

**IMPLEMENTATION REPORT 2006
NATIONAL LISBON PROGRAMME 2005 – 2008
(NATIONAL REFORM PROGRAMME
OF THE CZECH REPUBLIC)**

CZECH REPUBLIC

2006

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LIST OF ABBREVIATIONS

ADSL	Asymmetric Digital Subscriber Line	MLSA	Ministry of Labour and Social Affairs
BEDC	Business Environment Development Council	NNOs	Non-government non-profit organizations
CR	Czech Republic	NRP	National Reform Programme
CTU	Czech Technical University Prague	NSRF	National Strategic Reference Framework
CZK	Czech koruna	OP	Operational Programme
IB	European Investment Bank	OPIE	Operational Programme Industry and Enterprise 2004 – 2006
EMAS	Eco-Management and Audit Scheme	OSS	One-stop shops
ERDF	European Regional Development Fund	PACS	Picture Archiving and Communication System
ERTMS	European Rail Traffic Management System	PC	Personal computer
ESF	European Social Fund	PIAP	Public internet access points
ETAP	Environmental Technologies Action Plan	PISA	Programme for International Student Assessment
ETCS	European Train Control System	PPP	Public-private partnership
EU	European Union	R&D	Research and development
GDP	Gross domestic product	RIA	Regulatory Impact Assessment
ICT	Information and communication technologies	ROP	Regional Operational Programme
IDABC	Interoperable Delivery of European eGovernment Services to Public Administrations, Businesses and Citizens	SMEs	Small and medium-sized enterprises
IIP	Investors in People (programme)	TEN-T	Trans-European Transport Networks
JROP	Joint Regional Operational Programme	TFP	Total factor productivity
LMRD	Long-term main research directions	VAT	Value added tax
LMI	Labour Market Institute	VMS	Variable message signs

1 INTRODUCTION

1.1 THE YEARS 2005/2006 IN THE CONTEXT OF NATIONAL REFORM PROGRAMMES' DEVELOPMENT

In September 2005 the Czech Republic has adopted its National Reform Programme (NRP), by which it accepted responsibility to fulfil the revised Lisbon strategy (Strategy for Jobs and Growth). In the Programme the CR declared its national priorities and reform measures for the period 2005 – 2008 in three areas: macroeconomic, microeconomic and employment. In case of political changes the specific measures listed in this three-year Programme may be revised, replaced or supplemented by new ones. When choosing priorities for the years 2005 - 2008, the following criteria were taken into account: possible accomplishment within the given period, approved expenditure frameworks of the Czech budget and measurability. The year 2006 is the first one in which the progress with proposed reforms could be assessed.

In the last year National Reform Programmes of all EU Member States were appraised by EU bodies. On January 25, 2006 the European Commission published the Annual Progress Report on Growth and Jobs (hereinafter referred to as EC Annual Progress Report), which was a first evaluation of Member States' National Reform Programmes. In the APR both the strengths and areas where faster progress is necessary were identified. The European Commission also assessed the first year of the new cycle of Strategy for Jobs and Growth and proposed the key topics for the Spring European Council, which took place in March 2006.

In its evaluation of CR's performance the Commission appreciated general orientation of reform measures, notably the continuing public finances reform, strengthening competition while respecting the principles of sustainable development and increasing flexibility of labour market. On the other hand, more effort is necessary to secure long-term sustainability of public finances, notably concerning preparatory works on the reform of pension and healthcare system, to promote research and development (R&D) and human capital in this area, to increase the quality of human capital by means of lifelong learning, to assist the population groups disadvantaged on labour market and to reduce the discrepancies in regional unemployment rates. In the CR decision-makers of all levels discussed these recommendations. Subsequently a set of measures was carried out to ensure more effective implementation of measures included in the National Reform Programme.

On the basis of the overall assessment of fulfilling the revised Lisbon strategy submitted by the European Commission, the Spring European Council, which took place on 23 – 24 March 2006, called upon the Member States to implement thoroughly the reforms undertaken on national level. The Member States' representatives agreed on four priority areas, which are crucial to boost economic growth and employment in the EU. Those are: increasing investment in knowledge and innovation, unlocking the business potential, particularly in small and medium-sized enterprises, promoting employment of persons disadvantaged on labour market and determining the main principles of new energy policy. Consequently, specific measures were identified that should be carried out by Member States or European Commission already before the end of 2007.

On June 2 – 3, 2006 parliamentary elections took place in the Czech Republic. As a result a new government was nominated on September 4, 2006. After one month of existence the government resigned because it did not acquire confidence from the Parliament of the CR. At present, intensive discussions are in progress on how to constitute a new government that would ensure effective functioning of the state.

As part of preparatory work on the first Implementation Report on the National Lisbon Programme (Report on Progress) the CR analysed consistency between the measures adopted in last year's NRP and those of the Spring European Council and the EC Annual Progress Report. The conclusion was that a large part of measures adopted by the CR is in line with EU bodies' recommendations, which confirmed that reform measures covered by Czech NRP are the right ones. Therefore the NRP was not substantially extended. Nevertheless, after discussions with relevant partners and with regard to an insufficient number of qualified staff in the area of R&D, one more new measure "Provide human resources in R&D" was supplemented. The CR will focus on development and boosting educational capacities of universities and on promotion of those disciplines, in which the regional R&D and innovation bases are weak. To remove duplicity, the measure "Increase the participation rate of population in productive age" was cut out. This priority is fully covered by the fiscal measure "Continue in restructuring of tax burden" in the Macroeconomic part and by measures included in the part Employment. The priorities of last year's NRP also reflected the

Energy Policy of the Czech Republic, which specifies the main assignments in the area of energy policy. In line with the 2006 Spring European Council conclusions an analysis of Annex III – Energy Policy for Europe was carried out. On the basis of this analysis and with regard to general orientation of the NRP it was decided not to add new measures concerning energy policy. The CR welcomes the conclusions of the Spring European Council. The key idea, which is reflected in last year's NRP (the part on energy), is that Member States should have the right to choose freely primary sources of energy. The question of safe energy for EU, mentioned in the Spring European Council conclusions, is not dealt with in the Energy Policy of the Czech Republic and in the NRP. This item will be incorporated in an adequate manner in the next revision of the national Energy Policy.

Implementation or updating of the measures included in the NRP has to be in line with other strategic documents. At the same time as this evaluation of NRP was prepared, the first National Report on Strategies for Social Protection and Social Inclusion (2006-2008) was elaborated. The National Report is based on common goals in the area of social protection and social inclusion proposed by the Commission communication „Working together, working better: proposals for a new framework for the open co-ordination of social protection and inclusion policies“ from December 2005. The Report summarises the main problems concerning promotion of social cohesion, fight against poverty and social exclusion, modernisation of pension system and the systems of health and long-term care.

A Horizontal working group¹ and three inter-department working groups (each responsible for a relevant part of the NRP) were set up to co-ordinate elaboration and implementation of the NRP. Since this system of co-ordination proved useful last year when elaborating the NRP, it was used again this year to prepare the first Progress Report.

The National Reform Programme was prepared in partnership with all stakeholders (i.e. ministries, other central state administration authorities, economic and social partners, regions and non-governmental organisations). The same approach was applied to implementation of the reform measures and also to this year's first evaluation of the progress achieved. A number of projects, notably in the area of employment and education, are carried out in co-operation with civic and professional organisations. On regional level the initiatives organised by local government bodies contribute substantially to meeting the NRP priorities. Therefore, as part of evaluation of the specific measures, the Progress Report also mentions some of these projects as examples of “good practices”.

1.2 EVALUATION AND MONITORING

To assess progress in implementation of the NRP, quantifiable indicators must be used that ensure transparency and credibility of the whole process. This fact was already taken into account last year in the first NRP; such partial targets were chosen that are measurable and indicators were identified, which are a basis for this year's first assessment.

On EU level the assessment of progress in meeting the Lisbon targets is carried out by 14 indicators, which are monitored by the Statistical Office of the EU (Eurostat). Presently, a discussion on a possible update of this set of structural indicators is going on at the level of EU Council committees. Its aim is to adapt the set of structural indicators to the needs of the revised Strategy for Jobs and Growth.

However, for a thorough assessment of progress in implementation of the Lisbon strategy on a national level, this set is insufficient. To ensure coherent monitoring it was found useful to define a specific set of indicators for the CR, which is harmonious as concerns terminology, content and data sources. In the first year of NRP implementation the main steps taken were to adjust legal framework covering the measures and targets identified in the NRP. Therefore monitoring this year focused mainly on factors related to the legal framework. The best instruments to evaluate how NRP targets are being implemented are impact indicators, which relate to adopted measures and prove their sustainability and net effects. Nevertheless, impact indicators can be fully quantified only after own effects of the measures adopted are indicated; i.e. not at the beginning of the whole process. Currently the set of indicators is also interconnected with effective management of the distribution of financial resources from Structural Funds (in accordance with article 36 of Council Regulation 1260/1999).

¹ Members of this working group represent the Unit of the Deputy Prime Minister for Economic Affairs, the Ministry of Finance, Ministry of Industry and Trade, Ministry of Labour and Social Affairs and the Foreign Ministry.

Certain sensitivity in horizontal and vertical interconnection and relation of selected indicators to social and economic development have proved to be problematic for monitoring of Lisbon Strategy in the CR. Presently the indicators and data needed to monitor progress in priority areas are being analysed. This goes in line with setting up of the national nomenclature of indicators for EU funds for the 2007 – 2013 programming period. Indicators selected must fulfil the following criteria: first of all they must allow for unequivocal evaluation of development in priority areas, with regard to their effectiveness, and they must also be compatible with EU methodology. This revised set of indicators will contribute to a more thorough assessment of the reform process notably by covering the whole national framework and by deepening of co-operation between institutions responsible for the specific measures.

1.3 COMMUNICATION WITH PUBLIC AND KEY PARTNERS

The Czech Republic is fully aware of the need to explain the specific goals of revised Lisbon strategy to each of its citizens. Therefore, this strategy and the National Reform Programme have become one of the three main communication priorities for the year 2006².

During the first year of NRP existence communication to public was provided among others via the website of the Office of the Government of the CR, which offers relevant information about the content of the whole document and also about specific measures listed in the NRP. At the same time, relevant ministries responsible for the three parts of NRP (macro, micro, employment) also created or are creating special links on their websites. A number of seminars, workshops and conferences for general public, academic sector or experts and professionals took place during 2006. The ministries in charge also published a set of information brochures and leaflets, as part of their publishing activities. These activities are included in communication strategy of each ministry and are targeted at specific groups (economic and social partners, regions and municipalities, professional associations, interest groups, non-profit organisations etc.). Experts from key ministries also publish articles in newspapers and professional magazines and participate on discussion programmes in media.

Information on the revised Lisbon Strategy can also be found on the on the biggest Czech internet portal dealing with EU matters "Eurosokop"³. Prominent Czech experts publish their articles on this portal. As part of its information campaign, the Office of the Government of the CR regularly publishes articles concerning the NRP in "Eurokurýr" magazine, which is released every two months. This magazine is released both in electronic and paper⁴ version and is distributed to the representatives of regional and local governments, academics and businessmen for free. Different activities of non-government bodies were noted lately; these bodies would also like to participate on distributing information on the revised Lisbon Strategy⁵.

The NRP is being continuously discussed with economic and social partners. They are regularly informed about the latest news concerning the Lisbon agenda by means of a Working team for the EU, a part of the Council of Economic and Social Agreement. Co-operation with parliament committees dealing with EU matters is very intensive. The principle of partnership, on which the NRP is based, also includes active co-operation with regions. A co-ordination and working body - Commission for EU matters - was set up at the level of regional governments. Members of this Commission were invited to put forward their comments and suggestions during preparatory works on this report, in July 2006. Since 2006 co-operation with the Association of Regions and Union of Towns and Municipalities of the Czech Republic is in progress. Since it is necessary to improve permanently the communication and consultation mechanisms addressed to general public, a document "Guidelines for Public Consultations in Preparation of Strategic Documents" was adopted in May 2006. Precise methodology of this co-operation will be prepared in December 2006.

² The following three main topics of communication were adopted for the year 2006: Future of Europe (including Lisbon strategy), EU into Schools and Safe Europe.

³ Up to 24 thousand accesses were recorded on this portal, which is unique in the CR.

⁴ Each printing of 15 000 pieces

⁵ In 2005 a project of internet portal devoted to the Lisbon Strategy (<http://lisabon.naseevropa.cz>) prepared by the Czech Institute for EU Integration succeeded in a grant proceedings. On this portal citizens can find information on development of this strategy from 2000 up to now. Another project supported by a grant in 2006 (by CZK 451 500) is the project *On the track: Monitoring of EU legislative reforms within implementation of Lisbon strategy*, prepared by Confederation of Employers' and Entrepreneurs' Associations of the Czech Republic.

2 INTERCONNECTION BETWEEN NATIONAL STRATEGIC REFERENCE FRAMEWORK AND NATIONAL REFORM PROGRAMME

The policy of economic and social cohesion contributes substantially to meeting the Lisbon targets. National Development Plan of the CR 2007 – 2013 was finished in February 2006, on which the National Strategic Reference Framework of the CR 2007 – 2013 (NSRF)⁶ is based. The fact that government discussed NSRF in June 2006 declared its readiness to draw financial resources addressed for the policy of economic and social cohesion in the given period. This document also incorporates a system of operational programmes financed from EU, by means of which priority measures of social cohesion policy of the CR will be brought into life. The analytical part of NSRF reflects the strengths, which promote competitiveness of the Czech Republic, and also the bottlenecks that may hamper sustainable development of the economy and society.

Since preparation of the National Strategic Reference Framework was launched, attention was paid to the link between NSRF and NRP in order to ensure conformity of priorities proposed in these two documents. 28 out of the 46 (or 40, if only microeconomic and employment parts are considered) measures included in the NRP may be assigned to the priorities of NSRF and may be co-financed from EU Structural Funds and Cohesion Fund. Since the NSRF does not cover the area of macroeconomic policies, interconnection between NSRF and NRP can only be assessed in the area of microeconomic policies, employment and education. The activities of Steering and Coordination Committee for the NSRF and its working groups contributed substantially to synergy among the priorities listed in NSRF. This Committee ensured that all relevant partners (key ministries, representatives of regional and local governments, economic and social partners, education institutions, representatives of non-profit sector and others) participated on elaborating the NSRF. Thus the principle of partnership was fully respected, as it was in case of this Report on Progress.

In current programming period (2004 – 2006) the policy of economic and social cohesion is implemented by means of five Operational Programmes for Objective 1, Single Programming Documents for objectives 2 and 3 (Prague), Cohesion Fund and two Community Initiatives – Interreg and Equal. About 50% of resources allocated to the policy of economic and social cohesion in the CR are part of Lisbon-related activities. A positive feature is that the rate of drawing from operational programmes, which represent the core of Lisbon-related interventions, is relatively high. This refers notably to part of activities co-financed from Cohesion Fund and to interventions aimed at improving business environment and boosting innovations. Specific regular reports, which are provided every month to all relevant authorities and each quarter discussed by the government, deal with evaluation of Structural Funds and Cohesion Fund.

Regional disparities are one of NSRF priorities and as a priority these are also reflected in hereby-submitted Report on Progress. Despite its relatively low starting level, the differences between cohesion regions in the CR (excluding Prague) gradually increase. Therefore, more than one fifth of the total amount of resources assigned for policies promoting economic and social cohesion will be allocated to priority "Balanced regional development". This priority will be safeguarded by the Integrated Operational Programme (which covers the target Convergence), regional operational programmes (ROP for cohesion regions included in the target Convergence) and two operational programmes for Prague (priority "Regional Competitiveness and Employment: Prague). Other programmes financed from European Regional Development Fund included in the target Convergence will also have a regional dimension. The exact allocation for this purpose is set by the government decision of May 2006⁷. Implementation of other operational programmes (financed from European Social Fund) will also be carried out on regional level. Cross-border operational programmes, part of the priority "European Territorial Co-operation", are also of a regional nature. Some examples of initiatives and projects financed from national or European sources, which are successfully implemented by Czech municipalities and regions, are listed in this year's Report on Progress. These projects at least partially alleviate some regional disparities that are typical notably for regions undergoing significant structural changes affecting the labour market.

⁶ The National Strategic Reference Framework builds on key European and national strategic documents (Community Strategic Guidelines, Sustainable Development Strategy, Economic Growth Strategy, Regional Development Strategy and other department and regional strategies).

⁷ Government resolution of May 10, 2006 on European resources in the period 2007 – 2013

Tab 1. Interconnection between National Strategic Reference Framework and National Reform Programme

Strategic target/priority of National Strategic Reference Framework	Measures of National Reform Programme
Competitive Czech economy	
<ul style="list-style-type: none"> - Competitive business sector - Support of R&D capacity for innovation 	<ul style="list-style-type: none"> - Increase year-on-year public expenditures on research and development - Promote investment in research - Intensify the use of instruments securing the intellectual property rights of scientific and research institutions and enterprises - Develop innovation infrastructure - Increase availability of funds to innovative firms - Promote professional mobility via effective retraining system - Promote co-operation between employers, employees and educational and professional institutions - Promote continuing education in firms - <i>Ensure human resources in R&D</i>⁸
Open, flexible, and cohesive society	
<ul style="list-style-type: none"> - Education - Increasing employment and employability - Development of information society 	<ul style="list-style-type: none"> - Create consistent countrywide broadband ICT infrastructure - Promote effective development and use of ICT - Ensure convergence of networks and services on electronic communications market - Ensure security of networks and information and interoperability of ICT services - Modernise employment policy - Decrease unemployment of young people (under 25) - Promote equal opportunities for women and men on labour market - Increase older workers' participation on labour market - Promote professional mobility via effective retraining system - Implement curricular reform - Improve access to post-secondary technical and tertiary education - Promote co-operation between employers, employees and educational and professional institutions

⁸ The measure "Ensure human resources in R&D" was added in 2006.

	<ul style="list-style-type: none"> - Improve interconnection between systems of primary and continuing education - Promote transmigration between specific stages of tertiary education - Promote continuing education in firms - Increase information literacy
Attractive environment	
<ul style="list-style-type: none"> - Protection and improvement of the quality of environment - Improving accessibility to transport 	<ul style="list-style-type: none"> - Maximise energetic and material effectiveness and rational use of resources - Promote environmental technologies - Modernise and develop transport networks - Introduce intelligent systems for transport and traffic control - Increase the share of railway transport on transport market and develop combined transport
Balanced development of territory	
<ul style="list-style-type: none"> - Balanced regional development - Development of rural areas - Development of urban areas 	<ul style="list-style-type: none"> - Modernise and develop transport networks - Create consistent countrywide broadband ICT infrastructure - Increase geographical mobility

3 MACROECONOMIC PART

3.1 DEVELOPMENT OF THE CZECH ECONOMY

Stable macroeconomic environment is an important precondition for ensuring sustainable economic growth and for implementation of other economic policy priorities. Currently the CR is in a period of favourable economic development, characterised by accelerating potential output in the environment of both internal and external equilibrium. Fiscal policy flexibility and public finances sustainability remain the key challenges for ensuring long-term fiscal sustainability.

In 2005 year-on-year growth of the Czech economy exceeded 6% and in the first half of 2006 its growth further increased to 6.6%. The structure of this growth, which is pulled by fast export of goods and partly also by strengthening investment activity, rather than by final consumption, is favourable from a long-term perspective. Fastening growth has both structural and cyclical nature. Potential product growth rate accelerates persistently, notably owing to a robust increase in total factor productivity (TFP). In the first half of 2006 the TFP growth slightly exceeded 5%. Negative output gap closed in the second half of 2005. Position of the Czech economy in the second quarter of 2006 was characterised by approximately 1% positive output gap.

Chart 1. Real GDP
(year-on-year growth in %)

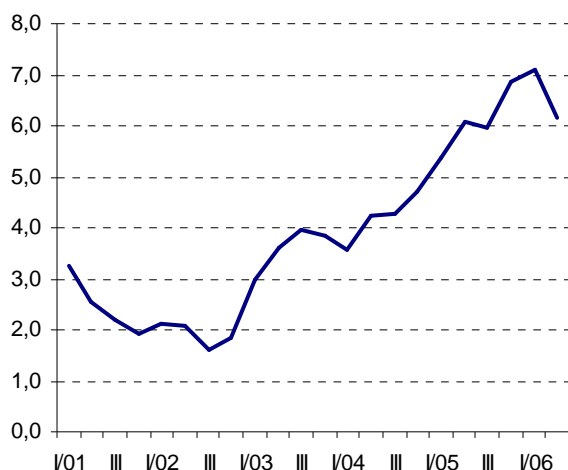
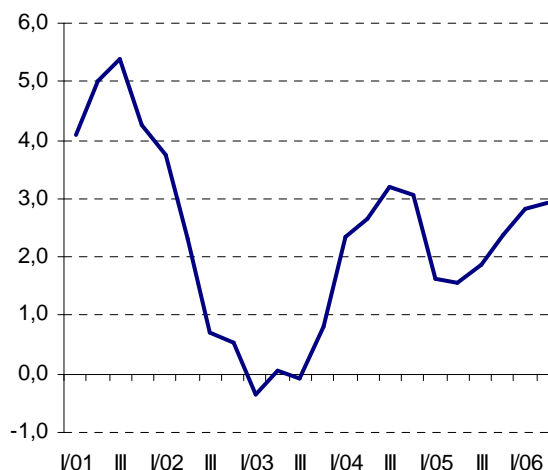


Chart 2. Consumer prices
(year-on-year growth in %)



Since the end of nineties the Czech economy can be considered to be a low-inflation economy. In 2005 the inflation rate did not exceed 2.5%, while the average annual inflation rate was 1.9%. In June 2006 the year-on-year growth in consumer price level reached 2.8%; the contribution of administrative measures to this growth was 2.2 p.p. From the long-run perspective inflation is pulled mainly by high energy prices for households, which triggers the housing costs. Exceptionally high prices of raw materials on the world markets are partly compensated by strengthening of the Czech koruna exchange rate. High level of competition on the consumer market also plays an important role.

External economic balance, expressed by the ratio of current account to GDP twelve-months moving sums, has been improving since the third quarter of 2004. In 2005 the current account deficit reached 2.1% of GDP, i.e. year-on-year improvement by almost 4 p.p. The main reason is a sharp improvement of trade balance, a result of simplified foreign trade procedures after EU entry and in particular an effect of mainly export-oriented investments. Despite high and still growing oil prices, the twelve-months moving trade balance, which in December 2004 recorded a deficit of 1.0% of GDP, reached a surplus of 1.4% of GDP in the first quarter of 2006.

A positive trend is apparent in the labour market. After a few years of decrease, employment (according to labour force survey) has been increasing year-on-year since the fourth quarter of 2004. During 2005 employment grew by 1.2% while both the rate of economic activity (share of labour force on population aged 15 – 64 years) and the rate of employment (share of employed on population aged 15 – 64 years) were increasing. In the first and second quarter of 2006 employment grew by 1.7% and 1.6% respectively, while the increase was most significant for

employees in manufacturing. Dynamic growth of labour productivity exceeding 5% continues. Internationally comparable unemployment rate reached its peak at 8.4% in the first quarter of 2004 and has been decreasing moderately since. In the second quarter of 2006 unemployment rate reached 7.1%, which represents a decrease by 0.7 p.p. in a year-on-year comparison and a minimum within the last four years.

Chart 3. Employment
(year-on-year increase in %)

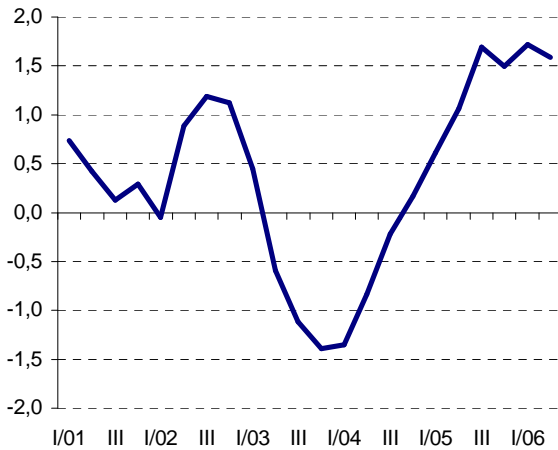
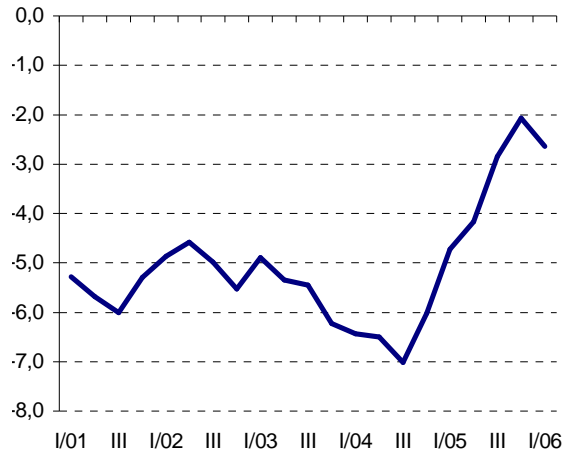
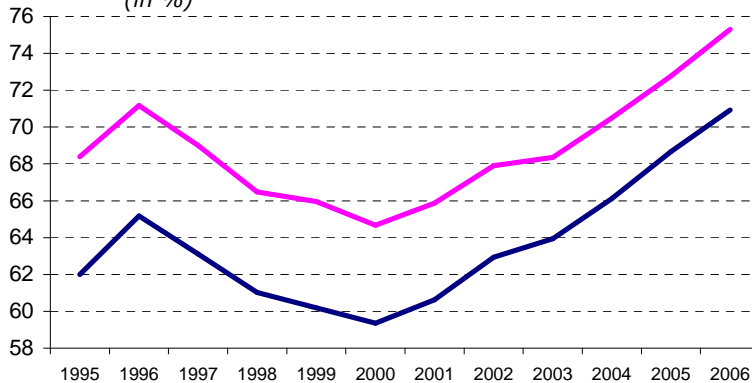


Chart 4. Current account / GDP (in %)



Reforms presented in the National Lisbon Programme should contribute to **accelerate the process of real convergence⁹ of the Czech economy to EU-25 average**. Recently, after overcoming a recession in the second half of nineties, the growth rate of the Czech economy markedly exceeds the EU average. In the period 2000 – 2006 average growth rate of the Czech economy is expected to reach

Chart 5. Relative economic level
in purchasing power parity
(in %)



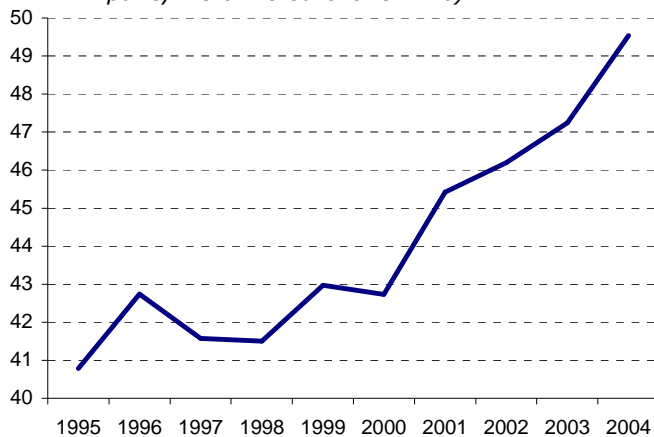
4.0%, compared to 2.1% in EU-25 and 1.8% in eurozone. In the second half of nineties the convergence process proved significant irregularities due to strong cyclical fluctuations and weak synchronisation of economic cycle with the EU. Relative level of economic output per capita of the Czech economy vis-à-vis EU-25, measured by purchasing power parity, decreased from 68% in 1995 to 65% in 2000. In 2006 it is, however, expected to exceed 75% of EU-25 average, i.e. 70% of eurozone average.

These data are nonetheless substantially affected by cyclical position of the economy. While at the beginning of the period surveyed the output gap was strongly positive (with a peak at 3.9% in 1996), in 2000 recession of the end of nineties was still fading away and only since then the **potential output¹⁰** growth started accelerating up to present level of approximately 5%, which is a precondition for sustainable nature of the convergence process.

⁹ To compare the relative level of Czech economy with the EU, data from Eurostat database were used, valid as to August 30, 2006. The Czech economy is being compared to EU-12 (eurozone) countries, and if data were available also to EU-25 countries average.

¹⁰ The potential output is defined as a real output level assuming average use of production factors. Potential output growth can be accelerated by increasing the stock of capital (i.e. higher investment rate), by increasing the hours worked and by boosting productivity.

Chart 6. Hourly labour productivity
(relative level in purchasing power
parity vis-à-vis eurozone in %)



eurozone average in 2000 to more than 50% in 2005.

Further convergence of labour productivity depends on improving competitiveness of Czech economic entities. At present, the **competitive advantage** of Czech economy is based mainly on low costs of production factors.

Low **unit labour costs** prove that the CR still profits from a cheap labour force. This advantage is, however, gradually diminishing. In the period 1995 - 2005 relative unit labour costs, represented by the share of compensations of employees (converted by exchange rate) on labour productivity from GDP in PPS, increased vis-à-vis eurozone from 27% to 46%, i.e. by 19 p.p. Apart from faster wage growth in the CR this development was also influenced by nominal appreciation of CZK/EUR exchange rate.

Chart 7. Unit labour costs
(relative level vis-à-vis eurozone in %)

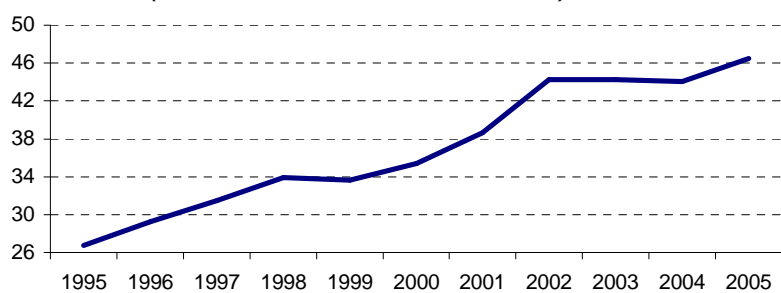
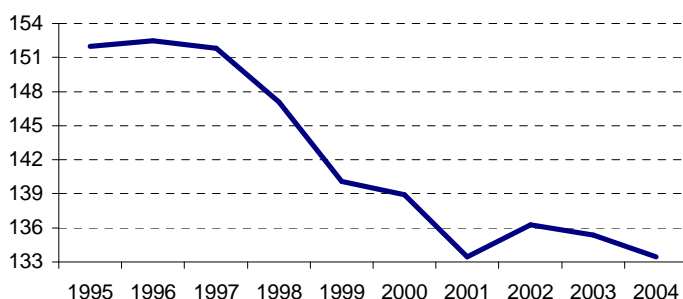


Chart 8. Labour utilisation
(relative level of hours worked per capita
compared with eurozone in %)

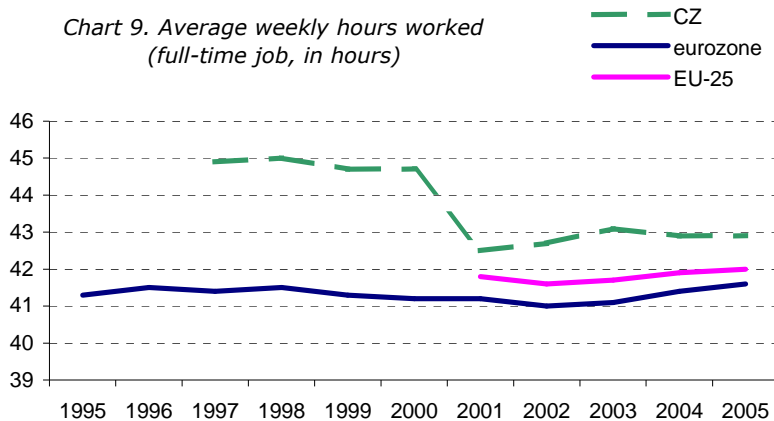


As a result of technical underdevelopment, a "heritage" from the period of centrally planned economy characterised by ineffective allocation of resources, the Czech economy (and other "new" Member states' economies) suffers from a huge difference in **hourly labour productivity** compared to "old" EU countries. Transformation, privatisation and restructuring of the economy, introduction of new market economy institutions, transfer of technologies and adaptation of economic entities to new conditions created environment allowing for faster and faster **reduction of differences in productivity levels**. Hourly productivity in the Czech economy increased from 43% of

As concerns **labour utilisation**, compared to EU the CR still scores high above average, though this relation deteriorates fast. If we decompose the relative economic level to the effect of hourly labour productivity and the effect of hours worked per capita, the average amount of hours worked compared to EU-12 in 2004 was approximately by 34% higher (in contrast to 52% in 1997). To maintain this favourable relation, or at least to slow down its deterioration, is an important task for labour market policies.

Favourable **demographic** structure is an important, though only temporary factor, which contributes to higher labour utilisation in the Czech economy. While in the EU average for many years the share of population aged 15 - 64 oscillates around 67% and tends to decrease, in the CR the share of population in productive age increased from 68% in 1995 to 71% in 2005. Due to increasing life expectation the positive effect of demographic factor will culminate probably in 2008. After that the impact of population ageing will prove. Apart from increasing statutory

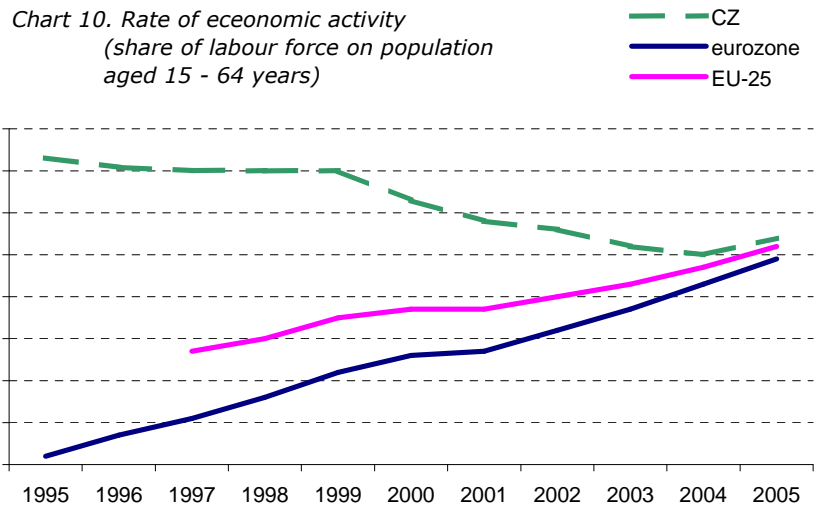
retirement age, which is in process, the policy reaction should focus on further adjustment of pension system and on increasing flexibility of labour market, in order to secure the needs of the economy even with less people in productive age.



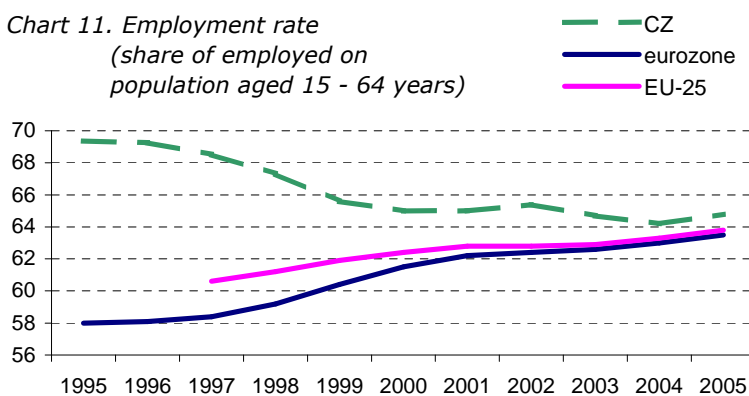
Another source of the above-average labour utilisation in the CR is a high **amount of hours worked per worker**. Average working time in the Czech economy is traditionally long. Moreover, the effective working time of newly established entrepreneurs (mostly with no employees) is on average significantly longer compared to that of employees. Compared to "old" EU countries, the share of part-time jobs, the length of holiday leave and the number of bank holidays in the Czech

economy is relatively low. Nevertheless, lengthening of average working time in future is not expected.

The drop in relative labour utilisation compared with EU countries is to a large part related to the **rate of economic activity** (share of labour force on population aged 15 - 64 years). In the CR before 2004 the development was opposite to that in eurozone. Apart from positive factors, e.g. increased share of young people participating on secondary and tertiary education, also the negative ones have proved, i.e. low

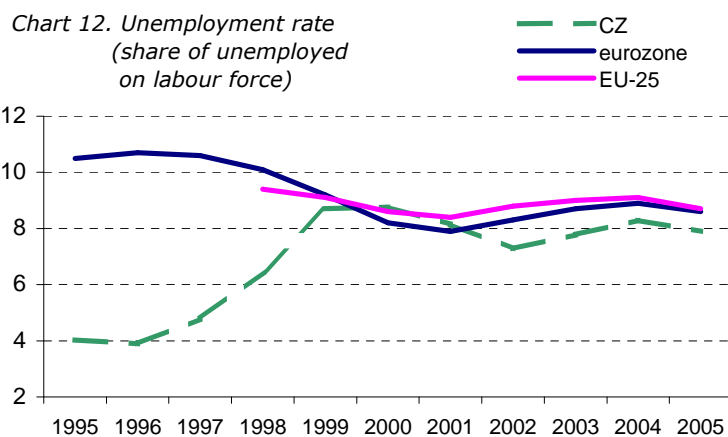


motivation to take up a job or dependence of certain population groups on social benefits.



Owing to a dynamic economic growth, both the trend of rate of economic activity and that of employment rate have been changing since 2005. As a result, more foreigners, people in retirement age, people on parental leave and students are employed. This positive trend, however, is more likely to be attributed to favourable cyclical development than to a change in structural characteristics of labour market.

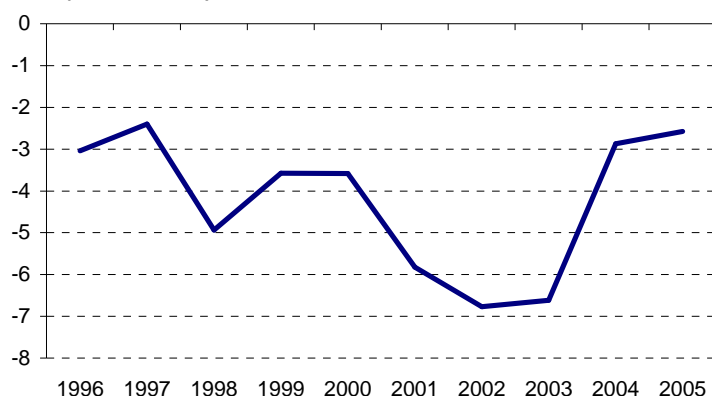
The drop in relative labour utilisation after 1997 was, among others, due to an abrupt growth of **unemployment**. In the second half of nineties, in the period of substantial structural changes of the economy, unemployment reached a level comparable with both EU-25 and eurozone averages. The difference from eurozone, 0.7 percentage points in 2005, should be attributed to present cyclical position of the Czech economy.



3.2 FISCAL CONSOLIDATION

The concept of fiscal reform, which was launched in 2004, aims at eliminating deficit tendencies of general government, at increasing fiscal policy flexibility and at promoting long-term sustainability of public finances. This concept requires restructuring of both revenue and expenditure side of public budgets, and emphasises the medium-term orientation of budgetary policy by introducing a mechanism of fiscal targeting and binding medium-term expenditure frameworks. By implementing these principles more room should be created for free action of automatic fiscal stabilisers, which contribute to counter-cyclical effects of fiscal policy.

Chart 13. General government balance (in % of GDP)



Successful fiscal consolidation is a precondition for creating stable macroeconomic environment. Flexible fiscal policy is also necessary for smooth participation on the monetary union after the CR adopts the common currency. Implemented reforms, together with favourable economic development, contributed to decreasing the government deficit from 6.6% of GDP in 2002 to 3.6% in 2005 and to stopping the growth of public debt to GDP ratio. However, expected outcome of government sector

management in 2006 and draft state budget for 2007 indicate that the deficit will increase again from 3.5% of GDP in 2006 to 4.0% of GDP in 2007.

3.2.1 Respect the principles of fiscal targeting and strengthen the binding character of medium term expenditure ceilings of the state budget and extrabudgetary funds

The principles of fiscal targeting and medium-term expenditure frameworks have become a standard element of the budgetary process. The requirement on government to draw up medium-term budgetary outlook and to present binding medium-term expenditure frameworks is enacted in the legislation. According to budgetary rules, state budget must be based on figures from medium-term budgetary outlook for the respective year and only in enumeratively defined cases it may deviate from these figures.

In practice, however, these principles are respected only partly. So far the trajectory of decreasing general government deficit was followed, but higher-than-expected revenues caused increase in expenditure frameworks, which exceeded approved limits. Expenditure frameworks thus do not entirely fulfil their role in preventing pro-cyclical effects of fiscal policy. Moreover, the current medium-term budgetary outlook (for the period up to 2009) not only projects overshooting of expenditure frameworks, but it also presumes that the fiscal targets, set in the 2005 Convergence Programme, will not be met.

3.2.2 Restructure the expenditure side of public budgets

In 2005 expenditures of units classified in the sector of general government reached 43.9% of GDP. 77.6% of state budget expenditures were of a mandatory or quasi-mandatory nature. The government has undertaken to restructure the expenditure side of public budgets in order to extend the room for manoeuvre for fiscal policy, to increase growth-related expenditures (infrastructure, education, research, development and innovations) and to secure sufficient resources for co-financing projects supported by EU funds. Implementation of these priorities depends on decrease in the share of mandatory expenditures on general government expenditures and at the same time on more effective spending. Introduction of programme budgeting will be the main instrument for improving the quality of public expenditures.

By the end of 2005 and the beginning of 2006 a range of new laws was approved in the area of social mandatory expenditures, which represent the largest part of the state budget. The purpose of most of these laws was to motivate specific groups of people that are in danger of exclusion from labour market (parents with children, people with low income and qualification) to a more proactive role on labour market. These measures follow some previous ones, e.g. introduction of limits on sickness insurance benefits, allowing for simultaneous drawing of wage and parental allowance, social benefits only for those who accept eight hours of community work per month. Unlike the previously enacted set of measures, the new ones burden the state budget with additional expenditures and cause increase in social mandatory expenditures. Unfavourable fiscal effects induced by these legislative changes hamper restructuring of the expenditure side. The expected negative impact on general government balance exceeds 1% of GDP.

Measures that would significantly lower the share of mandatory expenditures were not successfully implemented yet. If additional room for new expenditure priorities is to be provided for, the increase of social mandatory expenditures in the coming years must be lower than nominal GDP growth.

As a pilot project, introduction of programme budgeting, which will be supplemented by monitoring and evaluation of output indicators, is expected for preparation of the draft state budget for 2008.

3.2.3 Continue in restructuring of tax burden

In 2005 total tax quota in the CR reached 35.69% of GDP and though its autonomous decline was assumed, it is in fact moderately increasing in the last few years. The aim of restructuring the tax burden, which is in progress, is a gradual shift of tax burden from direct taxation to indirect taxes; effective taxation of labour and corporate taxation should be reduced.

The main instrument used to cut down corporate taxation was gradual decrease of marginal tax rate from 28% in 2004 to 24% in 2006. A tax deduction from corporate income tax base that applies in case of investment in R&D further supported this trend. It was introduced in 2005 and adjusted at the beginning of 2006.

To reduce taxation of labour, personal income tax was adjusted. Joint taxation of married couples with children and non-wastable tax credits on children were introduced as of January 1, 2005. Another measure to decrease effective personal income tax was launched on January 1, 2006; the two lowest marginal tax rates were reduced from 15 to 12% and from 20 to 19% respectively, the first tax brackets were extended and standard tax allowances were replaced by tax credits. Among other positive effects, all these measures motivate low-income groups to work and increase labour market flexibility.

A reform of sickness insurance, part of which is a gradual decrease in the sickness insurance contributions paid by employer, will also contribute to reduction of labour taxation.

Further restructuring of tax burden will be provided by environmental tax reform, which is under preparation and will be fully in effect as of 2008.

3.2.4 Prevent indirect indebtedness in the form of extrabudgetary fiscal risks

One source of possible fiscal risks addressed by public finances reform was excessive fragmentation of public finances. Decisions about expenditures were made from more than one centre (i.e. state budget, state extrabudgetary funds and so-called transformation institutions) and all these centres were relatively autonomous.

In order to eliminate above-mentioned risks and to increase fiscal transparency, and in line with the strategy presented in last year's NRP, the number of extrabudgetary funds and transformation institutions is gradually being reduced. As of January 1, 2006 the National Property Fund was abolished. Its residual funds, together with prospective receipts from sale of privatised property, are kept on special bank accounts managed by the Ministry of Finance. These funds are not part of state budget and can be used only in cases defined by law. The State Fund for Soil Fertilisation was dissolved on the same day. Its rights, obligations and property were transferred to the Ministry of Agriculture.

Abolishing of the Czech Consolidation Agency, which was approved as of December 31, 2007, is another measure aimed at promoting stability and transparency of public finances. Again, the state, represented by Ministry of Finance, will become its legal successor. Based on government decision, the Land Fund should be dissolved two years later, i.e. as of December 31, 2009.

3.2.5 Adopt strategic decisions necessary for financial stabilisation of pension and healthcare system

The CR has set a goal to decrease the sensitivity of public finances to demographic development and to adopt a strategic decision on how to ensure long-term stability and effective financing of pension and healthcare system.

An Executive team, whose aim was to prepare background for the decision about pension reform, was established in 2004. The outcome of its analytical work proves that the present pension system is financially unsustainable in long-term perspective, and ineffective from microeconomic point of view. Final report and background documents produced by the Executive team contain sufficient amount of analytical work on which the decision about pension reform could be made.

Due to certain inertia of the pension system it is important for the strategic decision to be adopted as soon as possible. Main principles of the reform must be determined, on which financially sustainable pension system could be based, that would contribute to increase in labour participation mainly of older age groups by strengthening the relation between pension and earnings and by promoting actuarial neutrality. Gradual increase of statutory retirement age is another instrument that helps to prevent the effects of unfavourable demographic trend.

So far, no substantial reform measures have been adopted in order to attain sustainable pension and healthcare system.

4 MICROECONOMIC PART

4.1 BUSINESS ENVIRONMENT

4.1.1 Carry out a transparent procedure of new legislation impact assessment

Methodology for systematic assessment of regulation impact was already adopted in April 2005. Until the end of 2006 a pilot phase of assessing regulation impact will be under way; selected legislative acts will be prepared in accordance with regulatory impact assessment (RIA). The Ministry of Industry and Trade and the Ministry of Environment participated actively on the pilot phase. Presently, in co-operation with the Business Environment Development Council¹¹, a project is in motion, whose aim is to supplement and adjust the existing Directive on Impact Assessment. The idea is to disseminate awareness of this activity and to involve representatives of business and non-profit sector in the process of formation and introduction of RIA. As of January 1, 2007 impact assessment will be carried out for all draft acts and only those draft acts will be introduced to the government, which were assessed as optimum as concerns their economic, social and environmental effects.

Further activities focus on education in RIA, in order to train central administration civil servants in application of this method and thus ensure sufficient capacities for carrying out impact assessment. Before July 2006 three courses took place in which approximately 50 civil servants were trained. At least one employee of each central administration authority should be trained before the end of 2006.

A database "DataKO" was created to promote public involvement in the process of legislation preparation. The database provides contacts on representatives of non-government organisations engaged in different areas, who offer consultations to expert documents prepared by state administration. 309 organisations were recorded in the database by September 2006.

A long-term initiative called „Devote 10 minutes to improve legal environment in the CR" was launched in March 2006. Its aim is not only to address entrepreneurs, but all citizens, non-government organisations and stakeholders who are willing to give their opinion on the Czech legislation and propose ways how to improve it. By overall improvement of legal system in the CR this initiative should result in reduction of administrative burden on citizens and entrepreneurs. Citizens, entrepreneurs or representatives of organisations, who are convinced that a law or decree in force causes them undue difficulties, may express their view in a questionnaire which is published at the Office of the Government of the CR website (<http://reforma.vlada.cz/10minut>). The first set of suggestions received (303 between March and May 2006) was rendered to authorities in charge and was used in the process of creating new legislation. At the same time, first results of this initiative were evaluated and adjustments were proposed to make it work more effectively.

4.1.2 Decrease administrative burden on businesses by at least 20%

The process of administrative burden evaluation was launched in March 2005 when two key documents – Action Plan on Reducing Administrative Burden on Businesses and a Methodology for Determining the Amount and Source of Administrative Burden on Businesses were adopted. In connection to this, new obligation on state administration authorities and Council for Radio and Television Broadcasting emerged, to assess administrative burden on businesses originating from legislation in force.

Analysis of administrative burden on businesses was elaborated in February 2006 on the basis of the above-mentioned assessment, which was submitted to the government for discussion in June. The analysis proved that overall annual administrative burden on

¹¹The Business Environment Development Council (BEDC) was set up in the beginning of 2004 as an expert inter-department advisory body for the Ministry of industry and trade. Its mission is to propose clearly defined measures to improve the quality of business environment in the CR. In the BEDC state administration authorities are represented at the level of deputy ministers and directors general of Ministry of Industry and Trade agencies, the organisations of employers, employees and tertiary education institutions are also represented at an adequate level.

businesses exceeds CZK 86 billion. The largest share (over 80%) of administrative burden is incurred by legislation that comes from the Ministry of Labour and Social Affairs, Ministry of Agriculture, Ministry of Health, Ministry of Finance and Ministry of Environment. Only 18 of all legal regulations represent 88% of overall administrative burden. Those are, among others, the following: Act on Alimentary and Tobacco Products, Act on Premiums on General Health Insurance, Act on Organisation and Administration of Social Insurance and Income Tax Act. Administrative burden stemming from the information obligations transposed from the EU legislation represents almost 25% (CZK 21 billion) of overall administrative burden.

Following these findings, a set of substantial measures was submitted to the government. Those central administration authorities, whose legislation represents over 80% of overall administrative burden, will carry out more detailed analyses before December 31, 2007. Subsequently, changes in legislation will be proposed with the aim to reduce administrative burden on businesses. Overall administrative burden on businesses, stemming from information obligations, whose form and extent is fully within the remit of Czech authorities, will not increase. A moratorium was approved that sets the current level of administrative burden to be the maximum one. Continuous process of proposals for changes in legislation should result in a 20% reduction of administrative burden on businesses before April 30, 2010.

4.1.3 Simplify administration related to setting up and running a business

As of August 1, 2006, One-stop shops (OSS) were established at all 277 municipal Trade Licensing Offices¹², with the aim to simplify administration related to setting up and running a business. OSS allow entrepreneurs to manage all formalities necessary for starting a business or for changing their entrepreneurial activities from one place. Apart from notification of a trade, entrepreneurs at OSS will also apply for tax registration, pension and sickness insurance, submit notices according to the Authority of Social Security Administration, notify vacancies and submit notices according to the Public Health Insurance Act. The way of obtaining information from entrepreneurs will change considerably, owing to this project. If the entrepreneur uses OSS, he will submit all necessary information to the authorities on one registration form. Trade Licensing Offices will collect these data and then distribute it among relevant public administration authorities. Trade Licensing Offices will not require on entrepreneurs to submit information that is already recorded in another office's database. In accordance with the 2006 Spring European Council conclusions, the time necessary to set up a business will be further reduced, notably by improving the interconnection between public administration information systems.

4.1.4 Facilitate business start up notably in case of activities with no further requirements on qualification

In connection with the first two stages of implementation of the above-mentioned project aimed at simplification of administration related to setting up and running a business, the main targets of its third stage are being identified and specified. In the third stage, further barriers that cause excessive administrative burden and "operation" difficulties related to OSS will be dealt with. At the same time, measures of legislative and procedural nature will be adopted to eliminate the problem of so-called "double registration", i.e. registration in both Trade and Commercial Register. One of the main goals of this project is to ensure data sharing among information systems of public administration authorities. Therefore, in future entrepreneurs will not have to submit over again documents proving facts that are already known to the public administration. For example, at present the Trade Licensing Office can obtain extract from the Penal Register on its own, without asking the entrepreneur to submit it himself. Other documents are now obtained mostly by means of written request submitted by Trade Licensing Offices, usually in electronic version. In future, even such information should be available to all public administration authorities, thanks to interconnection of registers and data sharing. The third stage of this project should be accomplished before the end of 2007.

¹² Establishment of OSS was provided for by the Act No. 214/2006 Coll., on a Change of Trade Licensing Act, as amended by latter regulations, and other related acts, that came into force on August 1, 2006

4.1.5 Strengthen the position of creditors in bankruptcy proceedings

In March 2006 new Insolvency Act¹³ was approved, which will come into force on July 1, 2007. Its aim is to improve overall situation concerning insolvency proceedings, which, according to present legislation, can last for several years. Insolvency Act will shorten the length of bankruptcy proceedings and will be more helpful towards creditors. In future it will be up to creditors to decide whether the situation of their debtor will be solved in bankruptcy proceedings or by reorganisation. Creditors may also influence substantially nomination of bankruptcy administrator selected by the court. The prospect of saving a firm by selling it or by reorganisation will improve, while debtor retains control over the running business. Furthermore, transparency of bankruptcy proceedings will improve, owing to introduction of Insolvency Register, which will be open to public via internet. The Act on Insolvency Administrators¹⁴, which will enter into force on July 1, 2007, is also part of bankruptcy legislation re-codification.

4.1.6 Ensure effective functioning of financial market

As of April 1, 2006, the supervision over financial market was integrated into one institution, the Czech National Bank, which set up a Committee for Financial Market. This Committee will discuss strategic questions concerning supervision, revision of legal framework regulating supervision over specific segments of financial market, new trends in this field and possible difficulties concerning supervisory activities.

Apart from integration of financial market supervision, consumer protection and improving consumers' position on financial market were among the main priorities in 2005. A range of specific and beneficial changes were made as part of an initiative "*Improving Conditions in Banking Sector*": certain fees were abolished, codes of clients' rights were adopted in the area of retail banking, standard European information form for housing saving schemes was introduced, etc.

By the end of 2005, as part of financial education, the CR launched preparatory works on the system of financial literacy promotion on primary and secondary schools. Expert Group for Financial Sector has become a permanent platform for dialogue between stakeholders on strategic questions, notably those concerning the position of financial services consumers.

In the first half of 2006 a document was submitted to public consultation procedure, which regulates intermediation and consultancy on financial markets. Its aim is to create a uniform regime for these services, which would ensure sufficient protection of consumers and also respect the needs of financial products distribution. Present system allowing for different rules in each sector is confusing and imposes extra costs on firms, which then reflect these extra costs into product prices. During autumn 2006, final version of the uniform system of intermediation and consultancy on financial markets will be published and the outcomes of public discussion will be evaluated.

A range of important legislative acts that were adopted will contribute to effective functioning of financial market. Amendment to the Capital Market Undertakings Act¹⁵ came into force in March 2006, amendment to the Collective Investment Act¹⁶ came into force in May 2006 and Act on Financial Conglomerates¹⁷ came into force already in September 2005. Adoption of these acts substantially improved the transposition rate compared with last year. As of June 15, 2006 the transposition rate reached 90%. At present, financial market legislation is almost fully compatible with the 2000 – 2005 Financial Services Action Plan.

¹³ Act No. 182/2006 Coll. on Insolvency and the Method of Its Resolution (Insolvency Act)

¹⁴ Act No. 312/2006 Coll. on Insolvency Administrators

¹⁵ Act No. 56/2006 Coll., on a Change of Act No. 256/2004 Coll. on Capital Market Undertakings, as amended by latter regulations and other related acts

¹⁶ Act No. 224/2006 Coll., on a Change of Act No. 189/2004 Coll., on Collective Investment and Act No. 15/1998 Coll., on Financial Market Supervision on a Change and Addition of other acts, as amended by latter regulations

¹⁷ Act No. 377/2005 Coll., on Financial Conglomerates

4.1.7 Modernise and increase effectiveness of the tax administration

In order to improve services for taxpayers – so-called client approach – a new website of the Czech Tax Administration was published, as primary source of information concerning taxes. Another measure to improve services for taxpayers is launching of so-called “Tax Portal”, which will be the main liaison between tax administration and taxpayers. The portal will provide all services that will be successively offered on-line to the public. On July 3, 2006, a pilot project was launched that allows taxpayers to check the balance of their personal tax account. Next year some of the following services will be provided by Tax Portal: electronic submission, personal tax calendar, access to documentation and personalised tax filings. Last but not least, so-called Electronic centre for answering the questions from public will be set up at the beginning of 2007.

Unified rules for hiring, training, education, appraising and rewarding of employees in tax administration will be elaborated before the end of 2006. These rules will be applied before the end of 2007. Before the end of 2006, the positions of analytical and research specialists will be set up at all levels of tax administration, i.e. Ministry of Finance, financial directorates and tax offices. The aim is to increase capacity and efficiency of tax collection in cases of tax evasion and non-payment of taxes and to improve effectiveness of tax controls.

Specific measures taken to modernise tax administration should result in a new Act on Tax Administration. At present, its draft is being discussed. The new act is expected to come into force as of 2008. At that time a new institution will also be set up – the Czech Tax Administration.

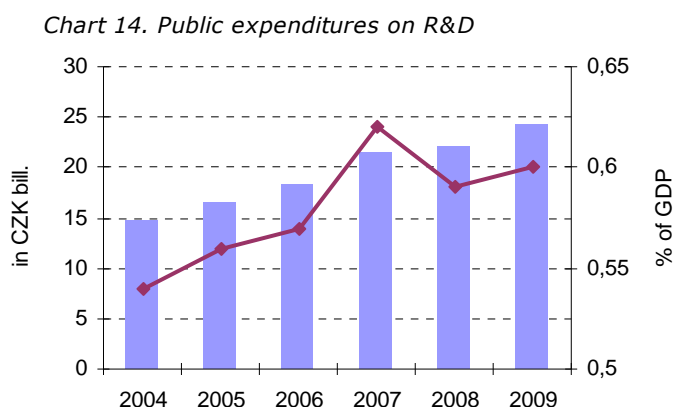
A discussion concerning introduction of general advance binding rules was initiated. Presently possible variants of dealing with binding assessment of taxpayers’ questions are being considered. The range of issues, on which binding assessment of tax situation may be requested, will be extended gradually. Legislation is being drafted to extend the general advance binding rules to three topics concerning income tax and one topic concerning VAT; this legislation is expected to come into force in January 2007.

4.2 RESEARCH, DEVELOPMENT AND INNOVATION

With regard to Barcelona target and compared to developed European economies, the intensity of R&D in the CR is low and increases very slowly. One of the ways to advance towards EU targets is to intensify Czech participation on European Research Area. Therefore, a new position of government representative for European research was set up on July 1, 2006. His/her main mission is to coordinate participation of researchers from both public and private sector on European research. The aim is to promote participation of the CR on implementation of EU R&D policy and its participation on framework programme projects. Another important mission of the government representative is to co-ordinate the planned “Europroject Terezin: Terezin as a university town”. This project aims at establishing links between a Czech higher educational institution of university type and European educational institutions in the framework of discussion forums and gatherings of nations from all over the world.

4.2.1 Increase year-on-year public expenditures on research and development

State budget expenditures on R&D increased from CZK 14 663.9 mill. in 2004 to CZK 16 457.9 mill. in 2005 and to CZK 18 178.7 mill. in 2006, which is a year-on-year increase by 12.2% (2005/2004) and 10.5% (2006/2005). In 2004 the share of R&D expenditures on GDP reached 0.53%, in 2005 it reached 0.55% and in 2006 it is expected to reach 0.57%. The share of total (i.e. both private and public) R&D expenditures on



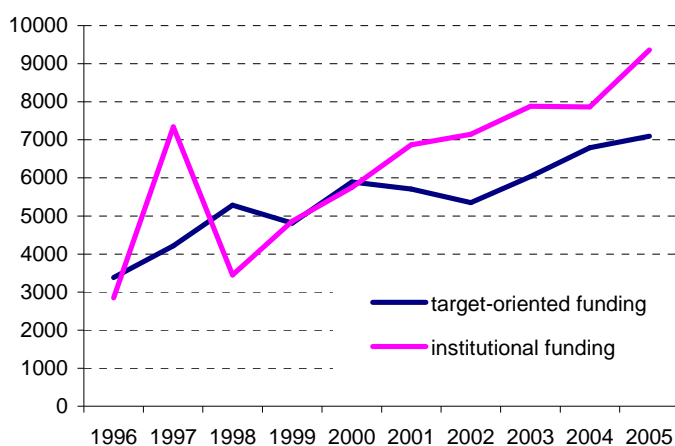
GDP increased from 1.28% in 2004 to 1.42% in 2005.

State budget expenditures on R&D will increase according to the adopted medium-term budgetary outlook and revised government resolutions of August 16, 2006¹⁸ and of September 25, 2006¹⁹. After certain adjustments, total state budget expenditures on R&D are as follows. 0.73% of GDP (CZK 25 066.9 mill. including co-financing from the EU of CZK 3 570 mill.) is allocated for the year 2007. Only national resources for 2007 will reach CZK 21 496.6 mill. (i.e. 0.62% of GDP). For 2008, the proposed funding from national resources is CZK 21 996.2 mill. (i.e. 0.59% of GDP) and proposed funding for 2009 is CZK 24 195.8 mill., (i.e. 0.60% of GDP).

Increase in public expenditures will be preferentially targeted at long-term main research directions (LMRD), approved by the government²⁰. LMRD define priorities in the most promising branches of research (i.e. those with the highest returns). These fundamental priorities of R&D policy are crucial for ensuring economic competitiveness and sustainable development of society and as such they are reflected in the National Research and Development Policy and in programmes by which this policy is implemented. Human, financial and other resources are thus concentrated on a limited number of priorities. LMRD focus on seven topics: Sustainable Development, Molecular Biology, Energy sources, Research of Materials, Competitive Machinery, Information Society and Research in the area of security. Expert Commissions of the Research and Development Council propose update of LMRD if necessary.

4.2.2 Change the structure of public R&D expenditures

Chart 15. Structure of R&D expenditures
(in mill. CZK)



A gradual change, based on preferring target-oriented funding at the expense of institutional funding, was launched in the 2006 draft state budget, with an outlook for 2007 and 2008. The CR prefers programmes co-financed by private sector. This process is, however, slow, due to inertia of the whole system (legal relationships are of a long-term nature with a horizon of 3 – 5 years). A more significant change can be expected by the end of present EU financial perspective, when target-oriented funding will be

promoted significantly by National Research Programme III. This Programme will allow for financing new or modernised R&D capacities that emerged, with support from EU funds, in different regions of the CR.

In 2005 the proportion of institutional support to target-oriented support was 56.9% : 43.1%, and in 2006 it was 52.6% : 47.4%.

4.2.3 Promote private R&D expenditures by means of indirect support

With an increasing trend, investments of both domestic and foreign firms concentrate on building R&D capacities. In 2005, business sector investment in R&D reached CZK 22 825 mill. (increase from CZK 18 530 mill. in 2004). Firms' R&D investment thus represented 0.77% of GDP (0.67% in 2004). Based on this trend, private R&D expenditures are forecast to reach 1.06% of GDP in 2010.

¹⁸ Resolution No. 970 of August 16, 2006

¹⁹ Resolution No. 1090 of September 25, 2006

²⁰ Resolution No. 661 of June 1, 2005

Amendment to the Income Tax Act of January 2005²¹ allowed for deduction from corporate income tax base of additional 100% in case that the taxpayer carries out precisely defined R&D projects. Evaluation of the first year in which this legislation is in force will be provided by the end of 2006 (deadline for submission of tax returns by tax consultants is in half of the year).

4.2.4 Provide human resources in R&D

Insufficient number of qualified R&D personnel is one of the barriers limiting competitiveness of Czech R&D. Only about 30% of all Czech university graduates continue in research, either as assistants at universities or as part of their PhD. studies. The main weakness in the area of human resources is a high number of researchers, notably the young ones, who leave R&D sector. Thus the average age of researchers increases and research suffers from insufficient human resources.

Among others, reform of tertiary education system aims at increasing the number of university graduates, notably those in sciences. In 2005, the funds assigned for public universities development programmes aiming at human resources development reached CZK 971 mill. In 2006 these funds increased to CZK 1 375 mill. (i.e. increase by CZK 404 mill.).

Of all 148 projects aimed at human resources development in R&D, that are part of the Operational Programme Human Resources Development 2004 – 2006 (ESF), 12 were implemented in 1st and 2nd appeal.

One of priority axes of a proposed Operational Programme Research and Development for Innovations 2007 – 2013 is increasing university capacities for tertiary education. The support of universities is now focusing on broadening the range of study programmes, notably in sciences and technical branches, and on general increase in university capacities, e.g. by building university campuses in priority branches defined by LMRD. The aim is to increase the number of university graduates in the most promising branches of research in all regions. During the new programming period this priority is to be supported by CZK 17.3 bill.

A Mobility Centre, which was launched on January 1, 2005, provides foreign researchers, who are looking for a job in the CR, and Czech researchers, who would like to work abroad, with all necessary information.

In August 2006 the government has decided²² to adopt the European Charter for Researchers and the Code of Conduct for the Recruitment of Researchers, based on a Commission Recommendation of March 2005. The Charter and the Code open European Research Area improve the quality of researchers' working conditions and should guarantee the same entitlements and responsibilities to all researchers throughout the EU.

A project Open Science, which was launched in September 2005 and will be terminated in August 2007, should help to engage young talents in scientific work. The project, which is part of the Single Programming Document 3, is co-financed from ESF (50%), from the budget of Prague (10%) and from state budget (40%). The total amount devoted to this project is CZK 13.5 mill. The main target of this project is to build a direct connection between secondary school students and teachers and top research institutions, either via universities or via the Academy of Sciences of the CR. Open Science offers research fellowships to 150 talented secondary school students at 23 scientific institutions in Prague. The fellowships will last for one year and, with regard to their studies, students are expected to spend approx. three hours a week in a scientific institution. In all its activities the project prefers technical and science branches, since it is notably graduates in these fields who are considered to represent the basic potential of competitiveness.

4.2.5 Intensify the use of instruments securing the intellectual property rights of scientific and research institutions and enterprises

In order to intensify the use of instruments securing the intellectual property rights, a new system of electronic application filing was introduced on July 1, 2006. In order to introduce

²¹ Act No. 669/2004 Coll., on a Change of Act No. 586/1992 Coll. on Income Taxes

²² Resolution No. 951 of August 16, 2006

this new system to general public, half-day courses are organised on filing applications for specific objects of protection, using advanced electronic signature.

In order to increase public awareness of the importance of industrial property and necessity to use this system, co-operation in the form of seminars and educational excursions is offered to universities, mostly to the technically oriented ones. Co-operation is in progress with the University of Public Administration and International Relations, Prague, the Institute of Information Studies and Librarianship, which is part of the Faculty of Philosophy and Arts at Charles University, Faculty of Mechanical Engineering and Faculty of Electrical Engineering, both are part of the Czech Technical University in Prague (CTU), Business and Innovation Centre of CTU and Institute of Chemical Technology, Prague.

Existing databases were extended in order to improve public access to information protected by patents. When providing information to public on its website, the Industrial Property Office (Czech Patent and Trademark Office) co-operates with foreign patent offices, European Patent Office, World Intellectual Property Organisation and Office for Harmonisation in the Internal Market. Information is updated regularly. The Industrial Property Office provides courses on how to carry out searches, which are free of charge.

The project Enforcement of Intellectual Property Rights is part of the Transition Facility 2005 programme. Its aim is to update and upgrade software and hardware of the existing information system, which can be found on: www.dusevnivlastnictvi.cz, to set up a methodology for enforcing intellectual property rights and methodology for co-operation between public administration authorities engaged in the area of intellectual property rights, to draw up textbooks and to train approximately 1000 employees of these authorities. The training should take place in 2007.

In the area of innovations, protection of intellectual property rights is a priority. It will be covered by the Operational Programme Enterprise and Innovations, which is planned for the 2007 – 2013 programming period. This priority is elaborated in more detail in the programmes INOVACE and PATENT. The programme **INOVACE** will, among others, focus on promoting patent activity in small and medium-sized enterprises. For this reason the costs connected to submission of patent application and patent proceedings at the Industrial Property Office (in case of national patent) and at the European Patent Office (in case of European patent) will in this programme be considered as eligible costs. Expected annual allocation on this programme is CZK 2 – 3 billion. The main objective of a newly prepared programme **PATENT** is to intensify the use of instruments securing intellectual property rights and overall improvement of conditions in this area. The programme will focus on reimbursing part of the costs spent to obtain patent protection of inventions, utility models and industrial designs and on co-financing the costs of patent proceedings carried out either by European Patent Office or by Industrial Property Office. To be more specific, the following will be reimbursed: the cost of patent attorneys, translations, searches, legal consulting and partly the costs of protection of intellectual property rights during basic term of patentability. Expected annual allocation on this programme is CZK 30 – 50 million and around 700 – 1000 entities will be supported from this programme during the whole programming period. Latest development is that PATENT programme became a part of programme INOVACE.

4.2.6 Develop innovation infrastructure

At present, development of innovation infrastructure for industrial research, development and innovation is promoted by means of Operational Programme Industry and Enterprise 2004 – 2006 (OPIE), notably by **PROSPERITA** programme. This programme focuses on establishing and performance of business incubators, science and technology parks and centres for transfer of technologies, and thus it promotes development of innovative environment in regions. 27 projects were submitted in 2005. A decision was issued on 8 of these projects, with total budget exceeding CZK 360 million. During 2005 the number of regions involved in this programme increased and the spectrum of applicants also extended. The highest number of projects was submitted in South Moravia region. As concerns other “university” regions, the project Science and Technology Park Plzen is one of the most important, with a subsidy of CZK 149.9 million. By the end of July 2006, 64 projects were submitted in the PROSPERITA programme. These projects were submitted not only by firms but also by universities and scientific institutions. 21 of these projects were rejected and 18 projects were granted a support in total amount of CZK 838.7 million.

For the period 2007 – 2013 a programme **PROSPERITA II** is envisaged, as part of the Operational Programme Enterprise and Innovation. Expected annual allocation on this programme is CZK 1 billion and around 40 projects of science and technology parks and centres for transfer of technologies will be supported by this programme during the whole programming period. Since providers of funds for innovation projects are an important part of innovation infrastructure, measures aimed at promoting Business Angels Networks and their activities are considered. Creation and development of Business Angels Networks should promote effective allocation of funds and provide room for additionality of funds.

As concerns development of clusters, in November 2005 the Monitoring Committee of OPIE endorsed increase of financial support in the programme promoting establishing and development of clusters up to 75%. Financial support will be allocated in the following manner: 75% in the first year, 65% in the second and 55% in the third year of the project. As concerns the programme **KLASTRY**, 49 projects were accepted into the stage of searching firms appropriate for clusters by June 2006, 8 of which were rejected later. 30 projects, with total budget of CZK 23.2 million, were recommended for implementation. About 10 new projects will be accepted into the searching stage before the end of the programming period.

An example of successful and inspiring cluster initiative is the **Omnipack** cluster. In March 2006 this project was proclaimed a cluster of the year 2005. Omnipack is a consortium of firms producing packages and package technologies. The main strategy of this cluster is to create a strong community of co-operating and competing firms in the area of packages and package technologies, including service organisations, research and educational institutions. This community promotes and coordinates co-operation and thus contributes to competitiveness, to increasing number of innovations introduced and to improving export performance. The community also aims to popularise regions Hradec Kralove, Pardubice and Vysocina as important centres of packaging industry and the trademark Omnipack as a provider of complex package and transportation systems. Members of the cluster will profit from boosting export, penetrating foreign markets, improving relationships between suppliers and purchasers inside the cluster and increasing opportunities to get a grant from EU Structural Funds.

Information concerning clusters is published and regularly updated on a web portal www.klastr.cz. According to the fact that new programmes promoting co-operation between firms and R&D sector will be launched in 2007, update of the whole portal and change in the structure of information provided are under way. Information is regularly provided for those who are preparing projects in the programme KLASTRY – two meetings took place during the first half of 2006. Information campaign focuses notably on two areas: methodology of project preparation and submission of applications and the problematic area of cluster financing and common projects.

As concerns cluster mapping, the first stage of National Cluster Study, launched in September 2005, was terminated in February 2006. Its aim was primary identification of clusters in regions. The main outcomes of the project are national report and 14 regional reports, in which, based on M. Porter's methodology of location quotients, competitive sectors of the Czech Republic and regional economies are identified. Apart from a range of statistically analysed data, the Report on Regional Data Sources and the Manual on Regional Competitiveness are some other outcomes of the aforementioned project. The project of statistical identification of clusters will be followed by a second stage of National Cluster Study; documentation for this stage is currently being prepared. A call for tender is expected in March 2007 and implementation of the project will take approximately 9 months.

At present, two studies are being elaborated in order to identify the potential of formation and development of clusters in priority areas. Since February 2006, a project focusing on bioinformatics in South Moravia Region took place. This project was terminated successfully in September 2006. At the same time another project was launched, aiming to identify the potential of a possible cluster formation in nanotechnologies. Formation of clusters in both cases is expected and application for support from the programme KLASTRY will probably be submitted before the end of the 2004 – 2006 programming period.

As of January 2006, a new programme for the period 2007 – 2013 is being prepared, with the aim to promote co-operating groups. In this preparatory stage the programme is called **Spoluprace**. Compared to the present programme, the portfolio of activities that will be supported by Spoluprace programme is wider. Apart from standard forms of promoting

existing and newly established clusters, technology platforms and poles of excellence will also be promoted. The reason is that both technology platforms and poles of excellence contribute to increase in technology level of the CR by promoting intensive co-operation between firms and R&D institutions, they allow for interconnection between firms and technology leaders in specific areas and accelerate progress in top technologies that are an important source of Czech competitiveness. New activities, e.g. elaborating papers, preparation of projects or setting up networks between partners in regions, will be carried out systematically as part of this programme. Independent project aimed at training and certification of facilitators and cluster managers will also be part of this programme. Almost 90 facilitators have been trained before April 2006.

The Single Programming document for Objective 2 – Prague also aims at developing innovation infrastructure. By the end of the first half of 2006, 8 projects were approved as part of this programme, with total budget of almost CZK 300 mill. A new Operational Programme Prague – Competitiveness is planned for the 2007 – 2013 programming period, which will aim at continuing in the above-mentioned activities.

4.2.7 Increase availability of funds to innovative firms

As a result of floods in spring 2006, the funds originally allocated for KAPITAL programme were unexpectedly moved in favour of the programme REKONSTRUKCE and implementation of KAPITAL programme was ceased. Nevertheless, the initiative **JEREMIE**, which is a joint initiative of European Commission and European Investment Bank group, fully corresponds with the targets of the abolished programme KAPITAL. The aim of JEREMIE initiative is to improve availability of funds to micro, small and medium-sized enterprises in initial phases of their existence. The CR supports this initiative and expects to participate on it in order to improve availability of funds to innovative firms in the CR.

As part of the planned Operational Programme Enterprise and Innovation 2007 – 2013, the use of risk capital and micro-loans is in consideration. The main motive for using these instruments is to accelerate the process of establishment and development of innovative firms, which may use the potential of education and R&D institutions for their entrepreneurial activities. As part of a complex promotion of the system of financing firms in initial stages of existence, a planned programme PROSPERITA II will deal with so-called Business Angels. Expected annual allocation for this programme is around CZK 2 billion.

4.3 SUSTAINABLE UTILISATION OF RESOURCES

4.3.1 Maximise energetic and material effectiveness and rational use of resources

Material Effectiveness

In 2004 the value of domestic material consumption reached 192.2 mill. of tons and material intensity thus reached a high value – 1.90 tons per 1000 EUR GDP²³. In international comparison the CR substantially exceeds EU-25 average, which is 0.90 tons per 1000 EUR GDP. Preparatory works on a Programme for Sustainable Use and Productivity of Resources, which focuses on de-materialisation of processes, on increasing productivity of resources and on decreasing the impact of production and consumption on environment. The aim of this programme is to introduce changes into the Czech economy that will reduce domestic material consumption (the indicator used is domestic material consumption per person) and to increase economic output (the indicator used is GDP per person). Specific measures focusing on introduction of new technologies, which need less material inputs and produce less wastes, are part of this programme. At the same time, measures are considered to increase the rate of required recycling, i.e. recycling that produces outcomes with the same or better technical parameters and economic indicators as those of products made of primary raw materials. The preparatory stage of this programme will terminate in 2007 and the programme itself will be implemented in the period 2008 – 2013.

At present, the following activities are under way: elaboration of background documents for proposals of legislative changes, intensive promotion of R&D, a platform for exchange of information is in operation and public education is encouraged by a range of expert

²³ Values of these indicators for the year 2005 will be known in November 2006.

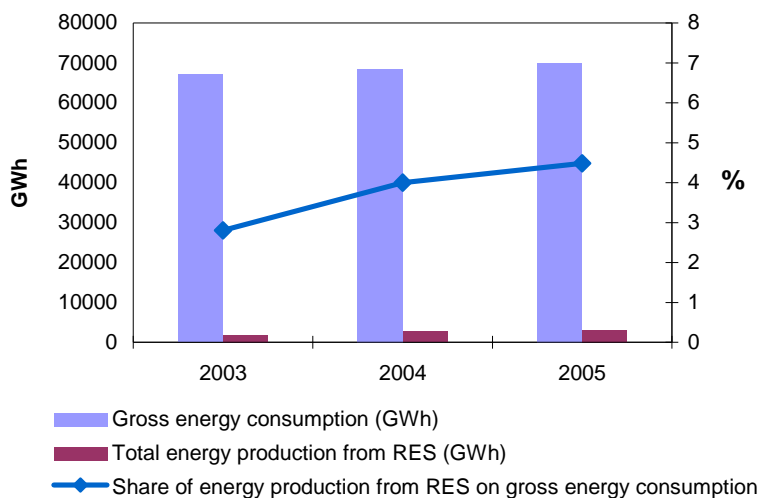
seminars and conferences. Background documents for proposals of changes in legislation are usually prepared by gathering information on secondary raw materials, substances and products and by learning how finding how other EU countries solve the system of closing of the flow of materials. For the use of entrepreneurial sector, a methodical instruction was published on the Ministry of Industry and Trade website "Methodical guide for system of closing the circle of the flow of materials which are material basis of collectible waste, metal, paper and glass".

Two programmes promoting R&D and covering a wide spectrum of topics – **TANDEM** and **IMPULS** – are in progress. Among other things, their priorities are: setting basic principles for products and technologies with multiple use, low waste and non-waste technologies, recycling, improving environment, respecting environmental standards, reducing and eliminating environmental damages, use of secondary raw materials, etc. Exchange of information on best available technologies is provided as part of the process of integrated prevention. 20 expert working groups are engaged in this process and a new website (www.ippc.cz) was put into operation, on which all information necessary for entrepreneurs, experts and general public are published.

Voluntary introduction of management systems compatible with international standards is also promoted. Before the end of January 2006, 2122 organisations have introduced and certified the system of environmental management. In the period 2000 – 2006, 24 organisations have introduced and verified EMAS system. Besides, many organisations have introduced the system and are using it but have not applied for its certification, yet. These voluntary activities prove that many entrepreneurs prefer to behave responsibly to the environment and to the whole society, not least by reducing energy and material intensity of their activities.

Energetic Effectiveness

Chart 16. Production of electricity from renewable sources



In 2005, 228 projects were supported from the State Programme for Support of Energy Savings and Use of Renewable Energy. Total allocation for this programme reached CZK 95.5 mill. Implementation of supported projects increased the amount of energy produced from renewable sources by 3.7 GWh annually and provided for energy savings of 29.7 GWh annually. This programme continues in 2006. Activities concerning energy planning and certification of buildings, increase of

energy effectiveness in production (including the use of renewable sources), distribution and use of energy, consultancy, education and promotion of economic use of energy, use of renewable sources and pilot international projects in this field, will continue. All these activities are promoted mostly by subsidies from the state budget to both commercial and non-commercial entities. In 2006, CZK 70 million are allocated on the State Programme for Support of Energy Savings and Use of Renewable Energy.

In 2005 the CEZ group, majority of which is owned by the state, increased production of energy from renewable sources by 18% compared to 2004. The share of CEZ group on total production of energy from renewable sources increased from 51% in 2004 to 56% in 2005. In February 2006, CEZ introduced a new product, so-called Green Energy, which is available to all Czech firms, institutions and households that prefer environment-friendly approach. The premium for purchasing Green Energy is only symbolic – the price of Green Energy is CZK 0.1 per kilowatt-hour higher than the price of standard energy. Revenue

from this premium is used for financing non-profit projects promoting research, education and use of energy from renewable sources.

Tab. 2 Production of electricity from renewable sources in the CR

	Gross production of electricity (GWh)	
	2004	2005
Hydroelectric power plants	2 016.30	2 379.90
Biomass total	564.5	560.3
Biogas total	138.8	160.9
Wind power plants	9.9	21.4
Solid municipal waste	10	10.6
Photovoltaic systems	0.3	0.4
Total	2 739.80	3 133.50

An amendment to the Energy Management Act, which entered into force on July 1, 2006, also contributes to maximise energy efficiency. It introduces obligation to carry out regular revisions of boilers and air-condition units as concerns their effectiveness, to elaborate a certificate of energy intensity of a building and to consider alternative systems of heating in large buildings. Following practical experience from the past, requirements on energy audits and auditors are being specified in order to improve the quality of energy audits.

Notably two programmes covering a wide spectrum of topics – **IMPULS** and **TANDEM** –, which both are financed from the state budget, promote R&D in the area of power engineering. Among others, these programmes deal with development of nuclear energetics, safety aspects of advanced nuclear reactors, ensuring long-term lifespan and promoting effective operation of nuclear power plants, deep geological repository for nuclear fuel and high level wastes, including modern technologies of their treatment. As part of these programmes, the questions concerning production and utilisation of hydrogen in transport are dealt with. This year a research programme **TRVALA PROSPERITA** was launched, which will focus on renewable and alternative sources of energy and on energy savings. At present, evaluation of submitted projects is in progress.

In 2005, 17 projects focusing on power engineering were supported by IMPLULS programme by total amount of CZK 70.8 mill. and 18 projects were supported by TANDEM programme by total amount of CZK 136 mill.

Operational Programme Industry and Enterprise 2004 – 2006 promotes reduction of energy intensity of production, distribution and use of energy and construction or reconstruction of facilities that use renewable energy sources. All these projects are co-financed from EU Structural Funds and support is addressed to small and medium-sized enterprises. In 2005, 7 projects that contributed to increase in production of energy from renewable sources by 27.3 GWh annually and to energy savings of 24.3 TJ annually were supported by CZK 37.1 million. At present, a new similar programme is in preparation for the period 2007 – 2013. As concerns the new programme, some changes are now being considered, e.g. to include also large enterprises and regions in this programme, to grant support by means of a loan and to promote energy savings by means of Energy Performance Contracting. Also increase of the maximum amount of subsidy is in consideration.

4.3.2 Promote environmental technologies

On February 22, 2006, the Programme on Support of Environmental Technologies in the CR was adopted, with the aim to co-ordinate promotion of environmental technologies, to ensure it is reflected in specific policy measures, sectoral policies and programmes and to ensure adequate measures for implementation of ETAP. The programme focuses on maximum profit from the potential of diffusion and utilisation of environmental technologies, on reduction of damages to environment, on improvement of citizens' quality of life and on boosting economic growth. The programme defines a range of measures, e.g. to concentrate on research for environmental technologies, to propose measures to

increase the use of environment-friendly public procurement, to promote Energy Performance Contracting in the CR as part of the State Programme for Support of Energy Savings and Use of Renewable Energy, to propose a system of energy benchmarking for products and technologies with high energy intensity or to propose indicators for evaluation of environmental technologies support. The programme will be evaluated annually and will be updated if necessary. Every two years the government will be informed on progress in implementation of this programme.

Promotion of environmental technologies is financed from a range of subsidy titles, e.g. Operational Programme Industry and Enterprise (which is part of priority 2 – Increasing Competitiveness of Businesses, for which in 2005 the allocation from public financial sources reached EUR 53.4 million) and Operational Programme Infrastructure (which is part of priority 3 – Improving Environmental Infrastructure, for which in 2005 the allocation from public financial sources reached EUR 64.5 million), state budget and other public and private funds.

4.3.3 Implement a fiscally-neutral environmental tax reform

Two sets of measures are envisaged as concerns the environmental tax reform. On the one hand, excises on fuels and electricity will be increased and on the other hand, reduction of other taxes will follow. Currently, in accordance with EC legislation, excises on petrol, diesel oil, paraffin oils, light and heavy heating oils, propane-butane (LPG) and natural gas are in place. Directive 2003/96/EC however requires introducing excise duty on electricity and solid fuels. The directive sets a minimum tax rate for each category of fuels and electricity and determines obligatory and facultative tax exemptions. Currently in the CR no excise duties are set on electricity and solid fuels (the CR has negotiated a transition period for implementing this directive until December 31, 2007). To meet requirements set by the aforementioned directive, a concept of environmental tax reform was elaborated. The reform itself, however, has not been launched, yet. At present, draft acts on excise duty on solid fuels and electricity are being prepared. These drafts should be ready before February 2007, they will be approved afterwards and they will come into force as of January 1, 2008. The second part of the reform, i.e. which taxes will be reduced, has not been decided, yet.

4.4 MODERNISATION AND DEVELOPMENT OF TRANSPORT AND ICT NETWORKS

4.4.1 Modernise and develop transport networks

In April 2006 the government discussed a General Transport Infrastructure Development Plan. This plan sets specific priorities concerning transport infrastructure development in the period 2007 - 2013 in the CR. Furthermore, it sets strategy for financing from available funds in the form of balanced allocation for specific priorities/measures/projects that are part of the financial plan. Presently a system for selection of transport infrastructure priorities is being prepared and works on a model for allocating funds for specific priorities are terminating. General Transport Infrastructure Development Plan, which is in line with Operational Programme Transport 2007 – 2013, will be submitted to the government during 2007. Total expected allocation for OP Transport is EUR 6 546.7 mill.

Drawing loans from international financial institutions is also important for financing these projects. For example, in 2005 total amount of loan granted by European Investment Bank (EIB) reached CZK 7.3 bill. (from this loan 6 projects were financed; the most important ones are construction of segments of two motorways – D8 and D11). By half of 2006 the amount of loan granted by EIB reached CZK 1.7 bill. and implementation of 2 projects was financed from it.

In 2005, a significant progress was achieved as concerns TEN-T networks. 42.1 kilometres of roads and motorways were finished, with a total cost of CZK 15 827.5 million. Total investment in construction of motorway and road TEN-T network last year reached CZK 29 202.1 mill., out of which CZK 900.0 mill. was spent on reconstruction. As concerns railway TEN-T network, investment reached CZK 11 114.9 mill., out of which 95% represent investment into modernisation, optimisation, electrification and increase of maximum speed on these lines. Investment into TEN-T infrastructure of inland and waterway transport in 2005 reached CZK 225.7 mill., while the funds were spent mostly on improving shipping conditions and modernising ports.

Tab. 3 State of motorways and expressways in the CR by the end of 2005

Route	No of kilometres in operation	No of kilometres in preparation or construction				Total length of the route
		In construction	Advanced stage of preparation	Others in preparation	Total	
Total	920,1	206,2	169,0	878,6	1 253,8	2 173,9

In October 2006 the last 3.5 km of bypass around Plzen were put into operation and at the same time a segment of A6 motorway on the German side was put into operation. Thus a complete motorway interconnection between Prague, Nuremberg and Munich was finished. In December 2006 a 23.4 km long segment of D8 motorway from Usti nad Labem to German border near Petrovice will be put into operation and it will be joined by German A17 motorway to Dresden and Berlin. A 45 km long segment of D11 motorway Podedbrady and Hradec Kralove will also be finished in December 2006. Approximately 80 km long segment of D47 motorway Lipnik nad Bečvou – Ostrava – state boundary with Poland is under construction. This motorway is a part of TEN-T network – a motorway axis Gdansk-Brno/Bratislava-Vienna – and the aforementioned segment will be completed in 2008. Construction of D1 motorway near to Kromeriz and D3 motorway north of Tabor is also in progress.

Public-private partnerships (PPP) also participate on development of transport infrastructure in the CR. A Study on application of PPP for projects on transport financed from EU funds was elaborated in January 2006. Its aim was to identify how and to what extent other EU Member States combined financing of PPP projects with financing from EU funds, and, on the basis of this information, to provide recommendations for the 2007 – 2013 programming period. In April 2006, selection of chief consultant and project manager was launched for a pilot PPP project, i.e. construction of a 30 km long segment of D3 motorway Tabor – Bosilec. The consultant should be selected in autumn 2006.

Modernisation of a 458 km long 1st national transit railway corridor, a part of railway axis Athens – Sofia – Budapest – Vienna – Prague – Nuremberg/Dresden, was finished in 2005. Modernisation of a 315 km long segment of the main branch of 2nd corridor (Breclav – Prerov – Petrovice u Karvine), a part of railway axis Danzig – Warsaw – Brno/Bratislava – Vienna, was also finished in 2005.

Works on an interconnecting branch between the 1st and 2nd corridor (Prerov – Ceska Trebova) are in progress. In March 2006, optimisation of the line Plzen – Stribro, which is a part of the 3rd national transit corridor, was launched. Last important construction work launched in 2006 is modernisation of three segments of the 4th transit corridor Prague – Ceske Budejovice – Horni Dvoriste – Linz.

In connection to modernisation of transit railway corridors also some important railway nodes were modernised. A transit through railway nodes Decin and Chocen is already in operation and optimisation of Bohumin railway node was finished by the end of 2005. Presently optimisation of the node Usti nad Labem and some partial works on Prague and Brno nodes are under way.

4.4.2 Introduce intelligent systems for transport and traffic control

Preparatory works on European Rail Traffic Management System (ERTMS) continued during 2005. The aim of ERTMS is to increase effectiveness of railway transport. It consists of two basic subsystems: communication system GSM-R and automatic train control system ETCS. The system ETCS is currently in operation on the line Poricany – Kolin. In 2005, a pilot project of GSM-R was finished on the line Decin – Usti nad Labem – Praha – Kolin, which is currently in a trial run.

By the end of 2005, National Traffic Information Centre Ostrava came into operation as part of the Unified Traffic Information System (UTIS), which allows for sharing and providing authorised information on traffic in the Czech terrestrial communications network. By the same time Winter Information Service, Road Monitoring and Information System and System of Information on Closures and Restrictions on Motorways, Expressways and 1st Class Roads came into operation. In April 2006 four variable message signs (VMS) were installed as part of monitoring and information system on D1 motorway.

Furthermore, a system of cameras allows the motorway caretaker, the elements of integrated emergency services and other bodies to monitor the motorway from their workplaces. Six more VMS will be put into operation and the monitoring system will be supplemented with more cameras during this year. At present, adjustment in the systems of Fire Rescue Brigade and Police of the CR is also under way, to allow for interconnection with the UTIS system. Exchange of information with local centres, e.g. Traffic Information Centre Prague, is also envisaged.

Work on euro-regional EU project called CONNECT is in progress. The aim of this project is to propose a strategic plan for development and extension of intelligent transport systems and services in TEN-T network in the CR, Slovakia, eastern part of Germany, Slovenia, Hungary, Poland and Italy. Testing of modern systems for management and control of road traffic will take place during 2006 on a 20 km long segment (Prague – Nova Ves) of D8 motorway. As part of the UTIS project, gradual introduction of traffic information system for drivers based on RDS-TMC technology is envisaged before the end of 2006. Works on a pilot project of automatic emergency calls from vehicles (eCall) on the Czech territory were launched by the end of 2005.

4.4.3 Increase the share of railway transport on the transport market and develop combined transport

On October 5, 2005 the government adopted a document Concepts and Programmes for Combined Transport Support for the period 2005 – 2010. Total expected allocation from the state budget on combined transport promotion is around CZK 1.660 billion, of which CZK 1.230 billion will be spent on support of investment sub-programmes and CZK 0.430 billion will be spent on non-investment programme. Termination of these programmes is expected on December 31, 2012. Notification of programmes by European Commission was terminated on April 4, 2006. As part of investment programmes, a sub-programme focusing on promotion of building transport-related logistics centres (Measure 2.2 of the OP Infrastructure) is implemented, with the aim to ensure co-financing from the state budget of the support granted from EU Structural Funds. On October 1, 2006, reconstruction of two public trans-ship points in Melnik and Lovosice and purchase of reloading mechanism for public trans-ship points in Prerov and Usti nad Labem were approved. So far, no funds have been drawn from the state budget, or from EU Structural Funds.

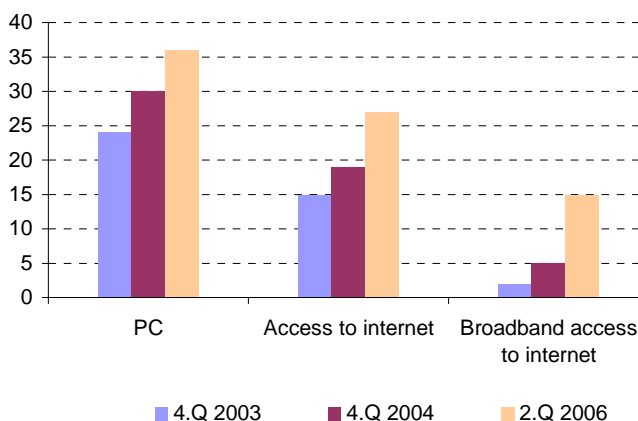
4.4.4 Create consistent countrywide broadband ICT infrastructure

In order to promote faster development of broadband networks and use of new electronic services, notably by households and SMEs, the CR has set a target to ensure that 50% of population will have access to broadband internet before 2010. The following measures should help to achieve this target: liberalisation of the sector, which will result in substantial decrease of broadband internet access prices, continuous extension of eGovernment services and activities aiming at increase of computer literacy (National Computer Literacy Programme).

In accordance with the National Policy for Broadband Internet from January 2005, an expert Forum for Broadband Internet Access was established on May 31, 2005, in order to evaluate submitted projects. In connection with parliamentary elections in June 2006, activities of the Forum were temporarily interrupted.

National Broadband server was launched as part of Public Administration Portal, which maps penetration of broadband internet access and provides information on its availability on the Czech territory. To develop broadband internet access in

Chart 17. Use of ICT by households
(in % of all households)



the period 2006 – 2010, 1% of revenues from privatisation of Cesky Telecom, a.s. will be used. Out of the total CZK 800 million, CZK 200 million were assigned in 2006 to 26 projects on development of infrastructure, 12 projects on development of digital content, applications and on-line services and 9 projects for marketing, public education and support. Broadband internet access using ADSL technology is now available on approximately 90% of Czech territory. If wireless technologies are included, broadband internet availability increases to almost 100% of the territory. For 2005 a minimum limit of broadband access was set up at a nominal speed 256 kb/s.

EU Structural Funds are an important source for financing development of broadband internet. So far, 128 projects were financed from Joint Regional Operational Programme 2004 – 2006 by almost EUR 23 million (measure ICT Development in Regions). Priority in financing was given to projects for developing backbones (e.g. broadband network ROWANET), regional networks (e.g. project Regional Information and Communication Network in Nove Mesto na Morave) and public internet access points (so-called PIAP). Sustainable investments are targeted notably at less-favourite, remote and economically less developed areas of cohesion regions. Criteria for selection of projects are set in such a way that selected projects should contribute to ensure access of public, municipalities and regional institutions to information and ICT services.

4.4.5 Promote development and effective use of ICT

Safe and reliable interconnection between basic public administration information systems is a precondition of eGovernment. Creation of three fundamental registers – register of territorial identification and addresses, economic register and register of citizens – will become a primary source of information in public administration and the core of *eGovernment*. Their origination depends on an act regulating data sharing in public administration, which is in preparation. A Draft Act on Public Administration Data Exchange was submitted to the government in November 2005, but it has not been approved, yet. According to the fact that the draft act regulates not only basic rules for exchange of information between public administration authorities but also general rules for creating and filling registers with information, it is necessary to link submission and adoption of this act with submission and discussion of acts which will regulate specific registers.

A proposal to create a single economic register was adopted on May 17, 2006. The economic register should be launched in 2010. It will integrate data on approximately 2.4 million economic entities in the CR and thus will replace a few tenths of systems that are currently in operation. Creation of a single economic register will facilitate issuing of extracts from registers, will improve the service of providing information and will eliminate the obligation of entrepreneurs to submit the same data repeatedly to different authorities.

An amendment to the Act on Public Administration Information System, which came into force as of March 2006, regulates issuing of extracts from registers and authorized data from public administration information systems. According to this amendment, municipal authorities with extended competencies, other municipal authorities, town district authorities including those of statutory cities and Prague, Economic Chamber of the CR, holder of a postal licence (presently Ceska Posta, s.p.) and notaries may issue authorized data from public administration registers.

A new Public Procurement Act, which came into force as of July 1, 2006, sets legal framework for the use of electronic instruments in a standard process of public procurement contracting. The new act allows for electronic contracting of public procurement, it determines electronic instruments and how these can be used in the contracting proceedings, including an obligation of having a certificate from the Ministry of Informatics, and it confirms new means of electronic contracting (dynamic systems of purchase, electronic auctions). Further implementation of the framework for electronic public procurement contracting is dealt with in the National Plan for Introduction of Electronic Public Administration Contracting 2006 – 2010.

The gateway to all electronic information and transaction services provided by public administration is *Public Administration Portal* (www.portal.gov.cz). At present, the Portal offers more than 350 instructions on how to carry out administrative agenda, public administration address book with more than ten thousand records and free access to all Czech legislation in effect. A transaction part, which was extended last year to allow for submission of application for and cancellation from sickness insurance and statement of receipts and expenditures of self-employed, is a significant progress in introducing

eGovernment. Czech Social Security Administration is the biggest organisation that accepts electronic submissions. So far it received more than 11 million electronic documents and more than 65% of organisations use electronic submissions. Since the end of January 2006 the Public Administration Portal provides free e-learning courses. Seven courses focus on work with PC, one focuses on electronic signature and one serves as a guide on the Public Administration Portal. As of July 2006, more than 11 000 users have subscribed for these courses and these users already completed more than 9 000 courses. The number of Public Administration Portal users increases significantly each year. More than 10 million accesses to the Public Administration Portal were recorded during the first half of 2006 (as compared to 6.5 million in the first half of 2005).

National Computer Literacy Programme is addressed to general public and its aim is to help acquiring basic skills concerning work with PC and internet and to help overcome fear of new technologies. Since February 2003, more than 200 000 people passed courses organised as part of this programme.

A project Metropolitan PACS for Prague and Its Surroundings is under way, with the aim to improve *eHealth* services. The project is a practical application of telemedicine, which is based on interoperability (information acquired in one system are available in other systems) and on electronic health documentation. In 2006 this system operates in Prague and Central Bohemia regions and it will be extended to other regions during 2007. In future, joining standard European systems is envisaged as part of *eHealth* project.

Information on health is published on Public Administration Portal. However, information on healthcare facilities is not included since no central register exists, which would ensure that provided information is complete and up-to-date.

4.4.6 Ensure convergence of networks and services on electronic communications market

Convergence of communication technologies and services, including digital radio and TV broadcasting, cannot be promoted unless liberalisation and increase in competitiveness on electronic communications market continue. A new Electronic Communications Act, which is in force as of May 1, 2005, allows for continuing liberalisation of the market, strengthening competitiveness and decrease of prices for customers. In line with the Policy of Launching Digital TV Broadcasting in the Czech Republic 2004 – 2006, regular digital terrestrial broadcast was launched in October 2005. Further steps are set in the Digital Broadcasting Development Policy in the Czech Republic, which was adopted on March 15, 2006. This Policy defines the main principles of information and communication campaign for advancement of digital broadcast in the CR, including financing of this campaign and survey on penetration. National Co-ordination Group for Digital Broadcasting in the CR was also set up in line with this Policy.

4.4.7 Ensure security of networks and information and interoperability of ICT services

To ensure security of networks and information, National Information Security Strategy of the CR was adopted in October 2005. In May 2006, Action plan on implementing specific measures was submitted to the government. However, it was not adopted, yet. As concerns interoperability, the CR prefers open standards, which ensure definition and use of open and compatible specifications, protocols and interfaces applied in ICT products and services. This principle is used mostly for developing public administration information systems and public administration electronic services (eGovernment). The CR supports eGovernment Action Plan i2010, notably as concerns interoperability and open standards. The CR participated on and continues in preparation of updating recommendations of the European Commission Programme IDABC in the area of open formats of office documents. To provide for semantic and organizational interoperability (in line with the Act on Public Administration Information System) the CR prepares for launching information systems on data elements and public administration information systems, which is envisaged in January 2007, including methodical and other related documentation.

5 EMPLOYMENT

Implementation of measures adopted in the National Reform Programme 2005 – 2008 contributed significantly to achieving national employment targets for 2008, i.e. total employment rate 66.4%, female employment rate 57.6% and employment rate of older workers (55 – 64 years) 47.5%. In 2005, total employment rate reached 64.8% (increase by 0.6 p.p. compared to 2004), female employment rate reached 56.3% (increase by 0.3 p.p. compared to 2004) and employment rate of older workers reached 44.5% (increase by 1.8 p.p. compared to 2004). In 2006, development also seems to be favourable. In first quarter of 2006 total employment rate reached 64.8% (increase by 0.7 p.p. compared to the same period in 2005), female employment rate reached 56.5% (increase by 0.7 p.p.) and employment rate of older workers reached 54.5% (increase by 1.4 p.p.).

5.1 LABOUR MARKET FLEXIBILITY

5.1.1 Extend contractual freedom in employment relationships

The new Labour Code²⁴, which was approved in May 2006 and is expected to come into force as of January 2007, should contribute to extending contractual freedom in employment relationships. The Labour Code is a complex regulation of employment relationships. It will allow for liberalisation of employment relationships and it will promote the principle of freedom of contract in these relationships. Flexibility of employment contracts will increase. Apart from obligatory information on the type of work to be carried out by employee, place of employment and commencement of employment, also other conditions may be included in the contract, which would be convenient to both the employee and the employer. Employers and employees may sign contracts allowing homeworking or teleworking not only as part of employment contracts but also in a form of separate contracts, e.g. a contract regulated by Civil Code. The institute of working time accounts was introduced, which enables employers to react flexibly to changing sales of their production. In future, employers may adjust the agreed weekly working time of their employees without having to adjust their wage. In September 2006, the new government adopted an amendment to this act and postponed its effect by one year. This amendment, however, must be adopted by the Parliament and signed by the President.

In order to promote homeworking and teleworking with the use of information technologies, a project EQUAL, part of a Community Initiative of the same name, was launched with total allocation CZK 2.6 million²⁵. The project focuses on teleworking in the CR. At present, pilot education courses for unemployed and advisory activities for firms are being launched. The project itself consists in providing legal consultancy free of charge, e.g. for drawing up employment contracts on teleworking, free technical consultancy, increase of computer literacy and also free loans of ICT. An important element is to set up a central point for matching supply and demand for works in teleworking.

5.1.2 Reduce statutory non-wage labour costs

One of the key measures aiming at increasing employers' competitiveness and improving conditions for employing educated and qualified labour force is introduction of ceilings on social security contributions. Legislation was proposed, setting maximum assessment basis for social security contributions. This legislation, however, was not approved by the parliament and therefore ceilings on social security contributions cannot be introduced.

The new Sickness Insurance Act, which should enter into force as of January 1, 2007, should contribute to decreasing non-wage labour costs. The new act integrates the sickness insurance system for all policyholders, ensures adequate compensation in case of lost income, which at the same time corresponds more with the amount of sickness insurance contributions paid, while maintaining the solidarity of high-income policyholders. Not least, this new legislation restricts opportunities to misuse the sickness insurance system. According to the new act, employers have an obligation to pay sickness benefits (in cash) during the first 14 days of their employees' sickness. This obligation is compensated by lowering the rate of sickness insurance contributions paid by employer from 3.3% to 1.4%

²⁴ Act No 262/2006 Coll., Labour Code

²⁵ More information is available at www.teleworking.cz

of assessment basis, thereby decreasing statutory non-wage labour costs. In August 2006, the government adopted an amendment to this act, which states that since 2007 the rate of sickness insurance contributions paid by employer will be decreasing only gradually. The obligation to pay the first 14 days of sick leave by employer's own resources will be introduced gradually as well. The new government has decided to postpone the effect of the new act by one year. This change however must still be approved by the Parliament and signed by the President.

5.1.3 Improve the stimulation effect of direct taxes and benefits with the aim to cut down unemployment and increase the motivation of low-income groups to work

Motivation of low-income groups to participate on the labour market was promoted by reduction of the two lowest marginal tax rates from 15 to 12% and from 20 to 19% respectively and by replacing standard tax allowances by tax credits. This change came into effect as of January 1, 2006. Evaluation and quantification of the impact induced by this change will be available in 2007.

To motivate further low-income groups to take up a job, two new acts were adopted in March 2006, with expected effect as of January 1, 2007: the Act on Assistance in Material Need²⁶ and the Act on Subsistence and Existence Minimum²⁷. Those who prove efforts to increase their income by taking up a job should be advantaged in drawing social security benefits. To prove that a person is looking for a job, a recommendation from the labour office in charge will suffice. The Act on Subsistence and Existence Minimum significantly changes the current definition of subsistence minimum. The newly introduced subsistence minimum will be based on one component and will not include the costs of housing. At the same time, a new limit is set on minimum income – existence minimum –, which represents the cost of minimum living standard allowing to survive. These changes will be accompanied by a new Act on Assistance in Material Need. Its aim is to remove long-term dependence of certain population groups on social benefits, to offer them consultancy service and to motivate them to inclusion into society. New legislation gives preferential treatment to those recipients, who prove active approach to dealing with their situation (e.g. they are looking for a job). Together with the aforementioned changes a new benefit was introduced – allowance for living. If the client claiming for a benefit in material need does search for a job actively, refuses to work or does not prove any effort to increase his/her income by his/her own means, his/her allowance for living will be reduced.

Introducing new benefits and abolishing a range of the existing ones will simplify the system of social assistance benefits provided by the state. As of January 1, 2007, three new benefits in material need will be available: allowance for living, extraordinary immediate help and supplement for housing. These benefits will replace the former ones, granted according to the Act on Social Neediness, allowance for public catering, benefits in cash and in kind for people who temporarily experience a particularly difficult situation. As concerns accommodation, the system of state social support offers housing allowance and the system of assistance in material need offers supplementary housing fee. The cost of accommodation of a citizen living in adequate apartment should not exceed 30% (in Prague 35%) of his/her income and after paying for adequate accommodation he/she should be able to cover at least his/her living.

As of February 2006, persons drawing partial disability pension may earn unlimited amount of extra money. Situation also changes for people drawing full or partial disability pension, who were employed abroad. Unlike in past, in future employment abroad will not preclude drawing of pension in these cases.

5.1.4 Increase geographical mobility

An amendment to the Income Tax Act²⁸, which introduced deductible expenses for employers who provide transport for their employees (either using their own means or by contracted carrier), came into force on January 1, 2006. This change should motivate employees to commute.

²⁶ Act No. 111/2006 Coll. on Assistance in Material Need

²⁷ Act No. 110/2006 Coll. on Subsistence and Existence Minimum

²⁸ Act No. 545/2005 Coll., on a Change of Act No. 586/1992 Coll. on Income Tax, as amended by latter regulations, and other related acts

A new Act on Housing Rents Deregulation²⁹, which came into force as of March 31, 2006, will also contribute to increase in geographical mobility. Gradual elimination of housing rents regulation will allow for development of rental housing market, construction of new apartments for rent and thus promote labour force mobility. The new act represents a set of non-market reform measures, which react to long lasting market distortion of price and legal nature. These measures will be implemented in a four-year period from January 1, 2007 to December 31, 2010. A limit on increase of housing rent within one year is set as a percentage share of the monthly rent formerly paid per 1 m² of the apartment. The limit itself is different for each apartment and depends on a so-called target value of housing rent, which is determined by location of the apartment. This system therefore allows for flexible reaction to actual development of housing market, which is a precondition for full deregulation of this housing market segment, envisaged as of January 2011. Gradual increase of housing rent refers to approximately 760 thousand apartments, i.e. 17% of all apartments in the CR and about 20% of permanently inhabited apartments. The impact of this new act on public budgets, notably on municipal budgets, will be positive, since municipalities own about 400 thousand rental apartments and their revenues will thus increase.

Programmes promoting creation of new jobs and training (retraining) of employees also significantly contribute to reduction of regional differences in unemployment rate and increase in geographical mobility.

This concerns notably the programme of investment incentives (promotion of new jobs and promotion of training/retraining of employees), which is addressed to medium-sized and large investors (employers). In 2005, creation of 3 115 new jobs and training (retraining) of 1 612 employees in case of 23 investors were supported from this programme. In April 2006, first analysis was published, evaluating impact of investment incentives in the region Moravia-Silesia, i.e. a region undergoing substantial structural changes with impact on labour market. Its main findings are as follows. In 2004 the state acquired annual net revenue (i.e. after subtracting the incentive) of CZK 186 thousand per one job. Until 2004, 5 895 jobs were created by investors and their suppliers owing to investment incentive projects. In 2004 suppliers created 1.4 new jobs per one job created by the investor. Other regions of the CR will be mapped in the coming months in order to obtain a complex view on how investment incentives influenced regional economies. At present, assessment of investment incentives projects in Hradec Kralove region is under way.

Promotion of new jobs and retraining of employees in regions with the highest unemployment rate is another measure aimed at increasing regional mobility, which focuses on small and medium-sized entrepreneurs. In 2005, creation of 881 new jobs and training (retraining) of 257 employees in case of 20 investors were supported from this programme.

Both kinds of support (i.e. investment incentives and promotion of new jobs and retraining of employees in regions with the highest unemployment) are granted only to those investors, who invest in regions with unemployment rate that exceeds national average. These programmes contributed significantly to reduction of unemployment in the most problematic regions. In Usti nad Labem region unemployment decreased from 16.5% in 2003 to 15.4% in 2005. Similarly unemployment decreased in Moravia-Silesia region from 15.3% in 2003 to 14.2% in 2005.

The Moravia-Silesia region, one of those with the highest unemployment, participated on a project **Get a Job**. This project, which terminated in May 2006, was financed and implemented by the Ministry of Labour and Social Affairs and a company Trenkwalder KAPPA people. A year long work with unemployed people and those threatened by unemployment proved that most of these people lack habits necessary for being able to find a job themselves. The project showed that labour force mobility could be promoted in cases when a complex service is offered to the unemployed (i.e. free accommodation near the new job, allowance for catering, information on transportation to their new job, etc.). New workers were demanded mainly in automobile industry and electroengineering.

The EURES advisory and information network, which is operated by Ministry of Labour and Social Affairs (MLSA) and labour offices with the aim to facilitate free movement of workers

²⁹Act No. 107/2006 Coll., on Unilateral Increase of Rent and on a Change of Act No. 40/1964 Coll., Civil Code, as amended by latter regulations

within the EU (or, as a matter of fact, so-called European Economic Area and Switzerland), also contributes significantly to increasing mobility. The main activities of EURES are to provide information and consultancy to people seeking a job abroad and to employers looking for employees within the whole EU, to exchange information on vacancies among EU Member States, to organise staff recruitment for employers. Since foundation of the network, i.e. May 1, 2004, more than 50 000 clients in the CR used services provided by EURES. Most clients were interested in working in some of the countries that opened their labour markets to employees from new Member States (UK, Ireland and Sweden). In March 2006, European Employment services EURES together with Czech Employment Services organised first international job fair in Ostrava. The Czech citizens thus had an opportunity to become aware of job opportunities not only within the CR but also in other EU Member States. Around 2 000 jobseekers and 36 entities offering jobs participated on the job fair. 5 labour offices (one from the UK, Slovenia, Germany and two from Poland), 1 EURES advisor from Norway and 9 employers from EU countries, notably from the UK, were among the participants. 3 Czech labour agencies, which offer job opportunities abroad, and employers with experience of employing foreign workers, also participated.

5.1.5 Modernise employment policy

The aim of the project **Labour Market Institute (LMI)**, which was launched in July 2006, is to modernise employment services and improve their quality and availability to specific groups of clients. The system project Labour Market Institute is linked to Operational Programme Human Resources Development 2004 – 2006. Its main goal is to adapt management system and personal capacity of public employment services to the needs of the market, to test new ways of co-operation with employers and to improve co-ordination within the whole system. The project should also promote inclusion of school-leavers and people with difficult employability (notably those affected by sectoral or regional unemployment) on the labour market.

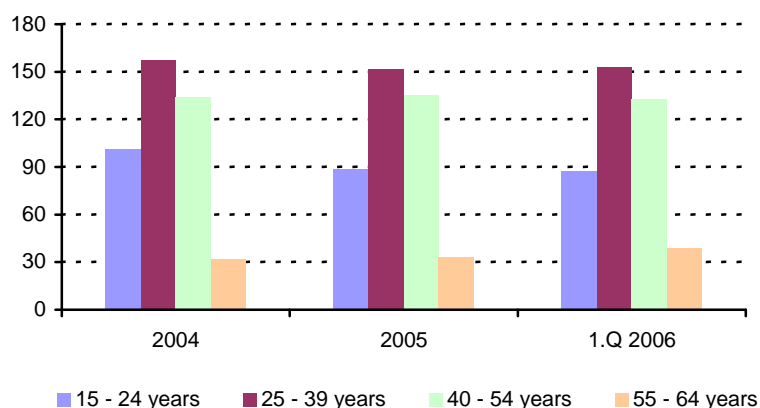
A network of LMI offices will be set up, which will correspond with the existing network of labour offices. As concerns organization, LMI will be part of the Economic Chamber of the CR. Creation of LMI network will increase overall capacity of employment services and will ensure more effective co-operation between labour offices, employers, education institutions and other entities on local and regional level. LMI will allow labour offices (on regional level) and Employment Services Administration (on central level) to concentrate their capacities on state administration matters, management of the labour services system, introduction of quality standards in these services and their control. After implementation and outcomes of pilot projects in regions are evaluated, the system will probably be introduced in other regions of the CR. The whole project will be terminated in June 2008.

Integrated Information Portal provides information in the area of employment and social support. In January 2005, more than 1 million accesses to its websites were recorded; in January 2006, almost 5.5 million accesses were recorded. The Portal also provides information on job opportunities in the EU and European Economic Area. Most visitors (92%) are interested in section "Employment", followed by section "EURES" (4.5%) and "State Social Support" (2%). For those citizens, who do not have access to internet, self-service computers and information kiosks are provided free of charge by all labour offices. As of June 2006 a call centre, which was set up in Prague, helps unemployed from the whole country to get a job or to obtain information concerning the labour market and it also helps employers to find qualified employees. The call centre, which is a joint project of the Economic Chamber of the CR and the MLSA, complemented services offered by labour offices. The call centre in Prague will be followed by call centres in regions to provide for direct contact. Annual operating costs of the call centre are CZK 5.8 mill. and will be fully covered from ESF.

5.2 INCLUSION ON LABOUR MARKET

Despite economic growth, continuous increase in labour productivity, improvement in living conditions of most Czech citizens and decrease of unemployment (from 9.2% in 2003 to 8.9% in 2005), social exclusion of certain groups, notably those who are unemployed for a long time or repeatedly and those with a cummulation of handicaps (unfavourable health conditions, low qualification, members of minorities), remains a serious problem.

Chart 18. Unemployed in the CR
(in thous. by age groups)



Employment policy focuses more and more on preventing social exclusion and on activating the unemployed or socially excluded. Advisory activities and retraining programmes concentrate notably on difficultly employable people (i.e. those on the margin of labour market). Those are mainly young people under 25 years, long-term unemployed with low qualification and people returning to the labour market. The work with jobseekers should help them to find a specific job position, in case on minors it should help them to return to the schooling system and obtain at least the

lowest degree of secondary education. In case of groups threatened by social exclusion, a gradual inclusion into the working process is practised by combination of consultancy services and active labour market policy. Special attention is paid to inclusion of national minorities into the labour market.

There is a wide range of programmes in this area financed both from national funds and from European Social Fund. The largest share of means from ESF is allocated as part of the Operational Programme Human Resources Development (total allocation for the period 2004 – 2006 is EUR 422.4 mill.). The aim of this programme is to ensure high and stable employment rate based on a qualified and flexible labour force, integration of socially excluded groups of citizens and increase in firms' competitiveness, while respecting the principles of sustainable development.

The following two priorities are particularly important as concerns employment – "Active Employment Policy" and "Social Integration and Equal Opportunities". The first one promotes labour force employability by preferring active preventive measures rather than granting social security benefits, which in many cases keep the beneficiaries in a passive role. During last year, 115 projects were contracted and financial support of CZK 995.0 million was granted for their implementation.

The priority "Social Integration and Equal Opportunities" focuses notably on increasing employability of socially disadvantages people (e.g. long-term unemployed) and people threatened by social exclusion. It promotes development of individual abilities, knowledge and motivation and removes obstacles that hinder access to education and job. The following groups are considered to be the most endangered: members of Roma communities, people staying in or returning from institutional care, people returning from prison, people providing long-term care for their close relatives, children and young people living in disadvantaged surroundings, victims of human trafficking, of domestic violence, and homeless people. In 2005, as part of 3 measures allocated for this priority, 171 projects were approved and contracted with total financial support of CZK 609.1 mill.

Goal-directed regional employment programmes deal with other specific labour market weaknesses. These programmes are applied notably at district or regional level, eventually also at nation-wide level. They are targeted at jobseekers or citizens difficultly employable or those endangered by social exclusion. In 2005, 12 programmes were approved as part of the aforementioned regional programmes. These programmes were supported by CZK 51 mill. and contributed to creation of 1 015 new jobs.

The CR stresses the need to support inclusion of Roma communities' members into the society, notably to help them achieve education, working skills and working habits. In 2005, as part of the *Programme for Support of Roma Integration*, which is implemented by the Ministry of Education, the following theme fields have been announced: to promote participation of Roma children on pre-school education, to promote working methods that increase effectiveness of Roma children pre-school education, to support further education of teachers and assistants working with pre-school age Roma children on effective methods of Roma children pre-school education, to support activities increasing chances of Roma children to start successfully their school attendance, to promote participation of family members on pre-school education of children, to promote voluntary

activities of schools that help Roma children to overcome difficulties during compulsory education. In 2005, a total amount of CZK 1 935 thousand was allocated for these support programmes. Introduction of *teachers' assistants* at schools with higher proportion of pupils from socially and culturally disadvantaged surroundings is another form of assistance to Roma children with overcoming problems at school. 332 teachers' assistants worked at schools in 2004. In May 2005, only 283 teachers' assistants worked at schools. Nevertheless, as of September 30, 2005 their number increased (206 in primary schools, 39 in remedial schools, 37 in specialised schools and 4 employed by other types of schools). 16 teachers' assistants are employed in kindergartens. Between November 1, 2005 and August 2006 an *Analysis of Socially Excluded Roma Localities and of Absorption Capacity of Entities Engaged in this Area* was carried out. Its target was to obtain basic information concerning the situation in socially excluded Roma localities. The situation was mapped out in specific localities in order to ensure optimum setting of drawing mechanisms from Structural Funds in the 2007 – 2013 programming period. A research in this area was necessary since the impact of ESF on support of Roma communities was not sufficient, yet. The analysis also focused on determining absorption capacity of entities providing services in this area (notably NNOs, organisations established by municipalities and regions, municipalities, regions, labour offices, entrepreneurs and natural persons). International conference on *Possibilities of Using ESF for Improving Situation of Roma Communities in the CR* took place in 2005, with the aim to provide information to entities submitting projects in this area. The following services were supported as part of a *MLSA subsidy programme* to promote integration of Roma citizens endangered by social exclusion and social work in Roma communities: field programmes for people living in socially excluded communities, facilities for children and youth, social counselling. In 2005, a total sum of CZK 37.9 mill. was allocated from this sub-programme in the form of non-investment subsidies; CZK 30.7 mill. were allocated in 2006. Overall in 2005 and 2006, CZK 65.7 mill. and 59.7 mill. respectively were allocated in the form of non-investment subsidies on the indicator "Integration of Roma Community Members". National project *Support for Creating Fieldwork System* is carried out in the period October 2005 – end of August 2008, in order to set effective system of social fieldwork in excluded Roma localities. The project focuses on social fieldworkers and public administration employees, who ensure co-ordination activities in the area of Roma integration and defence of Roma community's interests. The project will have the following outcomes: methodical handbook for social fieldworkers and methodical handbook for execution of delegated powers in enforcing Roma community members' rights and their inclusion into the society, educational programme following the introductory training of social fieldworkers, setting up of a system of regular meetings within the public administration, improving communication with NNOs engaged in this area, etc. Between 2004 and 2006, 6 programmes aimed at Roma community members were supported by a total sum of CZK 57.2 mill. as part of OP Human Resources Development, measure 2.1 Integration of specific groups of inhabitants endangered by social exclusion.

In order to initiate and co-ordinate activities concerning people with disabilities, the Government Board for People with Disabilities was set up. In 2005 this Board submitted National Plan for Support and Integration of Persons with Disabilities 2006 - 2009 to the government. According to the Employment Act, special attention is paid to people with disabilities. The Employment Act provides for the following measures: consultancy activities and assistance in re-integration into work, compensation for employers employing people with disabilities, support for creating and keeping sheltered jobs and sheltered workshops, granting loans, subsidies and subventions for employers. As concerns activities of the labour market policy, adjusting appropriately the system of social services is crucial for ensuring integration and opportunities on the labour market. This system is undergoing significant changes, which are, among others, a result of newly adopted Social Services Act that strengthens the role of client. Regional participants, i.e. regions, municipalities and NNOs, play an important role in providing services aiming at social integration. Efforts to provide social services in clients' homes are promoted, in order to increase their effectiveness and in line with the targets of social integration.

A project **Casual Registered Work**³⁰ was launched to reduce long-term unemployment and to help long-term unemployed to take part in the working process. Its pilot phase took place between October 2005 and February 2006. This project allowed unemployed to earn legally some extra money (with a limit of half of the minimum wage) without losing the entitlement to unemployment benefits. The pilot phase was tested in three labour offices in South Moravia Region. 561 jobseekers were registered in this project and by the end of the pilot phase 118 of them found a job. Employers were also interested – 298 employers were addressed as part of the project, while 77 employers proved their own initiative. In the end, 47 employers participated actively in this project. Extension of this project to the entire CR is being considered as well as participation of

³⁰ More information is available at www.prilezitostnaprace.cz

natural persons as employers. The project was financed from PHARE 2003 Programme Human Resources Development.

5.2.1 Decrease unemployment of young people (under 25)

The number of unemployed graduates in the CR is the lowest since 1998. In April 2006 labour offices registered 486 000 unemployed, of which 43 800 were recent graduates. Unemployment rate of upper secondary vocational schools graduates with vocational certificate reached 13.5%, 11.3% in case of upper secondary vocational schools graduates with secondary school leaving exam and 9.1% in case of upper secondary technical schools graduates. Unemployment of post-secondary technical schools graduates was 6.5%, 3.4% in case of upper secondary general schools graduates and 3.1% in case of university graduates. Overall, 88 600 people under 25 years were unemployed in 2005.

A programme **First Opportunity** aims at increasing employability of jobseekers under 25 within 6 months from their registration. After pilot testing, which took place in 2002 and 2003, this programme was extended to all labour offices as of January 1, 2004. Labour offices sign with each jobseeker a so-called Individual Action Plan, i.e. a timetable of mediatory and counselling activities agreed by both sides. These plans help jobseekers to find a job or increase their employability and promote jobseekers' accountability for their own future and for active job search. In 2005 labour offices contracted individual action plans with 19 477 jobseekers under 25. 47.3% of these jobseekers terminated their registration at labour office within 6 months and 37.1% were employed.

These measures contributed to a decreasing share of young jobseekers registered in labour offices for more than 6 months (from 33.7% in 2003 to 29.5% in 2005). Despite certain difficulties, the Czech employment policy will respond positively to the 2006 Spring European Council conclusion, i.e. to ensure before the end of 2007 that a job or further education is offered to each young unemployed school graduate within 6 months. This recommendation will be brought into practice by projects financed from ESF.

For the period from July 1, 2005 to June 30, 2006, the labour office in Melnik (Central Bohemia region) announced a regional programme of support for jobseekers under 25 to gain working experience and working skills. The programme was financed from the state budget, from funds earmarked for active labour market policies. It was addressed to jobseekers under 25 years of age with no or only minimum working experience, who, for this reason, had difficulties with finding a job. 35 people acquired experience and working skills owing to this programme. The programme consisted in granting financial benefit covering wage of a young person, who, according to an employment contract and a precise timetable, carried out agreed activities in order to acquire working experience.

5.2.2 Promote equal opportunities for women and men on labour market

National Concept of Family Policy was approved in October 2005, with the aim to strengthen the position of family in the Czech society, to improve social climate and conditions for families and to provide for reconciliation between professional and family roles. Specific measures are elaborated in the *Action Plan for Support of Families with Children 2006 – 2009*. Proposals aiming at the following targets are envisaged: more effective financial assistance in maternity and parenthood, which is part of the social security system, effective support of different types of families by means of tax system (in 2007), motivation of kindergartens founders/managers to adjust opening hours to the needs of working parents, motivation of employers to operate kindergartens and nurseries at workplaces, to train their employees on parental leave and to use to a larger extent flexible forms of employment.

As of February 2006, children over three years, who are in a personal, all-day and due care of their parent, may attend kindergarten or a similar childcare facility every day for up to four hours, while their parents do not lose entitlement to parental allowance.

As of January 2007, in accordance with the new Sickness Insurance Act³¹, fathers taking care of a newborn child will be entitled to draw a so-called maternity cash assistance (70% of daily assessment basis) from the seventh week of their child's life. This could help to

³¹ Act No 187/2006 Coll., on Sickness Insurance

increase fathers' participation on childcare and thus promote reconciliation between professional and family roles (at present, fathers are entitled only to parental allowance). In September 2006 the new government adopted an amendment to this act and postponed its effect by one year. This amendment, however, must be adopted by the parliament and signed by the president.

The question of equal opportunities for women and men is also dealt with in the OP Human Resources Development. In 2005, 27 projects in this area were adopted and supported by CZK 138.9 mill.

In February 2006, a civic association Family Centre in Hodonin (South Moravia Region) launched a project **Education of Mothers – Removing Barriers on the Labour Market**. The project should help approximately 50 women after maternity leave with their return to work. After introductory interviews with experts on psychology, who identify precisely the needs of each woman, these women will participate on retraining courses (e.g. courses on information technologies, languages and other specialised courses). During these courses childcare will be provided for all participants. The civic association also intends to prepare mothers for job interviews, to advise them on self-presentation and to increase their self-consciousness. Since Regional Charity Hodonin participates on this project, clients of a Home for Mothers with Children in Distress are also involved. Labour office in Hodonin also co-operates. The project is financed from ESF and from the state budget by CZK 5.3 million.

5.2.3 Increase older workers' participation on labour market

Older population represents a great potential not only for social, but also for economic development of society. The CR takes this fact into account and considers it to be the highest political priority. In line with the first Report on Implementation of the National Programme of Preparation for Ageing 2003 – 2007, Government Council for Seniors and Ageing of Population was established in March 2006. On its first meeting in April the Council set up a working group for labour market, lifelong learning and material security. The Council will also initiate and propose solutions to seniors' problems, systematically deal with human rights of seniors and propose specific measures.

National Programme of Preparation for Ageing 2003 – 2007 has become an instrument for promoting policies of ageing, preparation for ageing and continuous integration of seniors into the society. Measures of this programme support high-quality, flexible and integrated healthcare and social services within a community, development of rehabilitation and integrated home care, improvement of working and living environment, raising citizens' awareness of health protection and prevention, education and counselling activities, promotion of research in this area, etc.

In line with the *National Action Plan on Employment 2004 – 2006* a minimum share of older people participating on measures for increasing employability was set. Active labour market policy instruments, notably goal-directed programmes aiming at employment, which contain a set of measures to increase employability of citizens or their groups in certain region, support this trend.

In active labour market policy implementation labour offices focus on groups of unemployed at special risk, which, among others, applies to people over 50 years. Participation of this age group on all active labour market policy programmes increased. Both the number and share of people over 50 in retraining courses increases substantially. In 2004, 5 009 people over 50 (i.e. 9.2% of all participants) attended retraining courses, while in 2005 their number increased to 6 091 (i.e. 13%). By the end of second quarter of 2005, 5 891 people in this age group attending retraining courses were recorded, i.e. 16% of all participants.

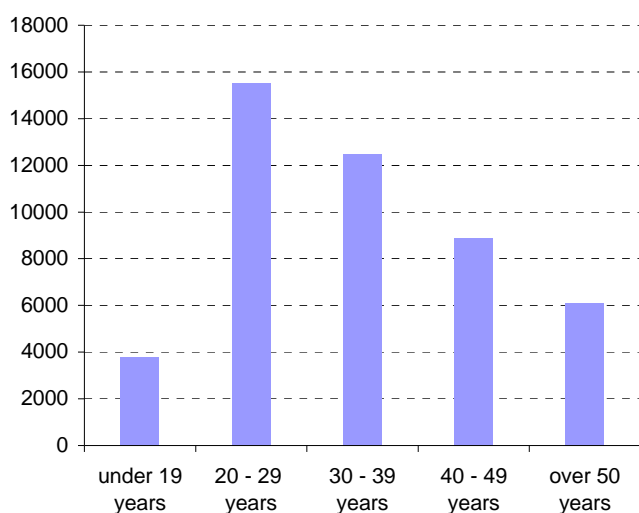
A programme **Opportunity**, which was announced by the labour office in Decin (region Usti nad Labem), promotes employing of people over 55 years, who are disadvantaged or discriminated on the labour market. Its aim is to support creation and maintenance of job opportunities for people with age handicap (i.e. 55 years and older), who are not perceived as perspective by employers. The programme attempts to return people of this age group into the working process and to overcome their working, and often also social, exclusion, which is caused not only by their age but many times also by their inopportune qualification. In practice it is the labour office that creates and finances these jobs and also

chooses candidates for these jobs. So far, 20 people found and maintained a job for more than 12 months owing to this programme. The labour office provides grants to cover their wage costs.

Two of the 59 projects that were approved as part of the Community Initiative EQUAL focus on the problems of older people. The Project *Stabilisation and Re-integration of Active Seniors* surveys labour market in order to confirm the main trends outlined in the National Action Plan on Employment and to allow for an in-depth understanding of motivation and behaviour of the target group (i.e. citizens over 50 years), to identify barriers and to test new proposals on a sample representing the target group. Two examples of possible innovations in this area should be noted: active involvement of experienced managers threatened or already affected by age discrimination and checking out possible foundation of "Trade Craft Centres", targeted at a probably large subgroup of people with low education and manual experiences and skills. The programme's budget for the period December 16, 2004 – August 31, 2008 is CZK 15.6 million (75% from ESF, 25% from the state budget). The second project is called *Lifelong Learning and Equal Opportunities on the Labour Market for Working People over 50* and its purpose is to improve conditions on the labour market and to promote lifelong learning for the target group (i.e. citizens over 50 years). This project reacts to the undergoing demographic change, but also to increasing discrimination of this age group. Its aim is to map, propose and verify such lifelong learning programmes that will be oriented particularly on the needs of this age group. The main outcomes of the programme will be a methodology focused on promotion of further education of this age group in firms and preparation of courses on increasing adaptability, self-evaluation, self-motivation and interpersonal skills of this age group (communication, team co-operation, negotiation, etc.). The programme's budget for the period August 16, 2004 – May 1, 2007 is CZK 10.9 million (75% from ESF, 25% from the state budget).

5.2.4 Promote professional mobility via effective retraining system

Chart 19. Age structure of retraining participants in 2005



Retraining is an instrument that solves the problem of mismatch between qualification structure of jobseekers and employers' demand on the labour market. In 2005, labour offices assigned 46 772 jobseekers (of which 28 042, i.e. 60% were women) to retraining. As concerns age structure of retraining participants, most of them were under 25 years (13 158 people); the second largest group was 30 – 39 years (12 504 people). Attention was also paid to the age group 40 – 49 years (8 876 people) and to those over 50 years (6 091 people). More than 13% of retrained were people with only primary education and more than 33% were graduates from upper secondary vocational schools. Overall, CZK 408 mill. were invested in retraining.

For example, the labour office in Ostrava (Moravia-Silesia region) in the first half of 2006 assigned to retraining courses approximately 1 340 people, which is a year-on-year increase of about 200 people. The increase is mainly a result of launching projects financed from ESF, which include retraining. The highest number of participants, about 300, attended courses focusing on working with PC, programming and computer networks administration. 250 people completed welding courses and nearly 150 people were retrained to be sole traders. About the same number of people who attended courses for sole traders attended courses on various crafts. Out of total 1 878 jobseekers registered at the labour office one year after retraining, 714 found a job or started their own entrepreneurial activity within the first half of 2006. The price of retraining decreased significantly in 2006, notably owing to EU funds. This year the average price of one retraining course in Ostrava was CZK 6 137, while in 2005 it was by approximately CZK

1 300 higher. Re-introduction of renewal retraining, which is not so costly, also contributed to reduction of retraining courses' price. In the first half of 2006 the labour office in Ostrava organised 276 courses in 36 educational institutions.

A measure "Development of Further Professional Education", a part of OP Human Resources Development, which focuses on grant projects provided by authorized labour offices, extended the supply of further professional education. Its aim is to increase the supply of educational activities, to promote creation of new and innovated educational programmes and to raise the standards of further professional education instructors and other persons providing educational services. As a result of the first appeals, 141 projects were chosen for implementation, of which 106 were already contracted. As a result of the second appeals, 404 projects were submitted, of which 115 were chosen for implementation and 6 were contracted. Furthermore, 6 system projects were approved, that focus on increasing the quality and extending the scope of educational system.

Financial support is granted to those who invest in training and retraining of new employees, as part of the Framework Programme of Technology Centres and Strategic Services Centres Support. In 2005 support was granted to 22 investors for 2 763 employees.

As of June 2006, a regional consortium of construction firms in Karlovy Vary prepared retraining courses, on which up to 60 unemployed from the region will participate within the next two years. The firms intend to offer a job to approximately 25% of retrained. The project's costs are estimated to be CZK 5.8 mill. and will be covered from OP Human Resources Development. The consortium in co-operation with labour offices in Karlovy Vary region will choose participants of these courses. A firm chosen in a selection procedure will manage the courses. 5 – 6 courses, each approximately four months long, will take place during the two-year period. Apart from theory, participants will be also trained on specific construction projects (road repairs, minor constructions, landscaping). Municipalities in the region will finance material used for these works.

5.2.5 Facilitate foreigners' access to the labour market

In April 2005, an amendment to the Act on Residence of Foreign Nationals was adopted, which reduced the term for granting permanent residence permit from 10 to 5 years. At the same time, procedures were simplified and time limits were shortened for submitting applications for work and residence permits. According to the new rules, when applying for residence permit, applicants submit certification of the labour office that they have already applied for work permit. Therefore, both permits are now handled simultaneously, while in the past foreigners could apply for residence permit only after they had received work permit.

Since 2005, two projects are being implemented as part of Community Initiative EQUAL - *Systematic Support for Employing Refugees and Long-term Foreign Residents in the Czech Republic (Work in Czech)* and *Systematic Support for Employing Refugees and Long-term Foreign Residents in Prague (Work in Prague)*. Development and pilot testing of a set of integration courses (course on integration at work, course on PC, motivation courses) and courses of the Czech language, including study and methodical papers, are part of the project Work in Czech.

In 2004 – 2006, as part of OP Human Resources Development, measure "Integration of specific groups of population threatened by social exclusion", a project of NNO Centre for Integration of Foreigners called **Individual Support of Employment of Foreigners in the Czech Republic** was supported by CZK 2.7 million. Its aim is to help foreigners with overcoming barriers stemming from their social status and origin and which prevent them from integration on the Czech labour market. Foreigners who were granted asylum and foreigners with permanent residence, who are long-term unemployed, work in jobs with low qualification demands or in jobs that are not adequate to their high or specific qualification are the target group of this project.

In January 2006, a pilot project *Active Selection of Qualified Foreign Workforce* entered into a new phase. Its aim is to bring qualified foreign experts, who want to settle down with their families, into the CR. As of January 2006, Ukraine nationals may apply into this programme. The procedure of submitting applications has also changed. In future, applicants may apply only by means of on-line system provided by a specialised website. As of July 2006, three more countries joined the project: Bosnia and Herzegovina,

Macedonia and Russian Federation. As of the same date, demand concerning the lowest acceptable education of applicants has changed. Instead of secondary education with a vocational certificate applicants shall prove that they have successfully completed secondary level of education closed with a secondary school leaving exam at least. In order to ensure their complex integration, as of December 2006 applicants may also enrol for voluntary contribution courses of the Czech language. Bulgaria, Croatia and Kazakhstan were the first target countries of this project. As of October 1, 2004, Belarus and Moldova joined the project. Two more countries became involved as of July 1, 2005 – Serbia and Montenegro and Canada. Foreign graduates from Czech secondary schools and universities, regardless of country of origin, may also apply, except for those whose studies in the CR were granted as part of development assistance. This project is a first step to formulate a new immigration policy of the CR. Those who meet successfully all criteria, may apply for permanent residence in the CR already after two and a half years. The aforementioned project is now in a pilot phase that is envisaged for five years. In its final phase the project will be targeted at all countries in the world except for the EU. So far, 413 persons participate on this project (235 men and 178 women).

5.3 EDUCATION

5.3.1 Implement Curricular Reform

The main subject of curricular reform is to change the concept of education in order to provide each individual with key knowledge and skills they might need (not only) in their professional life. Specific measures of this reform were implemented during last years. In particular, framework educational programmes were prepared, on which educational programmes of individual schools will be based. Unlike the current educational documents, new framework educational programmes emphasize not only acquiring of knowledge and information, but promote also development of pupils'/students' skills, attitudes and values and their key competences. Educational programmes will allow schools to realize their own ideas on how education should be provided and to react flexibly to the needs of pupils and students. Promotion of further education of teachers in this area is closely linked to the reform. The aforementioned steps are part of the state educational policy and of the Long-term Education Development Plan of the CR³².

Since curricular reform is co-financed from Structural Funds (or European Social Fund) – OP Human Resources Development – specific measures are implemented by means of national and system projects or grant schemes. Creation and pilot testing of school educational programmes, methodical support of teachers and promotion of adjustments in educational programmes are the main tasks of national projects.

The aim of the project **PILOT Z** is to contribute to modernisation of education by introducing school educational programmes and to verify functioning of a two-level creation of curricula at selected primary schools. 14 pilot schools participate on the project. Monitoring and data collection took place in autumn 2005, on the basis of which printed handbook and multimedia CD will be published with examples of good practice (including examples of auto-evaluation activities of schools and also working methods for creating and developing students' key competences). Works on creating a methodical paper for teachers on how to transform key competences into specific knowledge and skills continued in 2006. Seminars were organised, focusing on tutorial and educational strategies and key competences. Approved budget of this project is CZK 27.8 mill., so far about a half of it has been drawn.

In connection with introduction of a two-level curriculum at primary schools, new framework educational programme for primary education was launched, on which creation of school educational programmes will be based. A development programme followed, which changes substantially teaching plans on primary schools. As of September 1, 2006, the number of lessons in teaching plans will be adjusted. In 3rd to 5th grade three more

³²Long-term Education Development Plan of the CR is a strategic document that elaborates the National Education Development Programme (so-called White Book), determines priority areas of development and assigns specific tasks. It is updated and evaluated every two years. Measures intended as part of the Operational Programme Education for Competitiveness 2007 – 2013 have to be in accordance with the Long-term Education Development Plan.

lessons per week of compulsory first foreign language will be added, in 7th to 9th grade one foreign language lesson will be added and in 6th grade one disposable lesson will be added.

The project **HODINA** aims at developing key competences of 7th grade students of primary schools. One disposable lesson that was added to teaching plans allows teachers to deepen students' key competences, with regard to their overall personal advancement and future assertion on the labour market. The disposable lesson allows for individualisation and internal differentiation at the second level of primary schools. A thematic inspection and questionnaire investigation proved that subjects focussing on ICT, conversation in foreign languages and seminars extending compulsory subjects are the most demanded.

The aim of a four-year project **PILOT G** (2004 – 2008) is to test creation and implementation of educational programmes on selected upper secondary general schools. During 2006, a first phase of the project was evaluated and final analyses of the 16 pilot schools' educational programmes were submitted. Examples of individual schools' educational programmes, which will now be used as models/illustration for other schools, came out of this programme. Furthermore, a complex methodology was elaborated, which will serve as guidance for teachers at other schools. Approved budget of this project is CZK 40.6 mill.

A system project **PILOT S** focuses on creation and testing of pilot educational programmes at upper secondary technical and upper secondary vocational schools. The project consists of 5 central activities: education of teachers at pilot schools, development of social partnership, auto-evaluation of schools, creation and testing of school educational programmes. 30 schools participated on this project in 2005/2006, which created 60 school educational programmes based on 24 framework educational programmes. Testing of these programmes was launched in this school year (i.e. 2006/2007). Furthermore, pilot schools elaborated 30 introductory auto-evaluation studies and studies on direct co-operation with approximately 100 social partners. These studies will be used for creation and implementation of school educational programmes. At the same time, 47 thematic seminars focusing on education of teachers at pilot schools took place (about 700 teachers participated). Approved budget of this project is CZK 39.8 mill.; as of the end of August 2006, CZK 13.8 mill. have been drawn.

Other framework educational programmes are being created simultaneously with the PILOT S project (at present, over 70 framework educational projects are in preparation). According to a recent proposal, the total number of framework programmes will be 190 and all of them will be finalised before 2009. Creation of framework educational programmes is linked to a new system of educational fields (framework educational programmes are always created for specific educational fields) and to envisaged National System of Qualifications.

Outcomes of all aforementioned projects are available on information portal that was created as part of the framework programme **METODIKA**. This portal focuses on methodical support of teachers at second level of primary schools and upper secondary general schools, who create and implement their own educational programmes. Electronic database of methodical reports of both theoretical and practical (application) nature, which help teachers to acquire and use didactic approaches that form and develop students' key competences, is updated and extended regularly. The project was launched on January 1, 2006 and will be terminated before the end of June 2008. Approved budget of this project is CZK 18.9 mill.; in 2006 drawing of CZK 6.7 mill. is envisaged.

As concerns foreign languages teaching, adoption of National Plan of Foreign Language Teaching 2005 – 2006³³ is an important step. A range of development programmes were announced as part of the plan, e.g. MEJA programme (*methodical and language preparation for teachers at the first level of primary schools without qualification necessary for teaching foreign languages, language preparation for teachers in kindergartens, primary schools and primary schools of art*), programme promoting teaching of scarcely taught foreign languages or a programme *Languages in Play* for training teachers as part of their further education.

³³ According to a government resolution No 1661 of December 21, 2005, this Plan will be financed from the state budget.

5.3.2 Improve access to post-secondary technical and tertiary education

In order to improve access to universities, new universities and faculties are being set up and bachelor study programmes are accredited at post-secondary technical schools in co-operation with respective universities. Accreditations are granted to other study programmes and fields (including restructured study programmes), most of which are divided into bachelor degree that is followed by master degree. Other study opportunities are also created. In the 2005/2006 academic year, 64 public and private universities and 126 faculties existed in the CR. Apart from public universities, the supply of study opportunities at private universities also extends³⁴, which is a positive trend.

At present, around 50% of secondary schools graduates every year have access to tertiary education (i.e. post-secondary technical schools and public/state universities). The number of university graduates also increases. In 2005, 44.2 thousand students finished successfully their tertiary education. In the 2005/2006 academic year, 327.3 thousand students participated on tertiary education at 327 post-secondary technical schools, universities and faculties, including scientific institutions.

Tab. 4 Number of students at universities in respective years

	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06
No. of university students	192 008	204 822	224 577	248 498	271 235	296 377

Simultaneously, the number of students in university programmes that are divided into bachelor and master degree was also increasing. In the academic year 2003/2004, 45.6% students participated on such programmes, in 2004/2005 it was already 56.7% and in 2005/2006 it was 65.7% students. At present, universities do not admit students in integrated master degree programmes, unless professional conditions and rules require the opposite. Integrated master degree programmes are necessary in the following fields: medicine, veterinary medicine, pharmacy, theology, pedagogy for the first level of primary schools and law. Discussions about possible division of study programmes on law are under way.

In October 2005, Technical and Economic University in Ceske Budejovice was established. As a public non-academic university it will provide bachelor study programmes in South Bohemia region. Admission of 240 students in the first year is expected, the target number is 1 200 students. The Accreditation Commission recommended establishing 4 new faculties: Faculty of Health Studies at University of Pardubice, where increased demand for combined forms of study is expected on the side of nurses who want to deepen their education, Economic Faculty of the University of South Bohemia in Ceske Budejovice, Faculty of Philosophy and Faculty of Production Technologies and Management at Jan Evangelista Purkyně University in Usti nad Labem. The supply of bachelor study programmes in Central Bohemia region also improved, owing to stabilisation of the Central Bohemian University Institute in Kladno. Currently, establishing of the third public non-academic university – University of Jiri z Podebrad in Podebrady – is in preparation. Apart from Podebrady, some of its facilities will be provided in Caslav, Kutna Hora and Mlada Boleslav. Gradual accreditation of bachelor study programmes is expected, the target number of students is 1 700. The quality of study programmes provided by a private Skoda Auto University is improving, since accreditation was granted to a master degree study programme. The number of bachelor study programmes also increased in Vysocina region and in Moravia. Under supervision of Economic Faculty of Technical University of Ostrava, the range of study programmes provided by post-secondary technical school in Uherske Hradiste was extended. Tomas Bata University in Zlin also provides bachelor study programmes in Uherske Hradiste. A new Faculty of Humanities of Tomas Bata University in Zlin will be established on January 1, 2007. Altogether, 151 new bachelor study programmes and 182 following master study programmes were granted accreditation since October 2005.

Measures for facilitating students' access to university education are complemented by deepening partnership with regions (in order to satisfy their specific needs) and improving co-operation between universities and employers/firms. The linkages between public

³⁴ Currently there are 39 private universities in the CR, while in the year 2000/2001 there were only 8 of them.

administration, firms and institutions and respective universities in regions are tightening gradually. The outcomes are twofold. On the one hand, existing study programmes are modified and adjusted to specific needs of each region (e.g. study programmes for future public administration professionals in a specific region). On the other hand, conditions for providing working experience for students and themes assigned for bachelor and master theses are improving. Strengthening interconnection also reflects in the fact that the number of regional administration, firms and institutions representatives in research and academic boards and boards of directors at universities increases. On the contrary, universities' representatives are often members of managing bodies of regions, firms and institutions.

All above-mentioned activities are funded from development programmes announced each year by the Ministry of Education. In 2006, 34 projects of 12 public universities were granted support in total amount of CZK 23.2 million.

The OP Human Resources Development 2004 – 2006 defined modernisation of university educational system as a priority, notably in the measure Promoting Tertiary Education, Research and Development. In 2005, in the first appeal, 53 projects were adopted as part of this measure, with total funding of CZK 246.6 mill. In 2006, a second appeal was announced and 95 projects were approved with total funding of CZK 399 mill.

5.3.3 Promote co-operation between employers and education institutions

Adjustment of education and training system to the needs of employers depends on implementation of curricular reform, which builds on co-operation between employers and schools (i.e. employers participate on creation of framework educational programmes, notably as part of the PILOT S project – creation and testing of educational programmes at selected upper secondary technical and upper secondary vocational schools). It also builds on the main principles of tertiary education development.

A system project **Kvalita I** – setting up of an external monitoring and evaluation system, including a Centre on measurement on education (and information and counselling activities) – deals with external evaluation in primary and secondary education. Among others, it provides the following activities: activities addressed to students of the second level of primary education (evaluation in the 9th grade, personal portfolio of a student), preparation of teachers for the new secondary school leaving exam, elaboration of papers building on international research (use of PISA, a system of indicators for evaluation of the system). The project also promotes co-operation between schools and employers on testing the new unified form of school leaving exams on upper secondary vocational schools with vocational certificates. National Institute of Technical and Vocational Education (which implements the project) prepares a reform of the final exam for graduates from three-year programmes terminated by vocational certificates in order to raise its level and prestige. The new final exam was prepared in close co-operation between professionals from schools and employers. Each year these professionals prepare a unified exam in selected educational fields, which are then tested at final exams on pilot schools and, based on experience gained, are improved in the next school year. Unlike the current exam, the new one will be more practically oriented, and will focus on dealing with complex assignments, simulating real working problems and situations. In 2005, when the project was launched, 8 unified forms of exams were created and tested. In the following school year (2005/2006), the number of unified exam forms increased to 19. In June 2006, 130 schools participated on pilot testing in 214 different fields of education. During preparatory works on this year's final exams, attempts are to align the content of final exams with demands of specific professional qualifications. Therefore, qualification standards that have been set up by experts on employment are used to prepare the forms of final exams. Thus the final exam will guarantee to employers that each graduate's skills meet qualification demands.

In order to remove disparities between school graduates' knowledge and skills and employers' demand, integrated system of career counselling is promoted. The aim of a system project **VIP Kariera** is to identify employers' needs and their opinion concerning school graduates' preparedness for working life, to survey opinions of labour offices representatives on school graduates' chances on the labour market, to probe unemployment analyses and assertion of school graduates on the labour market. The information is then offered to students by school counsellors and it is also published on the internet. Primary school students can use this information to choose their own educational

plans and schools can use it for their educational programmes as well. Before the end of August 2006, 10 papers were published as part of this project, 340 counsellors were trained and works on a concept of integrated internet information system started.

In accordance with the Long-term University Development Plan 2006 – 2010, participation of experienced professionals on university education and on preparation of study programmes is promoted, more opportunities of research fellowships and co-operation on R&D are offered to students. Every year development programmes are announced, focusing on creation of joint structures between universities and firms, promoting projects on research fellowships and involvement of students in finding solutions to practical problems, involving professionals from industry on lecture and project activities of universities, providing scholarships for academic staff in firms and notably encouraging transfer of technologies into practice. As was mentioned above, in 2006 more than CZK 23 mill. were allocated on 34 projects of 12 public universities. The main target of projects submitted by universities as part of the OP Human Resources Development, measure Promoting Tertiary Education, Research and Development, is to improve co-operation with firms (i.e. potential employers). These projects contribute to innovations in existing study projects and thus increase the quality of future university graduates and improve their chances on the labour market (at present, 101 projects are under way, supported by CZK 477,89 mill.).

There are also specific projects that may serve as example of co-operation between educational institutions and employers. For example Skoda Auto has a project on building a university campus that will be offered not only to students of the firm's university but also to students of co-operating universities (CTU in Prague, Technical University of Liberec, Brno University of Technology, University of West Bohemia in Plzen). Education will be closely linked to production and students will have the opportunity to prove their theoretical knowledge in practice. University of West Bohemia in Plzen signed a declaration on co-operation with Skoda holding, a.s., participated on elaboration of Regional Operational Plan, on establishment of Regional Development Agency and on foundation of Science and Technology Park in Plzen.

In 2005, Technical University of Liberec signed a licence agreement with local firm Elmarco concerning co-operation on developing a unique technology of nanofibres production. Developing team of the Department of non-woven textiles focused on melt spinning of polymers and their further use in industry. Within approximately 20 months a functioning laboratory model of melt spinning machine was developed. Since the university cannot produce industrial machinery, it offered exclusively its R&D outcomes to Elmarco. Elmarco will now provide necessary funding in order to produce the technology, applications and for presentation of results. By the end of September, testing of a prototype was launched. Application for international patent in the area of nanofibre production was submitted. Owing to this new machinery, industrial firms in the region may find a new role as suppliers.

5.3.4 Improve interconnection between the systems of initial and continuing education

Creation and implementation of Lifelong Learning Strategy before the end of 2006 is one of the main priorities of the CR in the area of education. On the basis of this strategy, participation of adults on lifelong learning, which is currently low in the CR, will be promoted. All relevant actors participate on creation of the Strategy: notably employers, social partners and representatives of relevant ministries. Principles of the Strategy will be in line with operational programmes that are envisaged for the period 2007 – 2013 and that will be co-financed from EU Structural Funds, so that initiatives launched so far could be developed in the coming years. Implementation of the lifelong learning concept was a common base, which determined the strategic objectives set by the Long-term Education Development Plan of the CR.

Creation of a complex and formalised system for recognition of the outcomes of nonformal education and informal learning is the first step to improve interconnection between primary and continuing education. With this aim a new Act on Verification and Recognition of Further Education was adopted in May 2006, which will enter into force on August 1, 2007. The new act should increase citizens' flexibility and help them to assert on the labour market. It defines a unified system of evaluating the level and quality of education (by use of systemic instruments, e.g. system of qualifications, system of qualification standards, system of authorized persons, standards of evaluation, etc.). The new act promotes

employability of those who participate on further education, it involves key users of further education outcomes (professional associations, chambers, relevant ministries) in the system and helps employers better to assess the real value of employees' certificates.

Setting up of the National System of Qualifications, which should further strengthen the link between primary and continuing education, is supported by OP Human Resources Development (co-financed from ESF), notably by a system project Development of National System of Qualifications. The system will be in accordance with the new Act on Verification and Recognition of Further Education and it will promote substantially lifelong learning and will allow for obtaining the same qualification by different ways. Its aim is to describe transparently, using qualification and evaluation standards, not only individual fields of education, but also all partial qualifications that could be capitalized on the labour market. Therefore, this system will allow assessing real knowledge, skills and competences of each individual, regardless of the form of their education. So far, drafts of 290 qualification and 250 evaluation standards were created as part of this project. National System of Qualifications will be available on the internet and will be updated continuously. It is important to note that the National System of Qualifications is complementary to the European Qualifications Framework. This ensures transparency as concerns recognition of achieved education at European level.

In August 2005, a three-year project **UNIV** (recognition of the outcomes of nonformal education and informal learning in the network of schools providing educational services for adults) was launched. This project aims at creating a network of secondary and post-secondary technical schools in 8 (out of 14) regions of the CR, which provide continuing education for adults in co-operation with social partners and in connection to the needs of labour market in each region. Overall, 132 modular educational programmes for adults were prepared and working groups for creation and assessment of evaluation standards were set up. The project UNIV also aims at increasing professional competences of pedagogical staff. Therefore, a range of seminars addressed to pedagogical staff took place that focused on creation of modular educational programmes for adults, on career counselling, management and marketing of continuing education. 1 491 people were trained during the first year.

As a result of increasing demand, a number of Czech universities also provide lifelong learning. Most of them focus on creation and organizing of profession-oriented lifelong learning programmes and courses. Some of these courses are newly financed as projects of the measure Promoting Tertiary Education, Research and Development, i.e. OP Human Resources Development (at present 31 projects are supported by CZK 109.75 mill.). Interest-oriented courses also take place, which are addressed notably to seniors by Universities of the Third Age (since 2004 the state provides grants to universities of CZK 15 million annually; these funds are divided among approximately 20 universities). Studies of selected subjects from bachelor and master degree programmes are also offered as part of lifelong learning.

Combined forms of study and e-learning also extend educational opportunities, notably to older applicants who are already working. Study programmes in combined forms react to increasing demand notably in the area of education and healthcare.

In July 2006, the University of Hradec Kralove terminated reconstruction of part of a former rectorate and canteen into an Institute of Continuing Education. The cost of the project targeted at developing continuing education of adults in the region reached approximately CZK 16 mill. and was financed from EU Structural Funds. In September, the Institute launched first courses in its new premises. The Institute of Continuing Education was established in the beginning of 2005. Its aim is to provide a complex system of courses secured either by its own means or in co-operation with other institutions in the city and in the region. Courses offered by the Institute are addressed notably to those who provide lifelong learning for adults. Also professionals on file and archive services may deepen their knowledge in courses organised by the Institute. The Institute also prepares analysis of supply and demand for continuing education in Hradec Kralove region.

5.3.5 Promote transmigration between specific stages of tertiary education

Legislative framework providing for transmigration between study programmes of post-secondary technical schools and bachelor degree programmes was adopted already in 2004. This legislation allowed for admitting post-secondary technical school students and

graduates on universities. Ensuring transmigration between different types of study programmes on universities and also between post-secondary technical schools and universities is a priority of the Long-term University Development Plan (2006 – 2010).

With regard to a wide autonomy of the Czech universities, one of the instruments aiming at promotion of transmigration is annual announcement of development programmes for public universities. A programme for development and innovation of study programmes invites universities to submit projects focused on making use of structured study programmes and on further development of structure and modular composition of study programmes within a university or at least within a faculty. Its aim is to promote transmigration between individual study programmes and between study programmes and educational programmes for post-secondary education. Another programme invites universities to submit projects on improving co-operation with regional educational institutions, including post-secondary technical schools. The aim is to encourage and develop students' interest in science and technical fields, notably to attract those talented students, who do not have strong preferences but mostly choose humanities, economics or law.

In order to allow post-secondary technical schools to provide university study programmes in co-operation with universities, 45 bachelor study fields at 26 post-secondary technical schools were accredited. Establishing non-academic universities, by transformation of former post-secondary technical schools, is another instrument to increase transmigration. At present, 2 non-academic public universities exist, which originated by transformation of former state-owned post-secondary technical schools, and 18 private post-secondary technical schools were transformed into non-academic private universities.

5.3.6 Promote continuing education in firms

A programme **Profese**, which is financed from ESF as part of OP Human Resources Development, aims at boosting competitiveness and employment and at promoting employability of people in manufacturing, construction and services. It promotes increase of labour force adaptability and qualification in enterprises and services and strengthens awareness of sustainable development. Increase of workers' qualification and skills will allow for introducing progressive systems of production processes management, new technologies, sophisticated products and services, information and communication technologies, and environment-friendly technologies. Total allocation on this programme in the period 2005 – 2008 is CZK 256 mill. In the first appeal, 75 projects were approved that will be subsidised by approx. CZK 82 mill. In the second appeal, 114 projects were submitted, of which 99 were approved and will be subsidised by approx. CZK 104 mill. In the third appeal, before the end of programming period, more projects will be subsidised by approx. CZK 60 mill.

The purpose of the programme **Investors in People** (IIP) is to introduce international standard of quality concerning human resources management. Its aim is to promote effective human resources management in firms and to ensure interconnection between strategic management of a firm and personal activities down to the level of individual employees. It follows in activities started by Phare programme and as of 2006 it is part of the OP Human Resources Development. Total financial allocation is CZK 31 mill. Between July 2004 and September 2005, a pilot phase of the programme took place, during which 10 small and medium-sized enterprises introducing IIP were supported. Two of these enterprises (TANEX PLASTY, a.s. a SERVISBAL OBALY, s.r.o.) also scored in competition Employer of the Year 2006. Projects were financed from Phare programme and participating enterprises were granted 65% of the costs of obtaining the standard. National project Standard of Human Resources Development, which was announced on June 14, 2006 and will be financed from OP Human Resources Development, follows the successful pilot phase.

5.3.7 Increase information literacy

National Computer Literacy Programme, which is now under way, is an important instrument for developing information skills of wide public, for all professions and qualifications, including those who have never before worked with a PC. The programme is divided into a number of sections (courses) focusing on use of computers in general and on relationships in public administration, notably on Public Administration Portal. Courses for disabled people are also provided. Since 2003, over 200 000 people completed the courses

(30 518 people in 2003, 19 770 people in 2004, 81 753 people in 2005). The age of most participants is between 40 – 60 years, i.e. those threatened the most by loss of a job. Even elementary skills concerning work on PC increase their chances to find a new job. 60% of all participants are women. E-learning courses, which are provided by Public Administration Portal, are a suitable complement to this programme. These courses focus on improving work with PC and one of them also serves as a guide on the Public Administration Portal. About 5 000 users have registered since its launch in January 2006.

According to a unique enquiry carried out by STEM/MARK agency, which tested practical knowledge of respondents, the share of computer literate people between 18 and 60 years reached 27% in 2005. When comparing this figure with other EU Member States' results, it must be noted that the methodology of STEM/MARK agency uses stricter and more objective criteria compared to Eurostat methodology, which is based on attitudinal evaluation of respondents. The figures for 2006 are not available yet, nevertheless, it can be stated that the number of computer literate people increases.

As of December 31, 2005, 48.8% of public libraries and over 95% of all schools in the CR were connected to the internet. In the last three years all schools may apply for a grant on ICT services. These grants cover e.g. ICT education, digital content of education, infrastructure and cost of internet connection.