolidated from the current

three points into a single agency, which will reduce administrative costs.

2. Greater flexibility of labour law

Labour-law measures will focus on greater flexibility in labour relations, but will also maintain employee security by eliminating the possibility of illegal work or de facto circumvention of the purposes of certain provisions. Labour-law reform will take into account a reduction in the administrative burden on employers. It is proposed that greater labour market flexibility can be achieved, most notably, by introducing a longer probationary period for senior staff, making changes as regards reasons for dismissal, modifying severance pay, facilitating the possibility of the temporary assignment of an employee to another employer, modifying fixed-term employment relationships, increasing the scope of work that can be performed under an agreement to perform work (Agreement on Work Performance) and/or adjusting working hours. All these measures will respect the principle of non-discrimination in accordance with existing norms under EU law.

More flexible labour laws will be based on the codification of minimum standards. A complementary element will be an increase in the role of social partners in the negotiation of working conditions beyond the mandatory rules. Options for moulding a specific form of working conditions must be fully open while ensuring a basic level of protection for all employees.

3. More efficient placement services

One of the pillars of the government labour market policy is the placement system. Future arrangements will pay more attention to the preventive function of the system, i.e. the provision of assistance and the mediation of new jobs for employed individuals seeking new employment more commensurate with their qualifications. Labour offices must channel a considerable part of their activities into one-on-one work with clients. This can be achieved by reducing the administrative burden through the

unification of certain activities (such as benefit payments).

4. Greater housing market flexibility

A prerequisite for a more flexible housing market is the complete deregulation of rents and legislation on letting; these measures apply in particular to existing housing stock. However, the system also includes the physical availability of housing, and therefore further action will promote the supply of rental housing, as this facilitates mobility.

Implementation on the government level

The essential contours of social policy reform at government level will be approved in the first half of 2011. Legislative changes in social security law and labour law will also be drafted so that specific reform measures can be implemented between 2012 and 2013.

The Government has prepared amendments to the Labour Code (Act No 262/2006) and an amendment to the Employment Act (Act No 435/2004), ready to enter into effect from the beginning of 2012.

The budgetary impact of social reform, considering its complexity, cannot be estimated until a final policy agreement is reached on its specific parameters. A key principle, however, should be budget neutrality or positive impacts on the expenditure side of the budget. In the case of labour law reform, although there will be no immediate implications arise, it is expected that greater flexibility will lead to the opening of the labour market, improvements in the business environment, and thus a positive effect on the revenue side of the budget. These steps will help to strengthen the seventh pillar of competitiveness – Labour Market Efficiency – according to the methodology of the World Economic Forum.

Consistency of the measures with the targets under Europe 2020 strategy

The purpose of all the proposed measures is to achieve convergence in the fulfilment of the

European goal of increasing employment among women and men to 75%. At present, the measures are consistent with Recommendation 1 of the Integrated Guidelines, with positive effects on the sustainability of public finances, Recommendation 2, by addressing macroeconomic imbalances, and Recommendation 10, in terms of the direct effect that increased employment has on reducing poverty.

The reform of social policy in combination with a more flexible labour market and housing market is in keeping with the principle of flexibility and security, rather inappropriately referred to in official documents as “flexicurity” (hardly a Czech word), which stresses the Euro Plus Pact from 2011.

III.2.2. Integration into the labour market

The aim of reform steps must be to harness the full potential of the labour market. Therefore, the market is open to all persons who are interested in entering it. As such, individual measures focus on removing barriers that hinder this interest. This applies especially to parents with young children, young people and seniors.

Concrete reform priorities

1. Family policy reform

Measures will be taken in family policy and childcare to increase the flexibility of family benefits and labour-law concepts with a view to enhancing parents’ freedom of choice on how to reconcile family and working life. Changes in benefit systems and increased support for non-parental child care will enable the faster return of parents with young children to the labour market without disadvantaging them financially. The Government’s priority is to have a comprehensive family policy encouraging a functional family as the basic building block of society. The family policy system will be based on respect for the autonomy of families and on support for

families as they seek to play their socially relevant economic, socializing, social and educational roles.

The Government will also take steps to develop various forms of non-parental child care. With regard to the best interest of the child, types of care based on an individual approach will be prioritized. The system of financial support for childcare facilities will be based on respect for the autonomy and free choice of families, according to the principle of “money follows the parents, or, more precisely, the child”. In accordance with this principle and the interests of the child, it will remain possible for the parental allowance to be used for any child care on an individual basis; it will be possible to use alternative financial support for the provision of care other than individual, personal and all-day forms of child care. Support for care will be built on the complementarity of the State, society and family, so as to avoid the direct introduction of statist practices in relation to the functions of the family and society. In the actual provision of non-parental child care, a central role will be played by the nongovernmental sector, whether in the form of the private sphere, autonomous units, or other social institutions supported in this activity by the Government in the form of legislative and financial instruments respecting the spirit of the above principles.

The development of childcare facilities will also be encouraged by a change in the legislative conditions for their functioning (e.g. company nurseries) with a view to simplifying these conditions and harmonizing them in order to avoid differences solely based on the legal form of the facility. Nevertheless, if conditions are made simpler, this must not be to the detriment of standards of quality required in the care of small children. All measures in this field must therefore be discussed with experts in the field of paediatrics, child psychology and related disciplines.

The reform of family policy will also improve conditions for parents at the stage of home care. Support will be channeled into the development of skills acquired during the care of

families and children that can be used by parents when they return to professional life. At the same time, steps will be taken to improve the maintenance of links with the professional world during care periods, e.g. by means of grant schemes for short-term care facilities (children’s corners, maternity centres), etc.

The Government will promote measures for the social integration of caring parents. At the same time, it recognizes unpaid parental care of the family and children as a socially relevant activity which is a fully-fledged alternative to employment and deserves social respect.

2. Innovative tools of active employment policy

A competitive and socially inclusive labour market is supported by smart, effective innovative tools contained in the active employment policy. In 2011, a comprehensive project is underway to increase motivation, develop key skills required by employers and mediate employment for motivated job-seekers who have been registered more than five months. Another project aims to increase employment among young people under 30 years. The goal of further tools of active employment policy is to reduce the number of self-employed workers who are temporarily unemployed due to seasonal work or the economic crisis. Promoting business skills enhances their qualifications and, potentially, the ability to create new jobs. Cooperation with municipalities strives to increase the number of clients of labour offices who work carry out community work or public services. The wide variety of active employment policy tools is rounded off by a project aimed at reducing the number of job-seekers who abuse the system by working illegally while registered for benefits at the labour office.

3. Support for the employment for young people

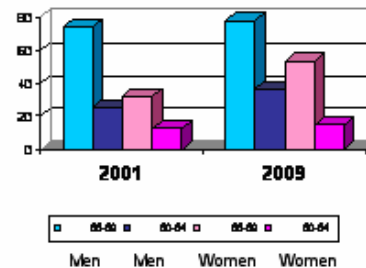
Government policy in this area will mainly focus on reducing the average duration of unemployment among young people, especially

graduates. The main measures in this field will be concentrated on education and vocational training. The Government's aim is to reform the education system so that the fields of study on offer match demand in the labour market. Young people should also be motivated to focus on education in such fields. In the long term, the greater development of vocational education and technical areas will be supported. The range of options for fast-track improvements in skills on completing school will also be enhanced. Government policy will aim to facilitate and promote a system of short-term work experience during and after studies.

4. Support for the employment for seniors

Demographic development is imperative when taking steps to increase the employment and employability of older people who are approaching or have reached retirement age. In this respect, all lingering elements of direct and indirect discrimination against older workers will be dismantled in legislation and in the effective behaviour of employers. At the same time, the lifelong learning and education system will be supported as it increases the chances of older people in the labour market. Seniors will be encouraged to increase their skills or retrain even in their old age, which precisely what this system of continuous education is for. This will also increase the attractiveness of elderly people in the 50+ group for employers. Finally, the long-term employability of older people also depends on whether they are fit physically and mentally and whether they are healthy. The healthcare provision system, rehabilitation and services for the elderly outside hospitals will all have to be expanded (see Chapter III.1.3.).

Graph: Employment rate among older women and men



Source: Czech Statistical Office

Implementation on the government level

The essential contours of reforms in social and family policy will be approved by the Government in the first half of 2011. Legislative changes will also be prepared so that the main reform measures can be implemented between 2012 and 2013. Essentially, there will be a bill on family support, planned to enter into effect from January 2012, and a bill on childcare services, planned for submission by the Government in June 2011.

The budgetary implications of social reform and reform of family policy can only be estimated with any precision when their parameters are known. Support for the establishment and operation of childcare facilities will require additional costs, which will be offset by improvements on the revenue side as a result of the higher income tax paid by parents who opt for an earlier return to work.

Labour market efficiency is a prerequisite for development, which is reflected considerably in the seventh pillar of competitiveness – labour market efficiency – according to the methodology of the World Economic Forum.

Consistency of the measures with the targets under Europe 2020 strategy

The purpose of all proposed measures is to contribute to the European goal of increasing employment among women and men to 75%.

Specific tasks in this process have been set by the Czech Republic as national targets (see above). Individual measures are also consistent with Recommendation 1 of the Integrated Guidelines, Recommendation 10 (in particular the reduced risk of poverty among women with children, large families and the elderly), and, in particular, Recommendation 7, aimed at increasing labour market participation.

The reform steps also contribute to the indicators of the youth unemployment rate and the rate of labour market participation under the Euro Plus Pact.

III.2.3. Social Inclusion and Poverty Reduction

The National Reform Programme, as well as the European Platform against Poverty and Social Exclusion, sets out areas in which, through specific steps, positive effects can be achieved in various manifestations of poverty and social exclusion in society. These primarily include, of course, a functional, flexible and open labour market. Increases in employment, particularly in the vulnerable groups at risk, for various reasons, of high structural unemployment, are the best contribution to poverty reduction.

Social policies have a complementary effect alongside employment policy and other policies in areas of poverty and social exclusion which, for various reasons, cannot be addressed by integration into the labour market. Even in these cases, based primarily on the principle of social solidarity as a key element of the modern welfare state, it is necessary to reflect the need for sustainability in public spending. All measures should therefore be of a long-term pro-growth nature.

The aggregate indicator for measuring poverty reduction targets was developed on the basis of three indicators: (1) at-the-risk-of-poverty rate; (2) material deprivation rate; and (3) the proportion of people living in jobless households. The Czech Government will focus primarily on

measures that affect the third of these indicators.

In the Czech Republic, according to this aggregate indicator, in the starting year of 2008 (for the evaluation of progress up to 2020), approximately 1,566,000 people (15.3% of the overall population) are at risk of poverty or social exclusion. This ratio was among the lowest of all EU countries (the EU-27 average was 23.6%). Although the latest known figures (for 2009) were even more favourable for the Czech Republic (a decrease to 1,448,000, i.e. 14%), it is expected that the results from EU-SILC 2010 to 2012 survey (statistical data on income and living conditions), in which the effects of the crisis will be reflected, will worsen.

With regard to the Czech Republic's above starting position, the expected deterioration up to 2012 due to the crisis and demographic trends, the Czech Republic is in a position to set realistic targets. The national objective set in 2010 – as noted above – is aimed at:

Maintaining number of people at risk of poverty, material deprivation, or living in jobless households up to 2020 compared to 2008. The Czech Republic will also make efforts to reduce the number of people at risk of poverty, material deprivation, or living in jobless households by 30,000.

Maintaining the same number of people at risk of poverty and social exclusion in 2020 at 1,566,000 (the 2008 figure), bearing in mind, the projected population growth, implies a reduction in the share of these people compared to the total population from 15.3% to 14.7%. Reducing the number of people threatened by poverty or social exclusion by 30,000 persons would require a reduction in the proportion of such persons in the total population from 15.3% to 14.4%.

Concrete reform priorities

The main instrument for poverty reduction and social exclusion is an appropriately focused employment policy incorporated into the broader context of the promotion of the domes-

tic economy's competitiveness. Social inclusion policy focuses on poverty and social exclusion comprehensively, and also addresses those aspects which are not connected with employment policy. The relationship between the two policies is complementary. In this respect, social security is part of any sustainable competitiveness policy.

All steps in this area will be proposed and implemented with regard to employment policy targets and, naturally, the sustainability of public finances. In the fight against poverty and social exclusion among older people, the pension reform currently being prepared will play a vital role (see above). Another key step will be the continuation of the reform of social services to increase their accessibility, effectiveness and sustainability. In the fight against women's poverty, measures to promote the reconciliation of family and work while appropriately supporting the families of lone parents which will not simultaneously financially discourage them from marriage will be instrumental. Where large families are faced with poverty, aid will mainly focus on increasing employment.

The pursuit of the national target will be influenced by the Czech Republic's capacity to recover quickly from the crisis, economic developments, the situation on the labour market and demographic trends.

The reform of social benefits and the pension system may, despite the evident positive aspects, have the effect, alongside the continuing trend of increasing wage differentiation, of increasing the number and proportion of persons at risk of poverty in the population. On the other hand, the reforms of social benefits, the labour market and employment policy measures will act to increase employment and reduce the number and proportion of persons living in jobless households. This impact will depend largely on the speed and intensity of economic recovery and job growth.

The following subchapters, as mentioned above, cover only measures complementary to actions in the context of employment policy

supplementing the main priority of a socially integrating and flexible labour market (see Chapter III.2.1. The Modern Social System and Labour Laws).

1. Inclusive education

For the Czech Government, a key element in promoting social inclusion and combating poverty, increasing labour market participation and reducing structural unemployment is inclusive education, inter alia, with an emphasis on the proper provision of compulsory schooling. The measures listed in the National Action Plan on Inclusive Education will be applied.

2. Efficient social transfers

The Government will focus on increasing the efficiency of social transfers and on the better targeting of assistance to those who really need it. These adjustments will also motivate people in poverty to deal with their adverse situation. The existing duplicity in the social system will be removed so that very similar or the same groups of beneficiaries are not supported by certain measures that are more or less identical. For this reason, there will be closer family support cohesion in the context of fiscal and employment policy. Blanket family support will be provided in the tax system, whereas in the welfare system it will focus on families at risk of poverty and on offsetting income shortfalls among families caring for children, the elderly or sick family members. This is socially relevant unpaid work and its importance should be duly appreciated.

3. Social inclusion of persons with disabilities

New legislation on benefits for persons with disabilities will aim to aggregate benefits, review the list of beneficiaries and target them for the promotion of a fulfilling life, including employment, education, and maximum social inclusion.

4. Quality social services for the needy

The quality and availability of social services will be secured and the stability and effectiveness of their funding will be increased to enhance the degree of integration of persons

threatened by social exclusion. In this spirit, the Government will adjust the parameters for the financing of the system of social services.

5. Financial literacy

A specific problem faced by the socially excluded in the Czech Republic is their over-indebtedness. The Government will respond to this by improving the population's financial literacy, with a specific focus on children and young people, but also certain groups of the adult population (the long-term unemployed, people with elementary education). Ignorance and a low ability to navigate the range of existing financial products results in the indebtedness and insolvency of these social groups in particular. To tackle this, measures set out listed in the National Financial Education Strategy for 2010–2015 will be implemented.

While some of the measures will be taken as part of the legal framework governing the provision of financial services (including supervisory responsibilities), many steps will focus on prevention and intervention, in particular in relation to potentially vulnerable groups. A separate area is the possibility of incorporating financial literacy education into the curricula of primary schools.

6. Social inclusion of the Roma and other marginalized and vulnerable groups

The Government will continue to implement projects to promote the full integration of excluded groups and communities, especially the Roma minority. To this end, the Government will continue to support the activities of the government Agency for Social Inclusion in Roma Localities; in this respect, there will be more fieldwork.

7. Social housing

The Government will continue to support the construction of social rental housing with a view to addressing the long-term housing needs of those at risk of social exclusion. The reform of social policy will also touch on maintaining so-

cial inclusion within the framework of rent de-regulation in order to avoid an increase in the number of people faced with poverty and social exclusion.

Implementation on the government level

Approved projects will continue to be implemented in the field of social security. These include the Concept of Support for the Transformation of Social Services into Other Types of Social Services Provided in the User's Natural Community and Promoting Social Inclusion in Society, the implementation period of which is 2007–2013, and the National Action Plan to Transform and Unify the Care of Vulnerable Children (2009–2011 and 2012–2015).

Social services and the planning process at all administrative levels are the subject of the project "Support of Processes in Social Services" for the period from 2010 to 2015.

Other projects aim to motivate and encourage employers to take pro-family measures in the workplace to enable the professional integration for parents with children. Specifically, these project are "System Support of Processes for the Transformation of the System of Care for Vulnerable Children and Families" and the "Family and Employment Audit", which will be implemented between 2011 and 2014. Guidance for those interested in the possibilities of reconciling work and family life and a database of child-care service providers will also be offered by an online project planned for launch at the beginning of the third quarter of 2011.

The preparation of legislative proposals in care for the disabled (a bill on benefits for people with disabilities) and in the security of people in poverty (Act No 111/2006) will be concentrated into the first half of 2011 so that, in most cases, they are ready to take effect at the beginning of 2012.

The implementation of partial measures by the Government under the National Action Plan on Inclusive Education will be spread out over the 2011–2013 period. Support for a greater

supply of social rental housing is planned in the medium term until 2015.

Legislative proposals will centre on the preparation of an amendment to Act No 108/2006 on social services, planned for submission in early 2012. Measures in the system of social service funding are planned to contribute to the long-term sustainability of public expenditure and are guided by efforts to achieve budget neutrality. It will be possible to estimate their specific implications when the final parameters become known.

Properly targeted employment policy falls under the seventh competitiveness pillar – Labour Market Efficiency – according to the methodology of the World Economic Forum.

Consistency of the measures with the targets under Europe 2020 strategy

The proposed measures aim to contribute to the European goal of promoting social inclusion through poverty reduction by reducing the number of people at risk of poverty or exclusion by at least 20 million. The application of inclusive education as a key element of the active policy to promote social inclusion is in line with Recommendation 10 of the Integrated Guidelines and especially Recommendation 7 (increasing labour market participation and reduce structural unemployment). Education levels and skills related to the structural aspects of the situation on the labour market are enhanced in accordance with Recommendation 9, which is aimed at promoting education that meets the needs of the labour market.

III.3. Education as a Path to Competitiveness and Higher Productivity

Introduction

The competitiveness of a country and the development of society depend on the education of the population and the quality of the education system. A well-prepared workforce with skills allowing for the growth of labour productivity is one of the pillars of the non-price element of competitiveness.

The educational system in the Czech Republic is currently exposed not only to the need to adapt to dynamic social and economic changes under way here and in the outside world, but also to the consequences of demographic trends, entailing an overall decline in the number of pupils starting school each year. These dynamics place new and, in most respects, greater demands on the new education system.

It is necessary to achieve not only quantitative, but also qualitative and structural changes in the educational structure. Improvements in the quality of education and training for employment in a broader sense are a prerequisite for better use of people in the labour market on the basis of skills gained in response to the rapidly evolving needs of the economy. Therefore, a greater role for lifelong learning, multidisciplinary and a closer association between the educational system and future labour market needs, and hence as the requirements of the business sector, come into play.

It is essential to carry out the systematic monitoring and evaluation of information about the employability of and prospects for school-leavers in the labour market, about the suitability (relevance) of their education and skills in regard to the jobs and occupations they take up. The harmonization of the requirements of the education system and the labour market also requires the preparation of a longer-term projection of qualification requirements and the

natural replacement rate of skilled workers. The conclusions and recommendations will be reflected in the Government's educational policy. In pre-primary education, which creates and develops the foundations of learning skills and the social integration of individuals, it is necessary to pay attention to the availability of affordable, high-quality institutional preschool education. In this regard, the reform in this area should place an emphasis on the educational component. Preschool education, especially for socially and culturally disadvantaged children, is one of the few relatively accessible and functional ways to reduce the risk of subsequent failure at school. Failure at school then heralds problems throughout life.

The lower stages of the education system, i.e. preschool and primary education, has so far done little to close the educational and socio-economic disparities in society, including regional differences and among children from marginalized areas. As exemplified by the results of an investigation under OECD-PISA studies, the increasing differences in the results of pupils from different social groups and between students from different basic schools are warning.

In secondary education, there is a consistently lower proportion of generally oriented (comprehensive) education. While the share of apprenticeship schemes is among the highest among EU countries, interest in these fields continues to decline, which, given the growing demand in the labour market, is becoming a serious problem. In addition, existing vocational training schemes are too narrowly focused and prevent flexible interaction with the flexible labour market as economic needs evolve. A greater emphasis needs to be placed on upgrading facilities at secondary schools and on closer cooperation with companies.

A related problem is the surplus of school-leavers and graduates educated in subjects in which the market has low or dwindling interest. This is especially true of the growing number of higher education institution graduates. Quantitative targets in this area can have only very lim-

ited impact on economic growth and competitiveness as long as the focus of higher education institutions and the courses they offer is inconsistent with the needs of the economy. In this context, a serious shortcoming is the low number of graduates in technical disciplines of vocationally oriented tertiary education (which also reflects a low interest in technical fields earlier on, at secondary level). Another problem remains the quality of Czech higher education institutions as such, particularly in the international comparison. Government support needs to be better targeted both in terms of quality higher education and in the formation of research centres of excellence with the potential to train the most talented secondary school students.

One of the specific measures for improving the quality of education in secondary and higher education will be the forthcoming programmes of excellence, designed to provide strong backing to the highest quality schools and centres. They will expand the opportunities for a larger number of young people to obtain a top-class education and will deliver substantial momentum and motivation for improvements in quality throughout the system.

The Czech Republic is traditionally among the EU countries with the lowest ratio of drop-outs, and is well above the target set in the Europe 2020 strategy. Therefore, in this area the Government will concentrate on current developments and will respond promptly to any worsening of the situation, i.e. it will aim to maintain the current level of this indicator.

Nonetheless, the proportion of children from socially excluded (especially Roma) households in the number of drop-outs continues to rise. In the Czech Republic, up to 80,000 people living in socially excluded localities have reported a long-term very low level of education (basic, incomplete basic), 80% of whom are Roma.

Nearly 27% of Roma children (compared to 3% from the majority population) are educated according to a sub-standard curriculum designed for those with mild mental disabilities in

segregated schools (usually called “practical basic schools”), and have minimal prospects of obtaining a fully-fledged education and corresponding placement in the labour market.

National targets in the above area are defined as follows:

- | |
|---|
| <ul style="list-style-type: none">- a maximum drop-out rate of 5.5%;- 32% of persons aged 30–34 years with tertiary education. |
|---|

However, these targets should be viewed in this context not as end in themselves, but only as the Czech Republic’s contribution to the achievement of common targets at EU. In fact, at national level, the Government considers these targets to be part of a broader strategy in which structural reforms of the education system and, especially, its quality and interaction with labour market needs to play a more important role than quantitatively set targets.

Core reform goals

In the coming years, it will be important to take measures to streamline the education system and adapt it to the interests of a Czech economy geared towards industry and exports, and to develop opportunities for lifelong learning. Attention should be paid to ensure that each of the levels of the educational system provides its graduates with a quality education and prepares them to continue their education or pursue a career.

It is essential to start in preschool education with regard to the targets for the integration of parents into the labour market, the preparation of children to start school at an early age, and to cope with the method of schooling. The emphasis on the preschool preparation of children ahead of primary education and coordinated socio-educational intervention in households in which socially disadvantaged children live will be increased.

In basic education, children should focus on developing the disposition required to acquire

new skills quickly and efficiently and encourage creativity in line with the targets of lifelong learning; a greater emphasis should be placed on nurturing children's curiosity and developing their individual skills, manual dexterity and interest in mathematics, science and technology. Skills acquired at an early age must foster the ability to adapt flexibly to changing occupational and environmental requirements over the individual's life. Nor should high-quality training in general knowledge, forming the pillar of classical education in occidental culture, be overlooked.

Another strategic aim is to guide the Czech educational system towards a higher level of social inclusion, including the greater competence of teachers to educate children with special educational needs.

A further challenge is the reform of secondary education, which is also a prerequisite for higher education reform. The problem of secondary education is its sectoral dispersion and the low standard of some of those as compared with vocational schools. The growing number of schools with spare capacity also needs to be tackled.

In higher education, in contrast, the still rather poorly diversified system needs to be reformed. Therefore, higher education policy will focus on improving the quality of education and on graduate profiling so that it is more responsive to labour market requirements and improves graduates' job prospects. One of the measures aims to enhance the prestige of undergraduate education and its practical applicability in the labour market, together with support for vocationally oriented bachelor's degree programmes (some further education vocational programmes will be promoted to this level). Pilot projects aimed at shorter, more practically-oriented training will be introduced with a view to passing on sufficient basic skills in particular areas very quickly. An emphasis should also be placed on flexibility and the key skills of graduates, their sound theoretical grounding, adequate language proficiency, skills in teamwork, project

management, rudimentary legislation, etc., cutting across various fields of study.

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

III.3.2. Systematic Improvements in the Quality of Education and Reform of the Primary and Secondary Education System

III.3.3. Tertiary Education Reform

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

Quality preschool education, conceived as part of the educational system, offers ideal preparation for entry into the school system and prevents the negative consequences of social inequality manifested in the later stages of the educational cycle. Therefore, due attention should be paid to this in the production of education policy conceptual materials. Preschool education cannot be regarded primarily as a non-parental childcare service; rather, it is a means of socializing the child and providing basic skills for later life. Nor is it appropriate at this stage of life to forget that the basic cultural, ethical and social standards are best instilled in the child by a functioning family. Preschool education plays a key role particularly where the family cannot fulfil this basic function.

Concrete reform priorities

1. Increasing the availability of preschool education institutions

The Government will take steps to facilitate the establishment of preschool education institutions by removing existing regulatory barriers, especially the superfluous demands regarding specific conditions for the establishment of such facilities. However, conditions must not be simplified to the detriment of the quality of these facilities. The Government will also financially support the establishment of company nurseries.

In the graded-remuneration system, the Government will, inter alia, promote the inflow of qualified staff into preschool education.

Bearing in mind that the returns on investments in education decrease with the age of the child, investing in preschool education is highly worthwhile. In this context, it is advisable to increase support for the teaching of foreign languages in preschool education institutions.

The Government will increase the availability of preschool training for children from socially disadvantaged backgrounds, including the introduction of the right for the socially excluded to be admitted to nursery school. At the same time, the system of educational-psychology counselling will be transformed so that it can adequately diagnose the individual needs of children and propose appropriate compensatory and support measures with the full cooperation of nursery and basic schools and nongovernmental organizations.

Implementation on the government level

The Government will prepare specific proposals for the financial support of company nurseries and for the legislative removal of obstacles to their establishment in 2011. The budgetary impact will depend on the exact form of financial aid.

The measures set out in this chapter fall under the fourth pillar of competitiveness – Health and Primary Education – according to the methodology of the World Economic Forum.

Consistency of the measures with the targets under Europe 2020 strategy

The draft measures follow up on the targets of Europe 2020 strategy in education and on the related Recommendations 9 and 10 of the Integrated Guidelines.

III.3.2. Systematic Improvements in the Quality of Education and Reform of the Education System

The educational system as a whole should be more closely linked to labour market needs, and, as such, to the business sector. In primary and secondary education, it is necessary to support a teaching focus that will offer pupils broader possibilities for the pursuit of and future changes in their profession. It is necessary to prevent schools from preparing students too narrowly. Efforts must also focus on the joint education of all pupils, i.e. the closure of special needs schools and special schools in their present form, an increase in the attractiveness of the second tier of basic school, encouragement of the merger of existing secondary schools into multipurpose secondary vocational schools, etc. On the other hand, these steps must not lead to negative consequences triggered by a general drop in the quality of teaching. For the same reason, it is necessary to create the conditions for the support of particularly talented pupils, starting from primary education.

It is also necessary to improve the system of care for vulnerable children, with an emphasis on the timely placement and maintaining of these children in mainstream education at all levels.

The monitoring and evaluation of the results of educational and research activities at all levels is a prerequisite for the effective implementation of measures and tools to achieve the targets set for education and social integration. Therefore, the Government will improve the system of teaching quality assessment and student assessment so as to ensure maximum objectivity of the criteria.

Concrete reform priorities

1. Basic education

a) Establishing a uniform system of student assessment

Government will introduce regular surveys of the results achieved in the education of pupils in the fifth and ninth grades of basic (covering primary and lower secondary stages) schools and the corresponding grades of six- and eight-year grammar schools in order to use the results obtained for the self-evaluation of schools. In particular, the way pupils are able to draw on their own knowledge and their ability to make use of the skills they have acquired will be assessed. One of the targets under consideration is the use of results for secondary school admissions procedure. Initially, pilot testing will take place at a sample of basic schools, combined with trial operations; this will be followed by "live" testing. Before the introduction of this system, education standards will be drawn up and published in accordance with the Framework Educational Programme for Basic Schools.

b) Improving the social integration role of primary and lower secondary (basic) schools and equal access to education

The Government will strive to ensure that the structure of basic education promotes the social cohesion of society. Basic schools should not become a place of social differentiation and early determination of future careers. The effect of the early classification of pupils based on merit and aptitude is often inconclusive and can prevent the potential of hidden talents from being tapped.

On the other hand, the above strategy must not lead to a deterioration in the quality of teaching by adapting lessons to the slowest pupil in the class. The system must allow gifted students to grow, it must motivate even small children to compete and to seek to improve their knowledge and skills.

The social integration role of schools can be improved by measures aimed at improving the attractiveness of teaching. Current surveys indicate that pupils get bored at school and have a particularly negative attitude to exact and natural sciences. It is therefore necessary to bring the teaching of these subjects closer to real life and needs. Pupils should not have the impression that the material they are studying will never be of use to them. Education in basic schools should not focus primarily on the quantitative scale, but on the ability to work with texts and obtain information.

It is essential for basic school pupils to have equal opportunities and not to be unreasonably excluded from the mainstream. Therefore, by 2020 the Government will reduce by at least 50% the number of children educated outside the mainstream, i.e. in schools using the Framework Education Programme for Basic Education with a supplement governing the education of pupils with mild mental disabilities.

Parametric arrangements for the financing of regional education will take into account all types of special educational needs and will enable mainstream basic schools to educate pupils with special educational needs and set them proper compensatory and support measures. Compensatory and support measures for pupils with special educational needs will be catalogued, and funding will be linked to individual measures.

Teacher training will be overhauled so that teachers have the competences to set and implement socially inclusive measures in the classroom and the school.

2. Better conditions for teaching staff

The Government aims to create a separate system of remuneration for teaching staff which is closely connected to a promotion system designed to encourage lifelong improvements in the quality of their work. Base pay will not depend only on seniority, but also on the quality of his work (verified by attestation) and on the increasing complexity of teachers' tasks and their

functional specialization (i.e. the existing principle of automatic wage increases with age will be suppressed). The upward movement of teachers through the career system will be supported by a system of further professional development. Barriers to the effective involvement of qualified workers from companies (even those of a higher age) in vocational training will be removed.

3. Secondary education reform

a) Reform of the school-leaving examination

The Government's main priorities are the reform of the school-leaving examination, the first "live" version of which will take place in 2011. The purpose is to achieve a level of difficulty in determining the degree of knowledge and study proficiency of students that meets the requirements of entrance examinations to universities. This requires a debate on the possibility of introducing uniform elements of evaluation in a joint ("national") part of the school-leaving examination and agreement with higher education institutions on the use of the newly objective results of school-leaving examinations by higher education institutions as criteria for the selection and admission of applicants to higher education.

The reformed school-leaving examination will make it possible to compare schools in the Czech Republic, and should also facilitate comparisons of school quality and student preparedness on a European scale. The structure needs to be adjusted to this, with changes made on the basis of experience gained in the future.

b) Introduction of a new final examination in the vocational education system

The Government will discuss legislation to allow for the introduction of a new final examination in the vocational education system in fields offering a vocational certificate. This examination is intended to allow for better comparability of school quality, as well as knowledge and skills of graduates.

c) Regional education reform

The Government will discuss the feasibility of developing new model standards for regional education, in which the sole criterion will not be a pupil and student, but also other parameters that will interact to optimize the school network. The capacity of upper secondary (and basic) schools should respond to demographic developments. The objective of the measure will be to integrate vocational schools of various specializations into schools with a wider-ranging curricular reach.

In the regional education system, it is necessary to support career guidance at upper secondary and, especially, basic schools. For this purpose, it is appropriate to consolidate, institutionally, responsibility for this agenda. Cooperation with regional authorities will take place in this area.

d) Increasing the quality of vocational training in cooperation with employers

The Government will continuously monitor the level of vocational education through indicators and criteria aiming to achieve progress in improving quality and creating conditions for cooperation with employers. For this purpose, the European Quality Assurance Reference Framework for Vocational Education and Training (EQAVET), adopted in 2009, will be used.

Enhanced cooperation between vocational schools and employers will take on several forms. In particular, there will be an improvement in practical training in a real working environment or in the form of internships for teachers, improvements in and the greater attractiveness of apprenticeships and increased motivation with the awarding of regional or corporate scholarships for selected disciplines. Further measures will encourage the participation of experts from the real world in school-leaving examinations and in practical tests, and will promote technical and science training using "templates", i.e. pre-built standardized projects that are financed by the "unit costs" method.

4. Support for the further education of adults

The Government will respond to the very low proportion of adults in continuing education. The main focus of the coming period will be placed on the development of a system to recognize the results of further education. The core activity here is the creation of the National Qualifications Framework, which will be funded through the Operational Programme Education for Competitiveness, with a timetable for the implementation of approved activities covering 2009–2015.

Connected with this measure is the implementation of the European Qualifications Framework (EQF) in the Czech Republic through the establishment of a National Qualifications Framework and the assignment of levels of qualifications in the Czech Republic to EQF levels. In this context, a national reference report will be written and submitted to the Government in June 2011.

Preparations will also be made for the implementation of a European Credit System for Vocational Education and Training.

Implementation on the government level

In the first half of 2011, the Government will submit the strategy document “Long-term Plan for Education and the Development of the Czech Republic’s Education System “. In autumn 2011, the Government will prepare an amendment to the Action Plan on Vocational Training. In terms of legislative proposals, the Government will reflect their conceptual plans during 2011 in an amendment to Act No 18/2004 on the recognition of professional qualifications, which should come into force since as of 2012, and in an amendment to Act No 563/2004 on teaching staff, which the Government plans to submit in September 2011. Finally, the Government plans to draw up an amendment to the Act on the Recognition of the Results of Further Education (Act No 179/2006) by August 2011.

The costs of individual measures in this area will be partially covered by the EU operational programmes and partly from the national

budget and will involve hundreds of million per project - the introduction of a single state school-leaving examination, standardized assessments of basic school pupils and support for continuing education.

Accumulated impacts on the national budget will also stem from a change in teachers’ pay. Specific forthcoming costs cannot be accurately determined at the moment; they will depend on the number of teachers and the concrete form of the system. Projected estimates the annual cost of CZK 500 to 800 million, will gradually be increased to EUR 2.3 to 4.5 billion in 2023.

Reform measures in this chapter are incorporated into the fifth pillar of competitiveness – Higher Education and Training – according to the methodology of the World Economic Forum.

Consistency of the measures with the targets of Europe 2020 strategy

The measures to be implemented are linked to the targets of Europe 2020 strategy in the fields of education and the related Recommendation 9 of the Integrated Guidelines.

In the affected areas, there are specific aspects where liaison points can be found with approved EU flagship initiatives, namely the communications “Youth in Motion”, “Agenda for new Job Skills” and “Innovative Union”.

The Euro Plus Pact also places lifelong learning and the construction of groundwork for lifelong learning in the young generation among the basic tools recommended for employment support.

III.3.3. Higher Education Reform

Reform targets in higher education are focused on the following priorities: raising the quality, excellence and relevance of education and other activities of higher education institutions; the diversification of higher education institutions according to their specific mission and performance achieved; the openness of higher education institutions to the interna-

tional, national to the regional context and to the needs various social partners and groups; the efficient use of legal, economic and other Government instruments to rationally guide the development of higher education.

The main instruments for achieving these targets are of both a legislative and non-legislative nature. The preparation of basic legal standards is important: the new Higher Education Act, which involves the financial participation of students, and a law on financial aid for students, which needs to be passed for the introduction of tuition fees. The Higher Education Act also defines the typology of universities, redefines the scope of their main bodies and provides comprehensive regulation of the relationship between the State and higher education institutions. Appropriate proposals will be submitted to the Government by the end of 2011.

A strategic framework for higher education policy and innovation strategies is being prepared which forms the basis for subsequent reform measures. A system of indicators of the quality and performance of higher education institutions and the related ongoing changes in the rules regarding their funding is started to be built.

Concrete reform priorities

1. Diversification of higher education institutions and their functions

The need for diversity in higher education will be based on various roles played by higher education institutions in both educational and research areas, as well as in the different focus, for example, on the international or regional context, on the intensity and forms of cooperation with the sphere of application, the transfer of research results and training, etc. The open and permeable system of higher education must provide comprehensive skills and reflect the needs of society. This also relates to the profiling of higher education institutions, based on different relationships between their individual functions.

An emphasis will also be placed on changes in the network of existing higher education institutions with a view to the efficient use and sharing of existing capacities of higher education institutions with similar or complementary interests and achieving synergies in the performance of common challenges or institutional integration on a regional or national basis, where appropriate. The important role played by the private higher education institutions should be taken into account.

The Government's efforts will also focus on optimizing the structure of study programmes in view of the stated mission and actual results of individual institutions. Master's and doctoral degree programmes will be significantly linked to the scientific, research and innovation activities of universities. On the other hand, the development of professionally oriented bachelor's degree programmes and short-cycle programmes, including support for the conversion of certain courses of higher professional education to these programmes, will be supported.

2. Enhancing the quality and relevance of higher education, their opening society

A common denominator in assessing all the activities of higher education institutions will be their high quality and social and academic relevance. Quality is currently related mainly to excellent results in science, while other dimensions (related directly to educational activities and meeting the broader societal – third – role of higher education institutions) are more difficult to grasp. It is therefore necessary to clearly define both research and education dimensions of the higher education (including the introduction of the higher education institutions based primarily on research) on the basis of established performance, quantitative and qualitative indicators corresponding to different areas of higher education activities.

The system of quality and performance indicators will be able to map Czech higher education and evaluate the focus and quality of institutions with regard to their specific mission, to

distinguish the different dimensions of quality in key areas of higher education institutions activity (education, research, third societal role). It is obvious that the multi-criteria evaluation of higher education institutions will pick up on similar trends emerging abroad and will mainly use techniques and instruments elaborated within the European Union (international projects such as U-Map Eurostudent, Reflex, U-Multirank etc.).

Besides an external evaluation of higher education institutions, a crucial role within the scope of autonomous institutions will be played by the system of internal assessment, which will emphasize the responsibility of higher education institutions for the quality of their work.

In line with the latest trends in other countries, in higher education institutions quality assessment evaluations an emphasis will also be placed on the employability of their graduates and prospects of their graduates as a key indicator of the relevance of the education provided. Similarly, higher education institutions will be evaluated based on their success in obtaining resources from the private sector for their future development and activities in research and development. The role in the transmission of the results of their activities for the benefit of society as a whole will be taken into account. These indicators will also be used in the further development of rules for the financing of higher education from the national budget.

The central government policy no longer aims to increase number of students in higher education institutions, institutions, but their quality and relevance, thus linking them to the development needs of the whole of society, its economy and job market. Therefore, it is impossible to encourage further increases in the number of students in disciplines and institutions whose graduates do not find corresponding employment. Essential information for the course does not comprises only monitoring of the current situation in the labour market, but also systematic and regular assessments of future skill requirements and trends in the reproduction of the higher education workforce. It is also neces-

sary to prevent the real risk that some important economic sectors/industries/branches will find themselves without an adequately qualified workforce.

Study programmes and courses should be sufficiently broad, facilitate the diversity of theoretical positions and other professional expertise. Given the low quality of social science research (in the international comparison), it is necessary to concentrate support on ensuring closer contact with teachers and students, and, at centres of excellence, on thus reducing the number of students per teacher. More support for the attractiveness of technical disciplines to offer wider possibilities of practical use is necessary.

In the reform of the higher education system, the Government will tighten the opportunities of creating new faculties at public universities, inter alia, in view of the requirements and needs of the economy. In this sphere of social sciences in particular, reform will support the establishment of fields of study based solely on a particular theoretical approach, especially in the field of social sciences.

Despite the many positive changes in recent years, the linking of higher education institutions and wider societal expectations are increasingly seen as inadequate, and it is necessary to support the adaptation activities of institutions to such aspirations. A culture of dialogue between higher education institutions and their partners will be supported. External stakeholders will be more involved in the planning and evaluation of higher education institutions' activities – taking into account the profile and mission of individual institutions - such as systematization of the role and activities of the supervisory boards as a tools means of public control over the fulfilment of these institutions. The implementation of the qualitative framework should also be more closely linked to fields of study in higher education and sector graduates.

3. Funding higher education institutions

Higher education in the Czech Republic suffers from long-term under-funding. In comparison with EU countries, expenditure per student in the Czech Republic is still very low in recent years, the situation is even getting worse. Comparative studies have clearly demonstrated that the level of unit costs is associated with the quality and performance of higher education institutions, reflected for example in the best American universities compared with the situation in Europe. Therefore, in this direction clear improvements are expected.

Besides public funds, it is necessary to channel more funding into higher education institutions from private sources, funds from businesses and households. Tax incentives will be introduced to raise funds for research and development at higher education institutions; the business community invests in other public institutions. At the same time, a financial support scheme for students will be prepared, allowing for the subsequent introduction of tuition fees. The Government expects the introduction of financial participation by students to meet the costs of their studies and play an important regulatory function on the part of students and higher education institutions; this system is due for introduction in the academic year 2013/2014.

The key to the allocation of public funds will be a steady decline in the number of students; instead, the weight of higher education institutions quality and performance will increase, along with the scientific and educational activities of universities, and other roles performed for society. The Government will continue the commenced changes in the rules of higher education institutions budgetary breakdown and promote the improvement of their objective criteria and benchmarks. A fundamental shift from quantity to quality, which is now supported by a majority of universities, will naturally be reflected in the number of newly admitted students.

Persons entering tertiary education for the first time in the Czech Republic according to

OECD methodology have increased to 70% of the corresponding age group. At higher education institutions and among the public, the overriding opinion is that this is too much and that it negatively affects the quality of learning and reduces the incentive to achieve the best results. The proportion of entrants to tertiary education should, therefore, fall below two-thirds in the coming period of a decline in the corresponding age cohorts. The number of persons with a full master's degree in the total number of graduates should fall (both absolutely and relatively) in favour of undergraduate vocational programmes and a shorter cycle programmes. This will make it possible to strengthen the quality of master's and doctoral education.

Implementation on the government level

The reform measures are concentrated primarily in the years 2011-2013 and where appropriate the timeframe is set out more precisely, by measure. In higher education, crucial steps will be the preparation of draft explanatory memoranda for the Higher Education Act and the Act on Financial Assistance to Students, which will be submitted to the Government in 2011, to be followed by the preparation of the articulated drafts of the relevant laws in the first quarter of 2012.

The measures under this chapter fall within the framework of the fifth pillar of competitiveness – Higher Education and Training – according to the methodology of the World Economic Forum.

Consistency of the measures with the targets under Europe 2020 strategy

The proposed measures follow up on the targets of Europe 2020 strategy in the area of education and on Recommendation 9 of the Integrated Guidelines.

Measures are also carried out in accordance with the flagship initiatives of the European Commission, Youth in Motion, which is focused on supporting the expanding mobility of higher education institutions students and teachers (in

terms not only of quantity, but also quality). They are consistent with the EU agenda for the modernization of higher education, the preparation of an EU internationalization strategy, and discussions on the creation of a system of student loans from the European Investment Bank.

In addition, support for higher education accommodates the targets of the Euro Plus Pact in terms of the objective of enhancing competitiveness and in the performance indicator of reducing youth unemployment.

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

Introduction

The character of the Czech business sector stems from the nature of the Czech economy as export-oriented production base for markets in Europe and its surrounding areas. The Czech Republic should continue to use its geographical advantage and adjust the structure of policies aimed at promoting entrepreneurship to this advantage. The share of domestic owners of firms operating in the Czech Republic is low and dominated by branches and subsidiaries of foreign firms on the Czech market.

Most production focuses on the processing of primary raw materials for intermediate products and for the final assembly of products destined for export. Segments for production with high added value, such as the research and development of new technologies, the production of more complex components and product modules, and services connected with the placement of products on the end market are missing.

Government policies must focus on the creation of conditions for the development of these as yet marginalized sectors (e.g. by supporting research and development - see Chapter III. 5); on the other hand, it should continue enabling the continuation of current production. An important role for the development of the business environment is played by measures described in other chapters of the National Reform Programme. Besides those mentioned above, they include changes in tax and social systems focused on reducing labour costs (see Chapters III.1. and III.2.), streamlining public administration and combating corruption (a transparent public procurement system and computerization of the award of contracts), and promoting education for a qualified workforce.

Particular attention should be paid to supporting small and medium-sized enterprises, includ-

ing the continuation of programmes to support business start-ups, improved access to financing, the provision of bank guarantees, reduced administrative burdens, simplified administrative procedures and the promotion of innovations. In the evaluation of the legislative impacts, it is necessary to promote the principle of “think small first” and use the SME test when submitting legislative proposals regulating the conditions of business.

The next chapter focuses on several specific areas in which some specific obstacles to business development can be removed. First and foremost, there is the elimination of administrative and regulatory barriers to business and community development. Here, the procedures in tax administration are over-complicated, it is difficult to open and close a business, there is lack of access to finance for small and medium-sized enterprises (including non-existent market for venture capital), there is a poor contract enforcement and a lack of competition in network industries. Furthermore, the generally low willingness of authorities to help business, a lack of support for start-ups and many other sub-problems belong here.

A specific, but significant area in improving business conditions is the sphere of technological readiness, especially the extension and adaptation of information and communication technologies (ICT). The Czech Republic also lags in supply and in the use of broadband, particularly in rural and remote areas. Considerable potential for increasing the efficiency of State administration and its “user friendliness” to citizens and businesses is offered by eGovernment. Rational use of ICT increases productivity at work, accompanied by significant cost savings.

Core reform goals

Given the above shortcomings of the business and legal environment, the Government will focus primarily on the following areas.

In areas of the national target related to the administrative burden reduction by the end of 2013 the burden on 12 selected areas will be re-

measured; individual proposed legislation will lead to their simplification.

Another major reform step is the eco-audit, which aims to eliminate unnecessary or inefficient requirements in existing legislation on environmental protection.

In addition to removing barriers to entrepreneurship, certain other measures need to be taken to promote positive steps for start-ups and other business development activities. These measures should be grasped as complementary to the actions removing the obstacles.

The area of the simplification of administrative procedures for businesses may include, inter alia, measures associated with the simplification of the tax statement and tax administration. First, reform will be introduced to simplify the income tax system; here, advantages for lone traders will be maintained in the form of lump-sum expenditure. The integrated revenue agency (IRA) will be set up to collect taxes, customs duties and contributions to health and social insurance (for details see Chapter III.1.2.).

In the field of high speed internet, a major reform initiative is the introduction of package summarized in the conceptual material on State Policy in Electronic Communications - Digital Czech Republic. A key measure in the area of eGovernment that will facilitate the adoption of many other related initiatives towards improving the business environment and increased efficiency of government, the project is basic information registers of public administration.

III.4.1 Reducing Administrative and Regulatory Burdens for Businesses

III.4.2 Institutional Business Support

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

III.4.1. Reducing Administrative and Regulatory Burdens for Businesses

The planned measures will contribute to the simplification, streamlining and better predictability of the legal environment for business in the Czech Republic and will thus make the country more attractive for foreign investments. Unnecessary or inefficient requirements in regulations that go beyond EU law and have no clear justification will also be eliminated.

Concrete reform priorities

1. Reducing the administrative burden on businesses

The national target for reducing administrative burdens by 2020 is set with regard to the targets of Europe 2020 strategy as follows:

Reduce the administrative burdens on businesses compared to 2005 by 30%.

The Czech Government will continue its project to reduce the administrative burdens on businesses. Based on an analysis of the progress and implementation of the national programme thus far, in December 2010 the Government approved an increase in the current targets for reduction of administrative burdens on businesses to 25% by 2012 and also decided to continue the programme in the subsequent phase. During that phase, the updated methodology for measuring the administrative burden, used until 2007, will be tested; this time the measurement encompasses 12 selected areas, e.g. entry into business, commercial law, licensing, employment conditions and tax payments.

The second phase of the re-measurement of administrative burdens is currently under way. Also this stage concerns businesses only. Re-measurement also focuses on quantitative indicators (e.g. the time required for the fulfilment of a particular obligation or cost parameters) and qualitative indicators. The aim is to determine which obligations are perceived by businesses themselves in their work as the most

burdensome. The success of this phase depends on interaction and communication between representatives of State administration and business representatives.

2. Removal of unnecessary or inefficient requirements in regulations on environmental protection

In environmental legislation, in early March 2011 the Government acknowledged proposals from the competent inter-ministerial committee designed, through a review of legislation on environmental protection, to help to strengthen competitiveness and business development. This joint project of several ministries, a so-called “eco-audit”, contains 96 specific proposals to eliminate unnecessary or inefficient requirements in regulations that exceed the requirements of EU law and have no clear justification. Implementing the proposed measures will increase the competitiveness of Czech firms and simplify the regulatory environment in which they operate.

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

The essence is a change to the legislative framework for the unification of procedures in zoning and building permit proceedings under the Building Act, reduction of administrative burdens in these proceedings and a change in the quality and content of the proceedings via the digitization of processes.

Implementation on the government level

Completion of the re-measurement of administrative burdens is scheduled for 30 June 2013, when the final report will be submitted to the Government. Proposals will then be submitted for changes in specific legislation to reduce unnecessary burdens.

Budget requirements for the implementation of the second stage will be established after the scope of reporting duties and data provision requirements has been determined.

In the case of eco-audits, three dates have been set to carry out various measures: mid-2011, the end of 2011 and the end of 2012. In addition, the Minister for the Environment and the Minister for Industry and Trade will provide the Government, by 31 December 2012, with an updated list of measures, including a report on their current implementation, which will then be submitted to the Government every other year. The legislative proposals will be part of the Government’s legislative plan for the current calendar year. Total savings for businesses resulting from the measures implemented are estimated at up to CZK 8.7 billion per year; lump-sum savings are CZK 1.7 billion.

The project for the unification of procedures under the Building Act, reduction of administrative burdens in zoning and building permit proceedings and the digitization of processes will be completed by 2013, which will have a positive impact within the eleventh pillar - Business Sophistication – and the sixth pillar - Market Efficiency in business-related procedures – according to the methodology of the World Economic Forum.

Consistency of the measures with the targets under Europe 2020 strategy

The measure to reduce the administrative burden is related to the flagship initiative of Europe 2020 strategy “An integrated industrial policy for the globalization era” and is linked to Recommendation 6 of the Integrated Guidelines “to improve the environment for entrepreneurs and modernize the industrial base”, as it aims to increase competitiveness, especially among small and medium-sized enterprises.

It also comprises steps to promote competitiveness, as called for by the Euro Plus Pact.

III.4.2. Institutional Support for Business Development

In the removal of barriers to business development, an essential basis is the Government’s

economic policy, complemented by a measure actively supporting the creation and development of enterprises. In addition to measures falling within the tax and social sphere (including fiscal and social administration) and within the R&D policy and the creation of infrastructure at this place, reforms in public authorities to ensure greater friendliness towards entrepreneurs should also be mentioned.

Concrete reform priorities

1. Public administration responsive to business

In view of the fact that a substantial part of the Czech business sector is focused on final assembly, i.e. the middle part of the production chain, the success of this type of business depends on speed in the supply of components for production and on exports of processed products. This requires perfectly functioning customs administration. It is therefore necessary to optimize the network of customs to meet the operating times and location needs of businesses.

At the same time, it is necessary to adapt the functioning of other State administration authorities as much as possible to the needs of the business community. This applies, for example to the length of office hours and to rapid online accessibility of important information, especially as regards the labour market (see also below).

2. Strategic support for exports and economic diplomacy

Due to the structure of the Czech economy, a pro-export policy should be one of the business support pillars. The Government will adopt a strategy document in export policy. Various institutional representative branches of the Czech Republic must work together better and their geographical distribution should better reflect the needs of the Czech economy and exporters. The territorial network of Czech representative branches will be aligned with the Czech Republic's economic interests.

The EU single market also has an external dimension. Therefore, in the broader perspective, economic diplomacy includes the defence of the interests of the Czech business sector and Czech exports in the development of EU policies. There is a need for coordinated action here. In the common commercial policy in particular, the Government will help to remove barriers to free trade which have a negative impact on Czech exporters. In all internal market policies, it will promote further liberalization and the opening-up of hitherto closed sectors.

3. Supporting new businesses

The Government will take measures for the development of business in services with high added value, based on innovative technologies, by supporting infrastructure for the creation of clusters, incubators for new businesses and virtual marketplaces for innovations, including the development of technology parks. In this framework, it will work closely with regional and local authorities and commercial representations. Priorities in this area will take into consideration the articulation of priorities for the use of Structural Funds in the next programming period.

Implementation on the government level

Regarding improvements in State aid for exports, in late February 2011 a Memorandum of Cooperation of the Ministry of Industry and Trade was signed with the Economic Committee of the Chamber of Deputies, which guarantees better coordination of foreign trade missions, a long-term stable and predictable pro-export policy, and stronger support for Czech firms on foreign markets. The document "Updating the Export Strategy of the Czech Republic 2006–2010 for 2011" is currently in inter-ministerial comment procedure. The national budget for 2011 is expected to earmark CZK 1 billion for the promotion of exports.

Measures aimed at more efficient institutions constitute the first pillar of competitiveness ac-

according to the methodology of the World Economic Forum.

Consistency of the measures with the targets under Europe 2020 strategy

Reform measures are aimed at improving the business environment and at the facilitation of business in order to create jobs and promote innovative companies. There is an evident link here to the objective of raising employment and the objective of promoting investment in R&D, as well as to Recommendation 6 of the Integrated Guidelines “Improving the business and consumer environment and modernizing the industrial base”.

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

The Czech Government will continue its activities supporting the development of electronic communications and other activities that generate an advanced information society (ICT). The result, inter alia, will be an improved business environment, increasing the efficiency of public administration and services for citizens and businesses.

Concrete reform priorities

1. Improving access to high-speed Internet

In January 2011, the Government approved the State Policy in Electronic Communications - Digital Czech Republic. The aim is to reduce the “digital divide” in access to high-speed Internet between rural areas and towns. In this paper, the Czech Republic set a target to ensure the availability of access to high-speed Internet in all populated areas of the Czech Republic with a minimum transmission speed of at least 2 Mbps (download), and in cities of at least 10 Mbps by 2013.

The medium-term objective is to ensure that, by 2015, high-speed internet is available in rural

areas with a transmission speed that is at least 50% of average speeds attained in the cities. Thirty per cent of households and firms in cities should have access to the connectors with a transmission speed of at least 30 Mbps. The State policy should contribute to the creation of suitable conditions for the development of access to high-speed Internet and related services, an increase in the number of Internet users, accelerated connections, and therefore the greater digital literacy of the Czech population, which will ultimately have a positive impact on business and overall economic growth.

Key measures in meeting these targets are, in particular, the use of the radio spectrum released by the transition from analogue to digital television broadcasting (the digital dividend) for the provision of high-speed Internet access, the creation and accessibility of user-friendly and beneficial applications of State administration motivating citizens and businesses to use the Internet, and the submission of amendments to primary and secondary legislation that will enable, accelerate and increase the efficiency of the development of high-speed Internet access.

2. Development of eGovernment

By the end of 2015, the Czech Republic aims to have eGovernment services used by at least 50% of the population and 95% of businesses.

One of the main projects is the introduction of electronic identity cards (eID), the launch of which is prepared for January 2012. The use of eID is one of the cornerstones on which it will be possible, in the future, to build new eGovernment services.

Another eGovernment project is the establishment of basic public administration registers, due for completion in July 2012. This system of registers will enable citizens and businesses to communicate with authorities without having to repeatedly provide the same information, which will be shared within the public administration system. The registers will also reduce administrative burdens and deliver a major qualitative

leap forward in the use of eGovernment services by both citizens and businesses.

The Czech Government is drawing up a “Strategy for Digitizing Selected Agendas in Public Administration”, under which, inter alia, the Digital Agenda for Europe and the European eGovernment Action Plan for 2011-2015 will be reflected, particularly as regards the use of electronic services related to study, work, health care, housing or income from anywhere in Europe.

The Strategy will also include opportunities for the further development of the information system of data boxes and public administration contact points – CzechPOINTS, already up and running in the Czech Republic, which simplify and accelerate public administration processes for citizens and businesses. Data boxes are currently functional, but it is necessary to ensure their use in practice and to forge links with the targets of the EU.

The streamlining of processes in culture and the management of cultural works will benefit from the digitization of cultural content, which is based on the Government Cultural Policy 2009–2014, approved in 2008, and which will be further specified on the basis of the National Strategy for the Digitization of Cultural Content 2011–2016. This Strategy will be submitted to the Government in the third quarter of 2011. The Government is preparing an amendment to the Copyright Act which should, inter alia, address the copyright aspects of digital cultural content, particularly as regards the “orphan works”.

Implementation at government level

The timeframe for implementation of the measures mainly focuses on 2013 and 2015.

In the second half of 2011, the Government will submit the National Strategy for the Digitization of Cultural Content. The Government will reflect conceptual plans in legislative proposals, namely in the preparation of the amended

Copyright Act (No 121/2000), due for submission in the first quarter of 2012.

In terms of the high-speed Internet, the Czech Republic offers no financial incentives. Individual measures are aimed at creating appropriate conditions for private investment. The financial demands of eGovernment measures significant, but because of their complexity they are currently difficult to quantify. An important role in the implementation of the measures will be played by projects financed by EU funds. Measures in this subchapter fall within the ninth pillar of competitiveness – Technological Readiness – according to the methodology of the World Economic Forum.

Consistency of the measures with the targets under Europe 2020 strategy

The measures are closely linked to the Europe 2020 strategy flagship initiative Digital Agenda for Europe and the eGovernment Action Plan for 2011–2015.

The Euro Plus Pact also discusses “specific efforts” to promote innovation and infrastructure.

III.5. Support for growth based on research and innovation

Introduction

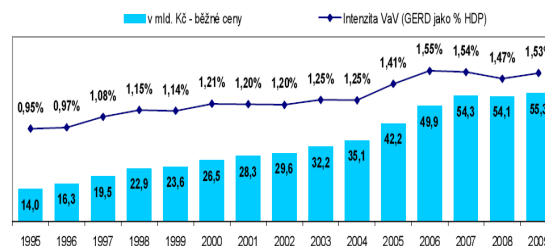
Support for the innovative potential of the economy must be a necessary part of the national competitiveness policy. Although the Czech economy is strongly focused on industrial production, the sustainability of industrial production is closely linked with the ability to interconnect production with research. It is also necessary to focus on the export of services, where a significant drop in growth has been observed over the past decade, and, in terms of services, on competitive innovative technologies. It is also necessary to approach the setting of targets realistically, with respect to the basic structure of the economy. The future development of the Czech Republic will be based on emerging knowledge that will be consistently applied in the implementation of all types of innovation in the corporate and public sector.

A basic problem is the very diverse quality and quantity of results in research, development and innovation associated with the inappropriate financing structure. This goes much deeper than the volume of resources, concerning instead the spending mechanism, including the distribution between the public and private sector. In 2009, investment in research and development in the Czech Republic amounted to 1.53% of GDP. The share of the public expenditure on research, development and innovation in 2009 represented 0.63% of GDP. The business sector is the most important long-term source of funding in this field in the Czech Republic and is the most important sector in which research and development is carried out. However, the level of funding is low compared to the EU average, and since 2006 has been steadily diminishing. Moreover, most of these resources are consumed within the business sector. Only a small part of research and development is carried out in the form of collaboration between the private and public sectors (4.5%), and a completely neg-

ligible part of private funds is channeled into the higher education sector, which is almost entirely dependent on public funds.

Graph: growth of total R&D and innovation expenditure relative to GDP 1995–2009

Graf A.1: Celkové výdaje na výzkum a vývoj (GERD) v České republice



Zdroj: Český statistický úřad, Roční statistické seřazení výzkumu a vývoje (VTR 5-01)

Problems can also be identified in government policy in this area and are reflected back on the reluctance of the private sector to invest in research and development. The aim of effective government policy in this area must be the balanced development of each of the pillars of the knowledge economy in order to equally contribute to the strengthening of knowledge and its use in innovation and to the development of knowledge and skills in the population. The financing structure, representing the problem on the Government side, does not sufficiently reflect the relationship between the industries and institutions supported and demand in the sphere of production. There is a lack of market evaluations of results, a rational and transparent system for the allocation of public resources according to national priorities, and clear evaluation criteria (including assessments of the quality of higher education institutions carrying out research). Furthermore, there is insufficient link between strategic management in R&D and education system, legislative changes, fiscal incentives and adequate and enforceable legal protection of intellectual property. Although significant progress has been made in this area in the past year (the adoption of amendment to Act No 130/2002 on the support of research, experimental development and innovation and the National Research, Development and Innovation Policy for 2009–2015), many problems remain unresolved.

The inappropriate system of public funding for science, research and development naturally has implications for support from the private sector. Any increase in support from this sector and in the effectiveness of the whole innovation process, which should be a priority, depends on high-quality research institutions and synergies between projects financed with public and private sources. Public funding needs to be increased relative to GDP, and at the same time there needs to be a focus on the interests of the business sector so that this sector has the greatest possible interest in becoming involved in the activities thus financed. The development of curiosity-driven (basic) research is an essential prerequisite for the sustainability of the innovation environment. This does not mean complete resignation to the support of other scientific areas (including support for basic and applied research in social sciences) to an extent sustainable through public funding and consistent with social demand and the quality of research. However, the number of researchers and scientists cannot be the main criterion for the provision of funds in the future.

Core reform goals

The main targets in the sphere of research, development and innovation are an overall increase in quality and thus in the competitiveness of institutions in this area, along with closer alignment with demand in the business sector. In this context, it is necessary to take measures to improve funding, evaluations of researchers and institutions, and their ranking according to quality, to improve the protection of intellectual property, to improve cross-sectoral communication and, finally, to improve the environment for the development of venture capital.

The support of oriented research will be aimed at interlinking the interests of the Czech economy. Given the strategic importance and specifics of the energy sector, the strategic management of research, development and innovation for this area will need to be prepared. In view of the long cycle of construction and

operation, the energy sector needs strategic management for the support of research from public resources according to the priorities of this sector and industry as a whole. Nevertheless, it is not and cannot be up to the Government to determine which lines of basic research and scientific fields are promising. The Government must adequately support such research and create conditions to enable the private sphere alone to be able support demand-driven research activity; government research policy must be neutral from the aspect of the individual disciplines and must be based primarily on demonstrably measurable quality. Quality assessments should be based on comparisons with what achieves the best results in an international context.

III.5.1. Investment in Research, Development and Innovation and Evaluation of Outcomes and Impacts

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

III.5.1. Investment in R&D and Innovation and Evaluation of Outputs and Impacts

The Czech Government will focus on ensuring sufficient investment in research, development and innovation. Just as important as the volume is the structure (public and private investment), the effectiveness of spending, and the evaluation of outcomes and impacts. In the Czech Republic, it is necessary to complete systemic tools able to effectively support the whole innovation cycle (i.e. encompassing basic research, applied research, experimental development and the use of new knowledge in the business innovations). The Government will also implement reform measures in support of scientists and researchers.

Concrete reform priorities

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

The most pressing problem in the field of innovation, in both absolute and relative terms, is still very low level of investment from the private sector. In a European and international comparison, however, the Czech Republic also reports low international competitiveness and low interaction between all innovation chain stakeholders and interests of the Czech economy.

Besides the lack of private investment, the Czech Republic is also lagging in terms of public financing. In an environment of venture capital, no tax benefits are offered and no investment incentives exist.

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 steps to secure an adequate increase in the share of the private sector in funding so that the Czech Republic contributes to the EU-wide target set in Europe 2020 strategy.

Just as important as the total amount of resources is their efficient allocation. The Government will take action to avoid inefficient financing, use instruments of indirect support, especially by making purchases of research from universities and research organizations deductible from the tax base under the Income Tax Act. At the same time, it intends to support an overall annual increase in expenditure spent on research and development. The adjustment will be made in connection with an amendment to the Income Tax Act submitted to the Government in the first half of 2011, with effect expected as of 1 January 2013.

The Ministry of Industry and Trade, in cooperation with the Ministry of Finance, the Ministry of

Education, Youth and Sports, and the Research, Development and Innovation Council, will improve conditions for access to venture capital in order financing innovation (by means of a proposal to create a venture capital fund) in the current programming period. The aim is to fill in gaps in the current Czech market and to ensure the greater involvement of private investors through venture capital, especially in the early stages of the lifecycle of firms.

2. Improving the performance of R&D and innovation

As yet there are no relevant benchmarks to provide information on the effectiveness of investments in R&D and innovation in an international comparison. Therefore, the Government will prepare new evaluation methodology and create conditions for long-term financing based on quality and increased support for the best research teams. Legislation governing the distribution of funds for research, development and innovation will be closely linked to the evaluation methodology. The criteria for assessing the quality will be as transparent and objective as possible and will be based on international standards. In this regard, it is necessary to modify the conditions for the functioning of grant agencies. The aim is therefore to have a system strictly focused on project quality evaluation according to international standards.

The evaluation system needs to be overhauled and improved in basic research, applied research and experimental development. Applied research cannot be prioritized to the detriment of basic research.

In order to improve quality, it is necessary to prevent the outflow of top scientists. On the contrary, the Government needs to encourage such workers to come to the Czech Republic. Their remuneration needs to be competitive in the international comparison. It is imperative, in assessment of their labour, to focus on quality and allow greater flexibility in the remuneration of leading workers beyond the salary scale system.

An essential element in ensuring the quality of research and development is deepening international cooperation. The Government will continue to fund programmes of international cooperation in science, research, development and innovation and to foster the involvement of Czech research entities in the Framework Programmes and other activities in this area.

The Government will also adopt a programme for financing large infrastructure projects and ensuring the sustainability and development of newly built centres. Based on an initiative from the MIT and the Ministry of Education, the Government will adopt a strategic programme to support research development and innovation throughout the energy supply chain.

Following major investments from European funds in eligible regions and the associated increase in the performance of R&D and innovation in these regions, the Government will consider the appropriate exploitation of the scientific research potential in Prague too. In parallel with this, the development, needs and maximization of investments in those areas where investment has already taken place will be monitored.

3. Support for scientists and researchers

Distribution in the group of scientists and researchers by age, in particular the shortage of workers from the middle age generation, has been an unsatisfactory long-term trend in the Czech Republic. The main cause is the low financial attractiveness of employment in these respective fields, both in comparison with other professions in the Czech Republic and in comparison with the remuneration of scientists and researchers abroad. This results in the departure of young workers for the private sector or other countries after the Government has invested considerable funds in their training.

Measures will be aimed at ensuring a return on such public investments in the training of high quality researchers and scientists, both through better pay and by expanding the professional infrastructure for quality research (in-

cluding equipment for libraries). Not least, support for young scientists will target the most promising workers achieving the best results. While the number of researchers in the Czech Republic is still low, even in this case quality should take precedence over quantity.

The Government will adopt an action plan for the development of human resources in research, development and innovation. It will also finance programmes for the mobility of researchers, their return to the Czech Republic and career development.

The Government will provide financial support for research, development and innovation projects, particularly in the field of cooperation between research and industry, and will promote the education and lifelong learning of leading experts for the needs of industry and State administration, in particular in areas where generation gaps have arisen.

The Government will prepare tools to enhance the attractiveness of the Czech research environment among foreign scientists, and to promote long-term stays by foreign researchers and academics at research institutes and universities in the Czech Republic, including legislative changes.

The Government will also create career development programmes for young researchers returning from parental leave and programmes to popularize research at secondary schools, especially in science and engineering fields.

Implementation on the government level

Measures will be prepared so that in 2020 public spending on R&D and innovation amounts to 1% of GDP. Innovations fall within the twelfth pillar of competitiveness along with the availability of venture capital under the eighth pillar – Financial Market Development – according to the methodology of the World Economic Forum.

The plan of public aid will be specified by the Proposal for the Distribution of National Budget Expenditure on Research, Experimental Development and Innovation for the Current Year and

Subsequent Years, usually discussed by the Government in May each year. The Government will also prepare and submit an amendment to Act No 215/2004 on certain relationships within the area of state aid and related amendments to the Act on the support of research, experimental development and innovation due for submission in May 2011.

Consistency of the measures with the targets under Europe 2020 strategy

National priorities in this area seek to fulfil the targets of Europe 2020 strategy, i.e. ensuring a flow of 3% of GDP into research and development. They also fulfil Recommendation 4 of the Integrated Guidelines to strengthen support for research and innovation, including by using tax incentives to encourage private investment in research; and correspond to measures proposed to increase productivity included in the Euro Plus Pact.

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

The Government will focus its efforts on improving quality and strengthening the role and status of R&D and innovation in society. A long-term weakness of the Czech Republic is insufficient cooperation between the business sector and public research institutions; the transfer of research results into practice must also be improved and the innovative potential of research and development must be fully exploited.

Concrete reform priorities

1. Improved collaboration between the research sector and the business community

In the current situation, the commercialization of the results of science, research, development and innovation still needs to be improved. The Government regards as an ongoing national problem the motivation of universities and research institutions to commercialize their R&D. On the other hand, businesses remain incapable

of clearly defining their new requirements and subsequently drawing on this knowledge. The low ability to implement new technology based on research applies to both the public and the private sector.

The interlinking of the public research sector and the private sector is also impeded by a lack of coordination between the research and education spheres. The relationship between the research and educational dimensions needs to be clarified in higher education, and the third role of universities needs to be strengthened. The Government, in its new higher education strategy, will support for the diversification and division of universities into education centres and research centres focusing on cutting-edge research with the funds to back this up, with close links to the private sector. On the other hand, the needs of the innovation process should be taken into account in education and its content adapted accordingly; an important role in this process will continue to be played by various types of educational institutions.

The Government will also set up programmes promoting the cooperation of industrial enterprises, universities and public research institutions, including the promotion of the efficient use of strategic partnerships among universities and key industry players, e.g. by industrial investment in schools in exchange for a greater role in setting the strategic direction of universities.

With regard to the distribution of powers in the management of the innovation system among several central government authorities (the Ministry of Education, Youth and Sports, the Ministry of Industry and Trade and the Research, Development and Innovation Council), the Government will make efforts to clarify appropriate coordination mechanisms which would facilitate effective cooperation in the formulation of strategic targets in research, development and innovation in the context of European innovation policy. Also, in the implementation of a broad-based innovation policy, the role of the agencies established for this purpose (in particular the Technology Agency and

the CzechInvest - investment and business development agency) will be clarified.

2. Focusing on innovation potential

With the odd exception, the results of Czech research and development remain insufficiently visible and the Czech Republic continues to offer little competition in foreign technology markets. The leading role in development and innovation must be played by the private sector, which utilizes innovative products. Still very few research projects are supported from the beginning by the private sector. As mentioned above, it is necessary to harness the synergies of public and private investment so that private investments are also made in the Czech Republic.

In order to support innovation potential and its development in the Czech Republic, it is necessary to improve the legal environment. Current legislation on intellectual property protection is still insufficient and not always clear. Companies often seek patent protection abroad first (e.g. in the US) because in the Czech Republic the State does not give them adequate support (although other factors may play a role here, especially the size of the Czech market). The Czech Republic will promote the deepening of harmonization efforts in the field of patent law in the EU. Nationally, the Government will also seek to improve legal protection and law enforcement in particular. To achieve this, the qualifications of judges in this area must be improved.

Essential elements in supporting innovation-based business are greater awareness of such business and opportunities for the development of that business. Therefore, the Government will take steps to stimulate the supply of educational programmes focusing precisely on that area, both within higher education and in the sphere of lifelong learning.

A significant problem is the lack of a comprehensive innovation strategy to take account of developments in recent years and the priorities set at EU level (Europe 2020 strategy and the Innovation Union). Therefore, in

2011 the Government will discuss the Czech Innovation Strategy to reflect the Innovation Union initiative in the Czech environment, which will be part of the Czech Republic's Strategy of International Competitiveness and will include proposals for concrete actions, including deadlines for their achievement.

The Government, in collaboration with other bodies, further to the Strategy of International Competitiveness and the needs of the energy sector in accordance with the planned modifications to the State Energy Policy, will submit a limited number of priority directions for innovation-oriented research, together with the proposed allocation of expenditure on these priorities. Under the SET Plan, the Government will also assess the infrastructure for the research, development and demonstration of new energy technologies with a view to strengthening the competitiveness of the energy supply industry (technology suppliers) and energy research, development and innovation. The Government, as stated above, is currently adopting an update of the National Research, Development and Innovation Policy for 2009–2015, which will be submitted by 2012.

Implementation on the government level

The timing of individual steps in science, research, development and innovation is determined by the schedule for the pursuit of targets and measures under the National Research, Development and Innovation Policy of the Czech Republic for 2009–2015.

In terms of legislative proposals, the Government will submit an amendment to Act No 72/2000 on investment incentives, due for submission by the Government in June 2011.

The field of innovation is the twelfth innovation pillar of competitiveness according to World Economic Forum methodology.

Consistency of the measures with the targets under Europe 2020 strategy

The reform measures reflect the main targets of the Strategy, the Integrated Guidelines, and the flagship initiative based on the Commission Communication on the Innovation Union. The main paths mapped by the document (“a collective, responsible, strategic, holistic and business-oriented policy for science, research, development and innovation that increases competitiveness and secures jobs”) are reflected in the national strategy contained in this reform programme. The promotion of the competitiveness of the domestic economy and the growth based on knowledge must therefore be one of the main principles of government policy in this area.

In connection with Europe 2020 strategy, the Czech Republic has an eminent interest in completing the European Research Area project and launching the project of European Innovation Partnerships and evaluating the results thereof.

Support for research, development and innovation should also positively impact on the development of the indicator of unit labour costs, which will be monitored under the Euro Plus Pact.

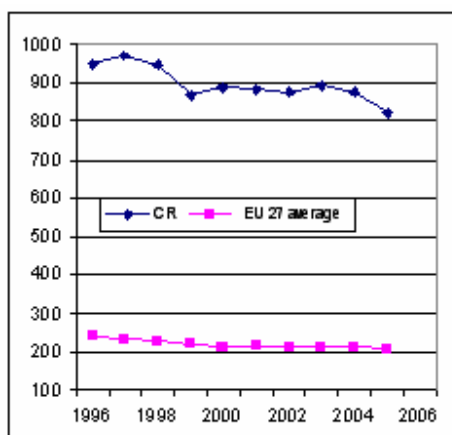
III.6. Support for a low-carbon, environmentally friendly competitive economy

Introduction

The promotion of competitiveness must respect the limits formed by the effort to ensure that economic growth is sustainable. 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 interest in economic growth is unsustainable, as is growth that fails to reflect the scarcity of material resources on which it is based, and growth polluting the environment in which the society served by the growth is developing.

The most important problems encountered in the Czech Republic and hindering the growth of its competitiveness on a European and global scale are its large energy and material consumption relative to GDP, the high degree of pollutant emissions and shortcomings in the efficiency of waste management.

Graph: International comparison of energy consumption – kilogram of oil equivalent per EUR 1,000 (conversion rate)



Source: Eurostat 2009

One of the keys to growth and employment is consistent implementation of the principles of efficient resource management. Fundamental challenges lie in finding ways to reduce the number of primary resources entering the economy, lowering the pressure that production and consumption processes place on resources and the environment in which they operate, and streamlining the management of waste from these processes. The use of nuclear power as a non-air-polluting source that respects all safety standards makes a major contribution in reducing greenhouse gas emissions and ensuring sufficient energy supply. This further strengthens the competitiveness of the energy sector and energy security, and generally assists in the transition to a low-carbon economy. It also has several positive impacts on research, development and innovation.

Core reform goals

The Government will promote the reduction of pollutant emissions, as well as energy savings and efficient energy management in manufacturing, distribution and consumption.

In terms of increasing energy efficiency, the Government sets the national target of maintaining the current pace of decline in energy intensity, thereby contributing to the achievement of the indicative target set by the EU at 20%. The Government will also take further steps to improve environmental quality.

III.6.1. Increasing Energy Efficiency

III.6.2. Increasing the Proportion of Energy from Renewable Resources

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

III.6.1. Increasing energy efficiency

The indicative target set under Europe 2020 strategy for the EU as a whole is focused on a shift towards greater energy efficiency at EU level by 20%. The Government will set an indica-

tive non-binding target for energy efficiency, but is unable to provide a specific quantity because first it intends to analyse in detail and realistically the possibilities available to the national economy in energy savings in terms of the long-term sustainability of its competitiveness.

To achieve the targets of the forthcoming Government Energy Policy, the initial 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, minimization of the environmental impact, including greenhouse gas emissions, at affordable prices and with secure supplies to the final consumers while respecting the importance of domestic primary energy resources).

The Government Energy Policy and the Energy Efficiency Action Plan of the Czech Republic set national targets for energy savings (final energy consumption), but not in terms of primary sources. The Action Plan established an indicative energy savings target for 2010 of 3,573 GWh, i.e. 1.6% of the volume of average energy consumption in 2002–2006.

Work is under way to update the Government Energy Policy, including a calculation of the indicative energy efficiency target.

Under the updated Government Energy Policy and Energy Efficiency Action Plan, the means of meeting commitments under EU legislation to use ICT-based systems in intelligent networks and smart metering systems, e.g. in low-energy buildings, will be assessed.

Concrete reform priorities

1. Promotion of energy efficient buildings

In current 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.

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, as it reduces the energy consumption required for the operation of district heating systems.

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. Voluntary commitments to save energy will be motivated in the form of tax concessions, with 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. An emphasis is placed on the construction of combined transport facilities. An important role is also played by support for decentralized energy production in agriculture.

3. Promotion of lower energy consumption in other sectors

An effective means of ensuring that appropriate conditions are in place is the provision of comprehensive “energy services with a guarantee” using the Energy Performance Contracting (EPC) method for the financing of energy-saving measures from future savings.

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.

Research and development in energy savings will continue to enjoy support. 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 (use of hydrogen).

Implementation on the government level

By the end of 2011, the Government will submit an update of the Government Energy Policy. During 2011, legislative changes will be made; specifically there will be two amendments to Act No 406/2000 on energy management, and Directive 2010/30/EU on the indication by labelling and standard product information of the consumption of energy and other resources by energy-related products and Directive 2010/31/EU on the energy performance of buildings will be implemented.

Infrastructure development is covered by the second pillar of competitiveness according to the methodology of the World Economic Forum.

Consistency of the measures with the targets under Europe 2020 strategy

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 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 up with the key European Commission initiatives “Resource Efficient Europe”, “An industrial policy for the globalization era” and the “Innovation Union”.

III.6.2. Increasing the Proportion of Energy from Renewable 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. In the National Action Plan, this elaborated target will be constantly reviewed and may be modified according to developments.

Concrete reform priorities

The Government intends to promote renewable energy by using grant schemes in the transitional phase of development until the electricity market becomes competitive. 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.

1. Investment support

The Government will continue to support projects that contribute to an increase in the share of renewable energy sources. These are projects for the construction and reconstruction of local and central heat plants using renewable energy for heating, cooling and hot 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 biomass-fired decentralized plants, but also for the upgrading and expansion of existing plants which would ensure, for example, greater use of heat or residual biomass. The actual production of biomass should also be supported, e.g. by means of subsidies for establishing plantations of fast-growing trees. 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.

2. Operational support

The Government intends to continue using a system for the operational support of electricity production from renewable energy sources in the form of guaranteed prices.

Implementation on the government level

Investment support for new facilities and the renovation of existing facilities in order to increase the use of renewable energy sources for heat, electricity and combined heat and power production 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. In this regard, by the end of 2011 the Government will also submit the updated Raw Materials Policy of the Czech Republic; during the first half of 2011, it will submit an amendment to the Energy Management Act (Act No 406/200).

These are measures which fall under the second pillar of competitiveness – Infrastructure –

according to the methodology of the World Economic Forum.

Consistency of the measures with the targets under Europe 2020 strategy

In this area, the National Reform Programme is based on the targets of 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 the industrial base. Individual steps will also be linked to the key European Commission initiatives “Energy Efficient Europe”, “An industrial policy for globalization era” and the “Innovation Union”.

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

Government measures in this area, in line with the Sustainable Development Strategy of the Czech Republic and the State Environmental Policy of the Czech Republic, will focus on making the life cycle of natural resources more efficient and will contribute to the reduced material and energy intensity of the Czech economy. These efforts should ultimately lead to a reduction in the cost of 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 in the environment, which should be reflected in public health with potential savings in the health system.

Concrete reform priorities

The Government will pursue targets in this area by means of a combination of partial measures. To improve air quality and reduce emissions, it will be essential to approve a new law on air protection, and to update the National Emissions Reduction Programme and Air Quality Control Programme. Attention will be paid to limiting the use of poor quality fuel for heating in households, tackling the fine dust that constitutes a serious health risk, reducing emissions of ozone depleting substances and promoting greener transport.

For emissions of greenhouse gases not covered by the trading system of emission allowances under 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 (under the Effort Sharing Decision, this value was adjusted 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 market in EU ETS emission allowances. Specific measures to achieve this objective will be drawn up in the document "Climate Protection Policy of the Czech Republic".

In the handling of materials, the goal is to reduce the specific production of waste independently of the level of economic growth by adopting a new Waste Act and a new Waste Management Plan, setting 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.

In terms of water resources, the Czech Republic aims to reduce the quantity of drinking water used for industrial and agricultural needs, and to replace it gradually with lower quality, but sufficient industrial water, particularly from available groundwater resources. More support will also be channeled into recycling and the greater use of rainwater. To achieve these targets, a new Water Act will be adopted, intended to en-

sure lower costs of production for the industrial treatment of raw water from surface and underground sources into drinking water.

Measures for conservation and the sustainable use of nature and the landscape will mainly be contained in the strategy documents on landscape care; attention will also be paid to soil protection. By 2015, appropriate restoration measures on watercourses and in floodplains will have been identified, and measures to increase water retention in the landscape will be drawn up, which will lead to a situation where the landscape is naturally capable of suppressing extreme weather events and optimizing the cycle of water in the landscape system.

Implementation on the government level

The basic framework for the adoption of measures in this area comprises the Strategic Sustainable Development Framework of the Czech Republic and the updated State Environmental Policy of the Czech Republic. The new Clean Air Act should be approved by 31 December 2011, the update of the National Emission Reduction Programme and the Air Quality Control Programme will be completed by the end of 2012. The Government will approve the Climate Protection Policy by the end of 2011.

The new Waste Act will be submitted to the Government on 31 September 2011 and the Waste Management Plan should be prepared by 2013. The preparation of an explanatory memorandum on the Soil Protection Act will be completed in the first half of 2012. The preparation of the new Water Act will be launched in 2013. The Landscape Management Strategy will be adopted by 2013. Also in the first half of 2012, the Government will submit an amendment to the EIA Act (Act No 100/2001). In the field of landscape management, several strategy documents will be adopted by 2015.

The cost of measures to improve air quality and reduce greenhouse gas emissions can be quantified by the restoration of combustion sources, in the household heating sector, and by

the restructuring and restoration of technologies in the public energy sector.

The cost of restoring combustion sources in 2012 and 2013 is estimated at approximately CZK 4 billion. In 2014 and 2015, these costs should amount to CZK 12 billion; followed by CZK 18 billion per year in the 2016–2020 period. Half of this amount should be covered by households; another part would come from the national budget. The restoration of technology in the public energy sector should result in overall costs of CZK 100 billion. The financial demands of reducing greenhouse gas emissions outside the EU ETS have not yet been determined.

Measures in this area fall under the second pillar of competitiveness – Infrastructure – and, with regard to the impact of the intended measures on public health, under the fourth pillar of competitiveness according to the methodology of the World Economic Forum.

Consistency of the measures with the targets under Europe 2020 strategy

All measures are consistent with the Europe 2020 strategy initiative “Energy Efficient Europe” and are thus in keeping with Guideline 5 “Improving resource efficiency and reducing greenhouse gases”.

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 exacerbates 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. In order to improve the efficient use of resources and reduce negative impacts on the environment, it is desirable to increase the participation 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.

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 the airport in Ruzyně is a priority.

The use of intelligent transport systems to enhance safety, speed and traffic flow and reduce its negative impacts on the environment, 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), is also inadequate.

Cycling, which can be used for both tourism and commuting, continues to account for a low share of passenger transport due to the insufficient and inconsistent infrastructure, particularly in urban areas.

Core reform goals

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 the 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 and their effective and efficient use in projects selected on the basis of thorough strategic planning.

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 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 2025; this will form the basis for setting priority projects in transport infrastructure and the timetable for their implementation. To expedite the preparation and the actual implementation of projects, the legislative framework must be modernized.

Concrete reform priorities

1. More effective strategic planning

An analysis is being conducted which will provide a real critical picture of the current state of transport infrastructure and, in view of the estimated financial framework, will describe real possibilities for the development of transport infrastructure and its key priorities. In a related phase, specific projects, selected on the basis of

a multi-criteria analysis, and the timetable for their implementation, will be presented.

This analysis will form the basis for the preparation of the Czech Republic's new Transport Policy for 2014–2020 and the Transport Sector Strategy, Stage Two – Medium-term plan for transport infrastructure development, with a long-term outlook, which will include an Strategic Environmental Assessment (SEA) of the conception and a detailed assessment of individual structures, with an outlook up to 2040.

Other planning measures aimed 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 built infrastructure. 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 are being 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.

2. Major transport infrastructure projects

Major transport infrastructure projects include:

- The implementation of selected major road projects in the form of PPPs (Public Private Partnerships)

- The completion of the basic network of motorways and expressways within the Trans-European Transport Network (TEN-T)
- The completion of railway transit corridors
- The upgrading of other lines in the TEN-T network and lines according to other international agreements (e.g. AGTC)
- The upgrading of railway junctions in the TEN-T network
- The upgrading of other lines important for urban and suburban transport (addressing transportation problems in densely populated areas)
- Interoperability of the rail network, the introduction of GSM-R (Global System for Mobile Communications – Railway)
- Interoperability of the rail network, the introduction of ETCS (European Train Control System)
- An increase in the volume of funds for the maintenance of transport infrastructure by expanding toll roads to include Class I roads and selected Class II and Class III roads (date of introduction: 2013)
- The establishment of two public logistics centres with a combined transport terminus, with parameters according to the AGTC (European Agreement on Important International Combined Transport Lines and Related Installations) (to be put into service in 2015)
- Support for the introduction of intelligent transport systems.

3. Improving the legal conditions

Following a review of the approval process for transport projects under current legislation, in 2011 the Government will adopt a number of legislative measures.

A significant acceleration in the approval and preparation of projects will be delivered by

a forthcoming amendment to the Building Act, designed to simplify the permit procedure and streamline the activities of building authorities. The Expropriation Act and related regulations should also be revised.

During 2011, the restructuring of the railway sector will also be completed. This is aimed at creating conditions for competitive rail transport with a particular focus on freight transportation over medium and long distances, on fast long-distance passenger transport, and on the function of the backbone of urban and suburban public transport. At the same time, the market in rail transport will gradually be opened with a view to the greater efficiency of an open market.

Implementation on the government level

These legislative and non-legislative measures will be implemented mainly in 2011–2013. In the field of strategic materials, the prime task will be to submit the conceptual document Transport Strategy as an Essential Part of the Development of the Czech Republic up to 2025. In terms of legislative proposals, the Government will focus on incorporating the conceptual plans into an amendment to Act No 13/1997 on roads, and into an amendment to Act No 416/2009 on the accelerated construction of transport infrastructure, which according to the plan, the Government expects to submit by June 2010. Measures to speed up the construction of the backbone transport network include the preparation of an amendment to Act No 184/2006 on the withdrawal or restriction of ownership rights to land or buildings, due for submission by the Government in September 2011.

The measures set out in this chapter fall under the second pillar of competitiveness – Infrastructure – according to the methodology of the World Economic Forum.

Consistency of the measures with the targets under Europe 2020 strategy

Transport-related measures are linked to the Europe 2020 strategy flagship initiative “Sustainable growth – for a resource efficient, greener and more competitive economy”.

III.7.2. Ensuring Effective 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. Government attention will therefore be devoted to securing funding for the construction of infrastructure both in the form of infrastructure funding from private sources and the expansion of toll roads.

Concrete reform priorities

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 (PPPs).

Preparatory work on the first PPP projects will be launched later this year, with implementation to begin no earlier than 2013. 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 internalization of external costs, resulting in 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 the future cohesion policy

The Government regards the cohesion policy as an important tool not only for balancing differences between less and more developed regions, but also for enhancing the competitiveness of individual regions and the national economy as a whole. Therefore, in determining priorities for the future cohesion policy over the 2014–2020 programming period, it will focus on support for the transport infrastructure, including intelligent transport systems, as this is essential for a competitive economy based on industry and exports.

Implementation on the government level

The date of completion of the backbone infrastructure, which falls under the second pillar of competitiveness according to the World Economic Forum methodology, will depend on the volume of available resources nationally and at European level. The completion of the backbone infrastructure requires investment of hundreds of billions of crowns. It will be possible to finalize the budgetary details after the approval of the relevant strategy documents in the field of transport.

Consistency of the measures with the targets under Europe 2020 strategy

The flagship initiative in the chapter “Resource Efficient Europe” refers to the need to use a combination of public and private investment (PPPs), 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.1. Summary

The National Reform Programme is the Czech Republic's contribution to the common targets of economic policy coordination under Europe 2020 strategy. It contains a summary of the Government's main priorities, which also reflect the Integrated Guidelines and the European Commission's flagship initiatives. The basic principle pursued by all the proposed measures is to increase the competitiveness of the Czech economy as a necessary precondition for sustainable economic growth and the achievement of all other tasks of a democratic social market state.

Individual priority areas of the National Reform Programme are based on the specific geographic, social and economic conditions of the Czech Republic and reflect its character as a small, very open, export-oriented economy with a dominant role played by industrial production. These specific features form 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. 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, are also requirements.

The building of a research and technology base which can withstand global competition requires comprehensive reform of the education system so that it is capable of responding more flexibly to the dynamic demands of the labour market and so that it ensures (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 reform covers not only the overall streamlining of State administration, the simplification of the regulatory environment and the strengthening of the fight against corruption, but also health care and social security reform, which should motivate the general population to enter a more flexible and inclusive 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 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, the National Reform Programme has been conceived for a longer period, but necessarily reflects the above-mentioned limitation on the opportunities for its implementation.

The National Reform Programme is a cross-cutting document which defines the key priorities and reform directions in various areas of government economic policy against the backdrop of Europe 2020 strategy. In this respect, it unifies – and, in a consolidated form, presents – reform processes. 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. In view of the fact that the National Reform Programme has been prepared according to the European semester schedule, its inception has not overlapped with the production of certain key conceptual documents, which will be reflected in more detail in future updates. 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. The National Reform Programme will present only the gross

budgetary implications and only if they are quantified and available. In view of the fact that in 2011 the Government stands at the beginning of its reform efforts and the various reforms are still at a stage of political debate, most of the costs cannot yet be specified. However, it is reasonable to assume that in future updates (annual updates within the framework of the European semester) these costs will be concretized.

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 women (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 job-less 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 job-less 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:

5. public expenditure on science, research, development and innovation in the Czech Republic at 1% of GDP.

6. Energy efficiency:

6. to make a substantial contribution to the indicative target of 20% set at EU level; to take further steps to improve environmental quality.