

IMPLEMENTATION REPORT 2007
NATIONAL LISBON PROGRAMME
2005 – 2008
(NATIONAL REFORM PROGRAMME
OF THE CZECH REPUBLIC)

CZECH REPUBLIC
October 2007

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LIST OF ABBREVIATIONS

CRM	Central registration places
DZSV	Basic long-term research directions
CŽU	Lifelong learning
CŽV	Lifelong education
EIB	European Investment Bank
EMAS	Eco-Management and Audit Scheme
EQF	European qualification framework
ERDF	European Regional Development Fund
ERTMS	European Rail Traffic Management System
ESF	European Social Fund
FNM	National Property Fund
ICT	Information and communication technology
IDABC	Interoperating delivery of the e-Government Pan-European services to administration bodies, enterprises, and citizens
ILO	International Labour Organisation
JPD 3	Joint Programme Document for the Objective 3 (Capital City of Prague)
JSDI	Unified system of transport information
NNO	Non government non profit organisations
NPPG	National Programme of the Computer Literacy
NRP	National Reform Programme
NSK	National Qualification Scheme
OP	Operation programme
OP RLZ	Operation programme for the development of human resources
OP PI	Operation programme for Enterprise and Innovation
OP PP	Operating programme for the industry and business activities in 2004-2006
p.p.	Percentage points

RIA	Regulation assessment method
ROP	Regional operating programme
RVP	Framework education programme
SROP	Joint regional operating programme
ŠVP	School education programme
TEN-T	Trans-European Transport Network
UNIV	Recognition of results of the informal education and informal learning in school networks providing for educational services to adults
VaV	Research and development
ZAP	Simpler administration processes for the commencement and running of business activities

1. INTRODUCTION

1.1. THE LISBON STRATEGY FOR GROWTH AND JOBS IN THE PERIOD 2006/2007

The original Lisbon strategy was designed for the period 2000-2010 and advocated the objective of “making EU the most competitive and dynamic knowledge-based economy in the world”. However, the strategy in the first half of the defined period did not meet the expectations and, in 2005, the objectives and the content of the Lisbon strategy have been fundamentally rethought. The spring European Council has newly established priority areas and set up the more efficient system for the implementation of the defined policies. The number of priorities was reduced and the revised Lisbon strategy, since 2005 known as “The Strategy for Growth and Job” has been focussed on the economic pillar – the economic growth and the creation of new jobs. Within the newly set up management system and implementation, the Czech Republic has adopted, similarly as other Member States, the *National Reform Programme for the Period 2005-2008* (NRP) in autumn 2005 where measures supporting economic growth and employment were defined. The first assessment of the achieved progress in implementation of the measures contained in NRP was organised after the first year of the three-year cycle of the renewed Lisbon strategy (the period 2005-2008). The first *Implementation Report of the National Reform Programme in the Czech Republic* (hereinafter referred to as the “*Report*” only) was approved by the Government of the Czech Republic on 25 October 2006 and consequently presented to the European Commission. The *Report* prepared in 2007 thus assesses the implementation of the second year of the three-year cycle of the renewed Lisbon strategy covered by NRP.

The implementation of National Reform Programmes by EU Member States was assessed by the European Commission at the end of the last year. The Commission made the *Annual Progress Report* public on 12 December 2006. The annual report includes chapters which are assigned to individual EU Member States and assessed on the basis of fulfilment of measures established in their national programmes of reforms, and also according to objectives determined by the spring European Council in March 2005. The assessment of the first year of the implementation of NRP by the Czech Republic stated the achievement of a progress in a number of areas. Among the successes, the Commission mentioned, are for example, the improved business environment, the curriculum reform, and the increased participation in tertiary education. On the other hand, the annual report by the European Commission assessed critically the fact that the Czech Republic had not started the reform of public finances yet and also the for the near future envisaged increase in research and development expenditures has not been fully corresponding to the values stated in NRP for 2005-2008. The Commission found only a limited progress in the area of utilisation of information and communication technologies, including the utilisation of electronic communications within the public administration, the increased flexibility in the labour market, modernising of employment services, and the creation of a complex strategy for the lifelong learning.

The proposed so-called “country specific recommendations” in the area of economic and employment policies made a new part of the *Annual Progress Report*. This part was consequently confirmed by the European Council at its March meeting. The specific recommendations to the Czech Republic mentioned, at the first place, the necessity of improvements in the long-term sustainability of public finances and the approval of steps towards the implementation of pension

and healthcare systems' reforms. In the area of research and development, there has been stressed the need to improve the cooperation between private and public research institutions as well as the importance of increasing the volume and effectiveness of public expenditures assigned to research and development. With regard to the employment and education policies, the recommendations mentioned modernising the employees' protection, including legal regulations and the system of taxes and levies. Further, the effectiveness of the education system and professional training should be improved, while considering the labour market needs and the stimulation of investments in education, especially that of older workers and people with low levels of qualification – increasing the diversification of tertiary education on the offer.

The annual report by the Commission was determined for the spring European Council on 8 – 9 March 2007 and presented one of the main entries for the formulation of the Council's conclusions. The approved European Council conclusions say that the renewed Lisbon strategy for growth and job has shown some results in the form of a favourite economic development and newly created jobs. The progress achieved in the implementation of National Reform Programmes by the Member States, and in the Community Lisbon Programme, was also assessed positively. The European Council, on the basis of the general assessment of the implementation of the revised Lisbon strategy presented by the European Commission, called on the Member States in the Conclusions to utilise the improving economic situation in the EU for strengthening of the reform pace and thus for further improvements in the worldwide competitive position of Europe. The European summit has further confirmed the validity of the four priority areas, which have been fundamental for the increased economic growth in employment in the EU. These are the increased investments to knowledge and innovations, the release of the business potential, especially which of young people and medium-size enterprises, the increased employment in the residential groups disadvantaged in the labour market, and the EU energy policy.

Similarly as in the previous years, the Conclusions of the Spring European Council in 2007 have determined specific tasks for the Member States related to the achievement of objectives contained in the Lisbon strategy, including the dates for their fulfilment. They are, for example, the determined quantitative goals in the area of reduction of the administration burden, which has been imposed on entrepreneurs by the EU legislature, including the call on the Member States to establish their own national targets in this area by 2008. The implementation of defined measures was assessed within this *Report* also in relation to goals determined by the spring European Council in 2007 and there have been specific recommendations made to the Czech Republic.

1.2. UPDATED MEASURES IN THE CZECH REPUBLIC IN CONNECTION WITH IMPLEMENTED REFORM STEPS

The Government of the Czech Republic, appointed in January 2007, has determined the consolidation of public finances as one of its main priorities. The necessity of this step results from the need to quickly resolve the long-term deficit economic management of the government sector caused by the not controlled increases in expenditures, especially in the area of social transfers, which reported the accelerated character in the period 2005 – 2006. The Government has prepared a complex set of tax and budgetary changes¹ for the purpose of implementation of the fiscal consolidation necessary for the long-term sustainable macroeconomic development.

¹ The reform measures were approved by the Chamber of Deputies of the Parliament of the Czech Republic in August 2007 and by the Senate in September 2007.

The reform of the public finances relates to the medium-term horizon especially aimed at the reduction of the government deficit and the lower share of mandatory government expenditures. Within the long-term horizon, the objective is to implement reforms in the pension and healthcare systems. That should strengthen the long-term sustainability of public finances.

The structure of the priority measures in the *Report* has not been modified in this year. However, in connection with the reforms approved by the Czech Parliament in September, there have been some significant changes made in the contents of measures aimed at the consolidation of the public finances in the macroeconomic part and in relation to measures in the part covering employment and the social system. The main taxation and budgetary changes have been described within the priorities in the “Restructuring the expenditure parts in public budgets” and “Continuation in the tax burden restructuring”.

The Government addresses the actual *Specific recommendations to the Czech Republic* by approving reforms in the area of consolidation of public budgets and by the prepared reform steps in the areas of pensions and healthcare.

A large part of instruments used for the implementation of measures described within this *Report* is funded with the assistance of structural EU funds. The national strategic referential framework for the new programme period 2007 - 2013, approved of by the European Commission in July 2007, includes a well-arranged description of relations with the National Reform Programme of the Czech Republic. Out of the total number of 46 NRP measures, there are 30 of them supported by priorities in the National Strategic Reference Framework. However, there are currently negotiations with the European Commission taking place on the acceptance of some operating programmes and this means that, at this stage, there has been no contribution from the European funds agreed for the new programming period.

1.3. COORDINATION AND THE PARTNERSHIP PRINCIPLE

The national coordinator responsible for the achievement of objectives in the Lisbon strategy has been appointed in the Czech Republic in 2003. After the approving of the new management cycle in the Lisbon strategy for growth and job by the spring European Council in March 2005, the national coordinator got determined also the main responsibility for the preparation of NRP of the Czech Republic for the period 2005 - 2008 and for the fulfilment of measures defined in it. Consequently, after the appointment of the Czech Government in January 2007, the responsibility for the coordination of the Lisbon strategy in the Czech Republic has transferred to the Deputy Prime Minister for European Affairs.

The coordination of the implementation of the Lisbon strategy at the working level takes place through the inter-sector Horizontal Working Group for NRP created in 2005 for the purpose of NRP preparation. Other ministries² got involved in activities of the Horizontal Group for NRP in the assessed period with the goal to make the coordination structure more efficient and they are responsible for individual measures. The extension of the Horizontal Working Group was achieved by the better interconnection of NRP measures with other documents of strategic nature,

² Members of the Horizontal Working Group chaired by the representative of the Office of the Deputy Prime Minister for European affairs are, in addition to the Ministry of Finance, the Ministry of Industry and Trade, the Ministry of Labour and Social Affairs, and newly also representatives of the Ministry of Environment, Ministry of Transport, Ministry of Interior, Ministry of Education, Youth and Sport, and the Ministry for Regional Development.

especially strategies in the areas of education, development of infrastructure, reform of the regulatory environment, and the utilisation of EU structural funds.

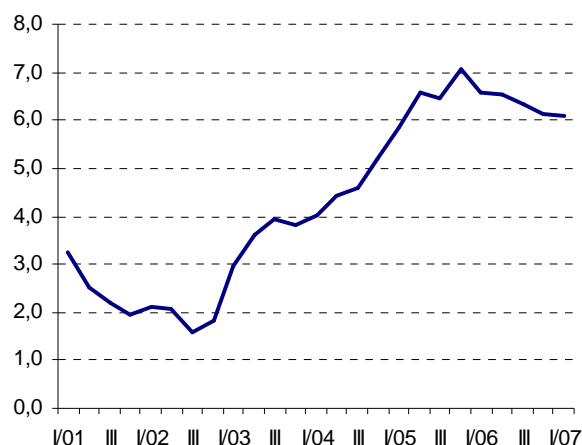
The preparation of NRP was based on discussions conducted between the state administration and partner organisations, i.e. the economic and social partners, regional representatives, regions, and non governmental organisations. This approach has remained the base also for the implementation of determined measures and the following assessment of the achieved progress. A number of projects, which have been contributing to the fulfilment of the NRP priorities, take place in close cooperation with civil and professional organisations and there are local government bodies involved at the regional level. Some of these projects are mentioned in this *Report* as the “best practice examples”.

2. DEVELOPMENT OF THE CZECH ECONOMY

The Czech Republic is experiencing a period of favourable economic development. The key to long-term macroeconomic stability remains increased flexibility in the fiscal policy and the sustainability of public finances, especially the halting of growth in mandatory expenditures.

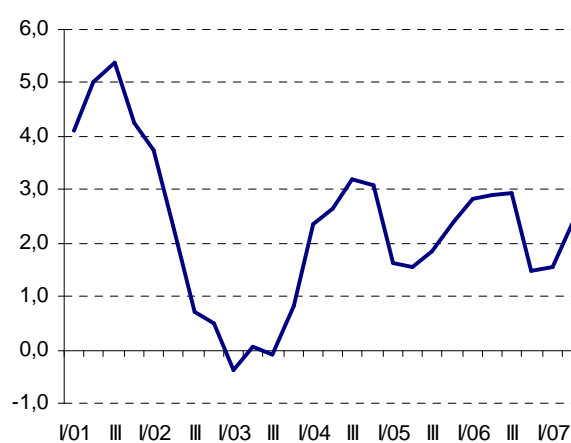
The robust growth of the Czech economy, amounting to 6.4% in 2006, continued in the first half of 2007 (6.2% year on year, 1.5% and 1.4% quarter on quarter in the 1st and 2nd quarters respectively). Domestic demand was more or less the only driver behind this growth. Thanks to better terms of trade, the momentum of the real gross domestic income in the first half of 2007 overtook GDP momentum by 1.8 percentage points (p.p.). The pace of growth of the potential product, principally on account of the robust contribution of the total factor productivity, stands just above 5%. At the end of 2005, the negative output gap closed and the current position of the Czech economy reported an approximately 1.4% positive gap in the first half of 2007.

Graph 1: Real GDP growth
(year-on-year growth in %)



Source: Eurostat

Graph 2: Consumer prices
(year-on-year growth in %)



Source: Eurostat

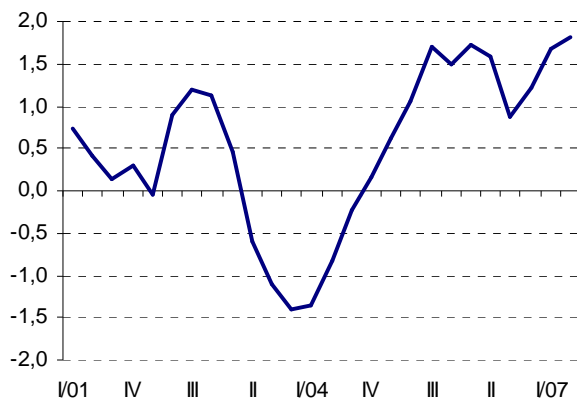
The low inflation environment in the Czech economy prevails, primarily on account of the trustworthy monetary policy of the Czech National Bank. An important role is also played by the highly competitive environment. Consumer prices (CPI) increased year on year by 2.5% in June 2007, with a 1.2 p.p. contribution from declared and regulated prices. (In 2006, the average annual inflation rate was 2.5%.) CPI has been driven mostly by increasing housing costs in the long run.

The external balance, expressed by the share of the current account balance in GDP in moving annual totals, hovers within sustainable limits. It slightly worsened by 0.3 p.p. to -3.4% in the second quarter of 2007 compared to the end of 2006, but, in contrast, the surplus of the balance of goods and services increased by 0.7 p.p. to 2.8% of GDP. The main source of the deficit in the current account can be attributed primarily to the outflow (repatriation) of revenues from foreign direct investments.

A positive trend is apparent in the labour market, where the employment rate (according to the labour force survey) has been increasing year on year since the 4th quarter of 2004. The rate for 2006 as a whole increased by 1.3%, while the level of economic activity was maintained (15-64 years of age) at 71.2% and the growth in the employment rate increased by 0.6 p.p. to 66.1%. The growth in employment came to 1.7% in the first half of 2007.

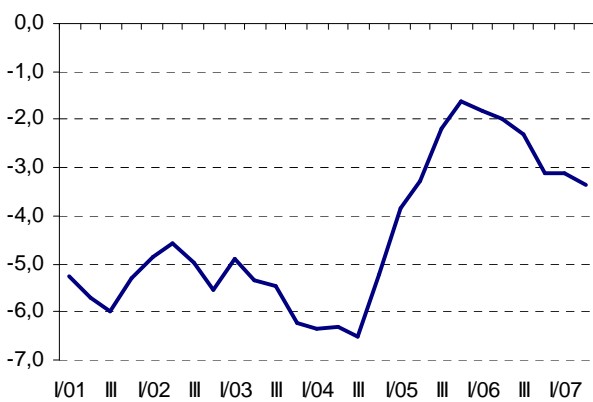
The internationally comparable unemployment rate peaked at 8.4% in the 1st quarter of 2004, since when it has been significantly decreasing in connection with economic growth, to which is significantly influenced by the inflow of foreign investments to the Czech Republic. The unemployment rate went down to 5.3% in the 2nd quarter of 2007. This is 1.8 p.p. lower in year on year comparison by and it is the lowest in almost 10 years.

Graph 3: Employment
(the year-on-year growth in %)



Source: Eurostat

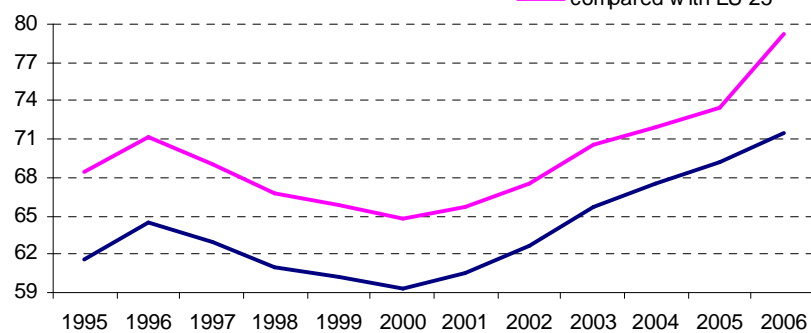
Graph 4: Current account
(in % of GDP)



Source: Eurostat

The Czech economy has recently grown substantially faster than the average EU economy. In the period 2000 - 2006, it recorded an average pace of growth of 4.2%, compared with 2.2% in the EU-25 and 2.0% in the euro area. The relative output of the Czech economy per capita, measured in purchasing power parity, increased from 64.7% in 2000 to 79.2% of the EU-25 level, and to 71.5% of the level in the euro area.

Graph 5: Relative economic level
in purchasing power parity (in %)

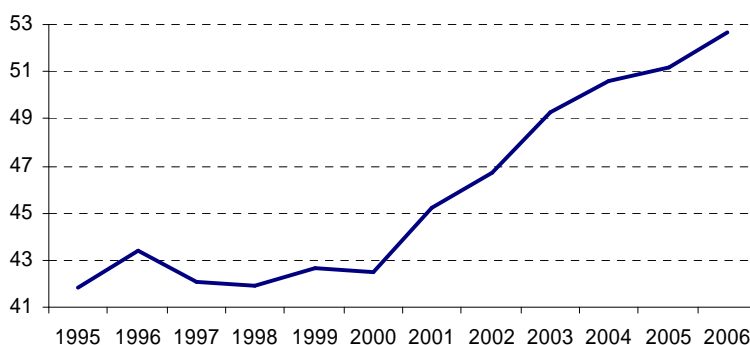


Source: Eurostat

As a result of technological underdevelopment, originating in the centrally-planned economy, the Czech economy (like the other economies of new member countries) reports a significant difference in **labour productivity per hour** compared with the “old” EU member countries.

Transformation processes, privatisation and the restructuring of economy, the creation of market economy institutions, technology transfer, and the adaptation of economic bodies to new conditions have cultivated an environment allowing for faster and faster **reduction of differences in the productivity levels**. The per hour productivity started increasing significantly in the Czech economy only after the year 2000, when it increased from 43% of the euro area average to almost 53% in 2006.

Graph 6: Labour productivity per hour (relative level, compared with Eurozone, in %)

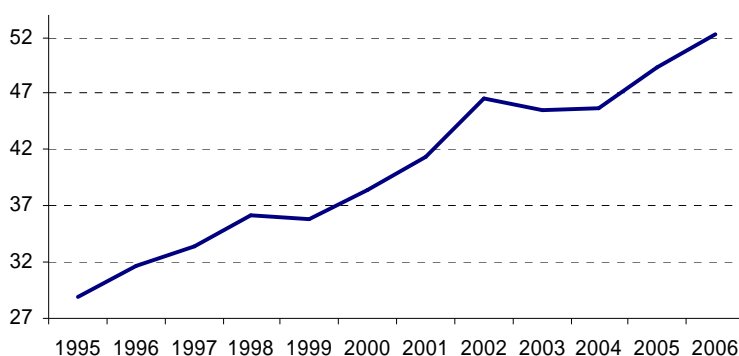


Source: Eurostat

The convergence of labour productivity is contingent on improvements in the competitiveness of Czech economic bodies. **The competitive advantage** of the Czech economy currently lies primarily in low costs when it comes to the acquisition of manufacturing factors.

The low **unit labour costs** prove that the Czech Republic can still take advantage of cheap labour. However, this advantage is gradually being exhausted. The relative unit labour costs, expressed as the share of compensation of employees according to the exchange rate to labour productivity from GDP in PPP increased between 1995 and 2006 from 29% to 52% compared with the euro area – i.e. an increase by 23 bps. In addition to faster growth in Czech wages, there is also the effect of the nominal appreciation of the CZK/EUR exchange rate.

Graph 7: Unit labour costs (relative level, compared with Eurozone, in %)



Source: Eurostat

From the long-term perspective of stable economic performance, it is necessary to make the switch to **quality-based competitiveness**. This requires increases in the innovation capacity of the economy.

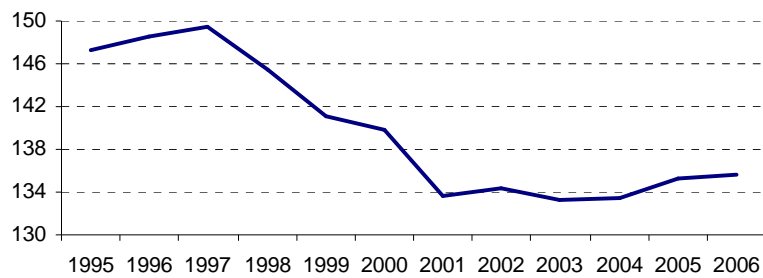
From the **labour utilisation** point of view (the number of hours worked per capita as the relative economic level to relative labour productivity level ratio), the Czech Republic has been achieving results well above average compared with the euro area. After the relatively constant development here (by 34% more on average), labour utilisation has been growing again moderately since 2004. In 2006, the average number of hours worked was about 36% higher than

in the EU-12. The objective for policies in the labour market will be, optimally, the maintenance of this existing favourable development.

An important, even if only temporary, factor in higher labour utilisation within the Czech economy, from the economic point of view, is the very favourable **demographic structure**. While the share of the population aged 15-64 hovers in EU countries at an average of around 66% in the long term, and if anything is decreasing, the share of people of working age has increased in the Czech Republic from 68% in 1995 to 71% in 2006. Thanks to the increasing life expectancy, the positive effects of this demographic factor will probably peak in 2009.

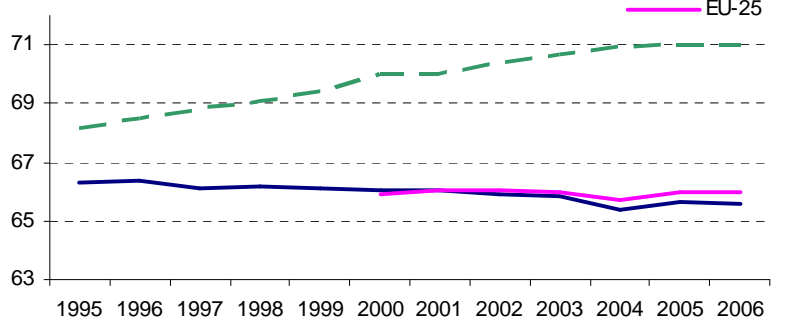
After that time, the impacts of population ageing will come to the fore in the economy. In response to this development, in addition to the current extensions to the retirement age, it will also be necessary to implement other adjustments in the pension system, promote higher economic activity and make the labour market more flexible in order to address economic needs in a situation where there are fewer people of working age.

Graph 8: Labour utilisation (the relative level, compared with Eurozone, in %)



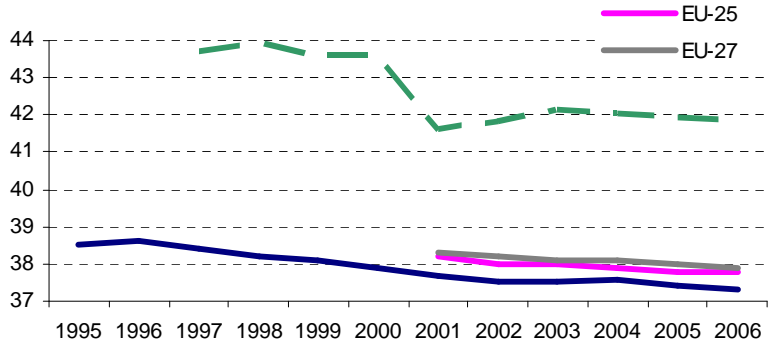
Source: Eurostat

Graph 9. Share of residents in the productive age (15-64) in the total number of residents (in %)



Source: Eurostat

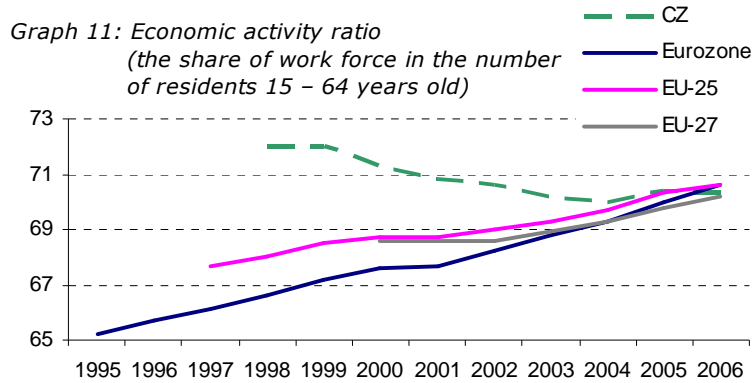
Graph 10: Average working hours in a week (full-time jobs in hours)



Source: Eurostat

Another factor in above-average labour utilisation in the Czech Republic is the high **number of hours worked per employed person**. The real average working hours are traditionally high in the Czech economy. In addition, in the case of newly founded enterprises (mostly entrepreneurs without employees), the average normal and real working hours are substantially longer compared with employees. The number of

people working part-time, the length of leave and the number of public holidays are significantly lower (compared with the “old” EU countries).

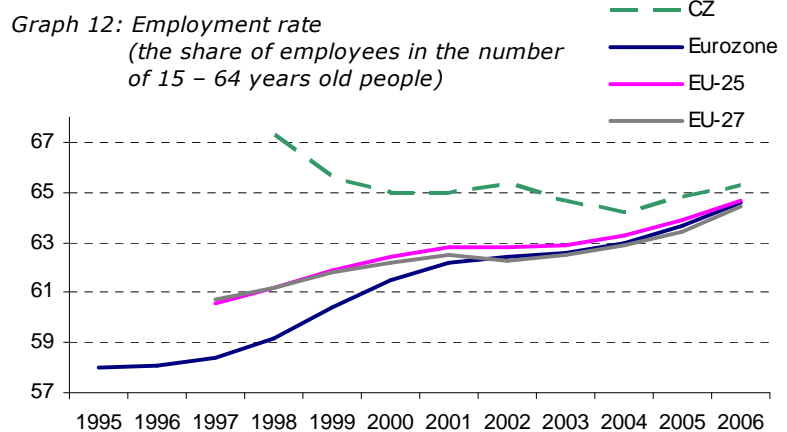


Source: Eurostat

Much of the decrease in relative labour utilisation was based on developments in the **participation rate** (the share of the labour force in the population of 15-64 year-olds); development in the Czech Republic was the complete opposite of that in the euro area countries until 2004. In addition to positive phenomena such as the increased share of young people participating in secondary and tertiary

education, there have also been negative phenomena – the low incentives to work or the dependency of some residential groups on social benefits.

The participation rate increased slightly in 2005 and 2006. By the same token, the **employment rate** (the share of the total number of employed people in the number of 15 - 64 year-olds) is influenced by the position of the Czech economy in the economic cycle. The high demand for labour, driven by dynamic economic growth, especially recently, has been reflected in the fast growing number of employed foreigners. Their share in total employment increased from 3.4% in 2002 to 5.2% in 2006. The broader involvement of people of retirement age and students also had a positive impact. A positive development in 2006 was also reported as regards self-employed persons. Their number increased last year compared with 2004 and 2005. In summary, it could be said that this has been the impact of the favourite cyclic development rather than a change in structural labour market characteristics. On the other hand, there are now factors moving in the opposite direction which are slowing down the pace of growth in the employment rate. The most significant one last year was the share of women aged 25 – 39 leaving the labour market on maternity leave.



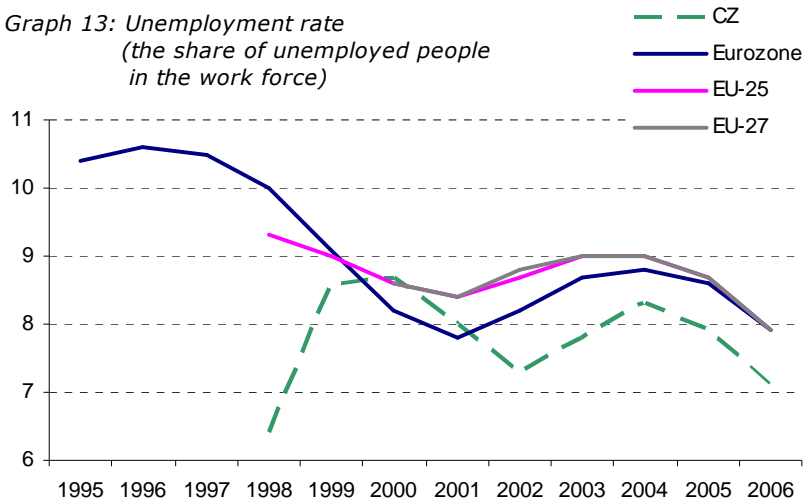
Source: Eurostat

Their share in total employment increased from 3.4% in 2002 to 5.2% in 2006. The broader involvement of people of retirement age and students also had a positive impact. A positive development in 2006 was also reported as regards self-employed persons. Their number increased last year compared with 2004 and 2005. In summary, it could be said that this has been the impact of the favourite cyclic development rather than a change in structural labour market characteristics. On the other hand, there are now factors moving in the opposite direction which are slowing down the pace of growth in the employment rate. The most significant one last year was the share of women aged 25 – 39 leaving the labour market on maternity leave.

A leaping increase in **unemployment** also powered the reduction of relative labour utilisation in the second half of the 1990s. The unemployment rate climbed to a level comparable with the average level in the euro area and in the EU-25 during the course of important structural

economic changes. The unemployment rate has been decreasing in the Czech Republic since 2004 and was 0.8 bps lower in 2006 compared with the euro area. The current favourable trend can be mainly attributed to the cyclical position of the Czech economy. A positive feature accompanying the decreasing unemployment rate is the reduction in the number of long-term unemployed people. This reduction was more than 16% in 2005 and 2006. However, their share in the total unemployment rate is still quite high, standing at 41%.

Graph 13: Unemployment rate
(the share of unemployed people
in the work force)



Source: Eurostat

3. MACROECONOMIC PART

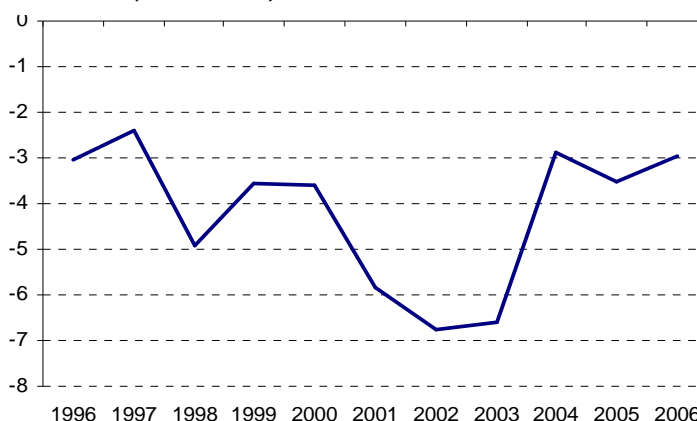
3.1. FISCAL CONSOLIDATION

Over the last decade the government sector institutions were constantly in the red numbers. The highest deficit was recorded between 2001 and 2003, in part owing to the tail end of the cost of the transformation process; the stabilisation of the banking sector; the absence of reform measures in the social protection, pension and healthcare systems; and the cost incurred in connection with preparations for accession to the EU. In the following years these important factors gradually faded out. The reduced deficit experienced in 2004 - 2006

was influenced significantly by the favourable stage of the economic cycle and the effects of reform measures aimed at improvement of the public budgets, initiated in 2003, the objectives of which were successfully fulfilled during the first two years. The root cause of the persisting deficit is the unsustainably high trend in expenditure, especially in the field of social transfers. The structure of government expenditures is characterised by an excessively high proportion of mandatory expenditures and, accordingly, the space for discretionary measures and the proper functioning of automatic stabilisers is restricted.

Fiscal consolidation and restructuring of the expenditure side of public budgets is a prerequisite for maintaining a stable macroeconomic environment and for increased flexibility of budgetary policies. To this end the government has prepared a set of reform measures, the primary medium-term objective of which is to reduce the government deficit and mandatory government expenditures. Over the long term the measures are geared towards reform of the pension and healthcare systems to strengthen the long-term sustainability of public finances.

Graph 14. General government balance
(in % of GDP)



Source: Eurostat

SUMMARY OF ADOPTED AND REALISED MEASURES:

- In April 2007 the Czech Government approved a new medium-term outlook of the central government budget containing more ambitious fiscal targets together with the corresponding more restrictive expenditure frameworks for the period 2008 - 2010.
- The Parliament of the Czech Republic has approved a set of reform measures focusing on taxes, social transfers and health care.
- Institutions which are out of the central government budget are gradually abandoned to eliminate risks and enhance fiscal transparency.
- The Czech Government has proposed a method of resolving problems inherent in the public pension system in the context of three follow-up stages of pension reform.
- In June 2007, a government resolution established a commission of independent experts to assess the current state and prospects of the health system.

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

Fiscal policies are realised in the framework of a fiscal targeting regime. Observance of the medium-term expenditure frameworks of the state budget and state funds is a binding fiscal rule. Between 2004 and 2006, the fiscal objectives in the form of a share of the government sector's balance in GDP were adhered to. Accordingly, the deficit in that period was lower than expected. However, due to revenues significantly higher than expected, the approved expenditure ceilings were raised in 2005 and 2006 in excess of allowed modifications and only a part of the additional income has been used to reduce the deficit. The failure to adhere to the fiscal rule for expenditures in the preparation of the state budget during the last two years resulted in the expected increase of the fiscal deficit in 2007 to a level close to 3.4 % of GDP. This means that the envisaged fiscal target of 3.3 % of GDP will be missed, apparently for the first time since the implementation of the fiscal targeting regime.

The new government appointed in January 2007 has set, as one of its main priorities rapid consolidation of public finances³ and it has explicitly declared its determination to keep to the principles of fiscal targeting and medium-term expenditure frameworks. In April 2007 the Government approved a new medium-term outlook of the state budget, where it laid down more ambitious fiscal targets and the corresponding tighter expenditure ceilings for the period 2008 – 2010. The draft 2008 state budget and the medium-term outlook for 2009 and 2010 are based on the above stated fiscal targets. The general government deficit (in ESA 95 methodology) is projected to fall below 3.0 % in 2008, to 2.6 % in 2009 and to 2.3 % in 2010.

Attaining the set objectives and observing the binding rule represented by expenditure ceilings should be made possible by the implementation of a set of reform measures approved by the Parliament, in particular in the areas of taxes, social transfers and health care.

Insurmountable expenditure frameworks rank among the main fiscal instruments under the adopted reform of public finance. However, the reform package does not incorporate steps aimed at enhancing the binding character and enforceability of fiscal rules. Public ownership of the adopted fiscal rules thus remains a fundamental factor in the efficiency of the expenditure frameworks.

In order to increase the public and media attention to compliance with the adopted fiscal rules, the Ministry of Finance has started with periodical public releases of reports that evaluate adherence to the expenditure frameworks.

3.1.2 Restructure the expenditure side of public budgets

In 2006, the expenditures of the governmental sector amounted to 43.6 % of GDP, a year-on-year decrease by 1.3 percentage points. However, laws enacted in particular during the period preceding to the Parliamentary elections in 2006 resulted in increased mandatory expenditures, especially in social benefits, and consequently increased the pressure on public finances. The Government has decided to reverse this adverse trend and reduce the public deficit by a reform targeting in particular social welfare expenditures.

³ Programme Declaration of the Czech Government from 17 January 2007

Restructuring of the expenditure part of public budgets aims at expanding the leeway of fiscal policies, increasing growth-related expenditures (infrastructure, education, R&D), and securing sufficient resources for co-financing of the projects supported from EU funds.

Fiscal consolidation measures rely primarily on the expenditure side of public budgets by means of stopping the growth of social welfare expenditures. The main instrument in this area is a moratorium imposed on enacting new laws that increase mandatory expenditures and a reduction of the share of mandatory and quasi-mandatory expenditures that represent almost three quarters of all expenditures in the 2007 state budget. Other economical measures include a reduction of the number of civil servants by at least 3 % by 2010 (compared to the situation as of 31 December 2006).

The key point of savings lies in social welfare expenditures. The following measures rank among the most important:

- abolishment of automatic indexation schemes applied to the subsistence and existence minimum levels in all social transfers; retaining the existing indexation scheme for pensions;
- one year postponement (i.e., to 1 January 2010) of the effective date of the Sickness Benefits Act and an introduction of a first three business days' period during which employees are not entitled to sickness insurance benefits;
- tying up the entitlement to financial assistance from the welfare system with mandatory retraining and participation in projects of additional education and penalising long-term and recurring refusal to embrace an active approach to the labour market by a transition of social benefits from the subsistence minimum to the existence minimum level;
- tightening the disbursement of unemployment benefits by introducing the possible loss of unemployment benefits in instances where preceding employment was terminated for especially gross violation of the employee's duties;
- removal of the negative motivation to work caused by jump limits of an entitlement for welfare benefits by making the marginal effective tax rate as linear as possible;
- two year postponement of the effective date of the approved system of social casualty insurance and in the meantime proposing an alternative system without a negative impact on the state budget;
- making the birth grant uniform for all children and the child allowance fixed according to the child's age;
- abolishing or restricting the entitlement to some other social welfare benefits (school equipment grant, compensation for increased cost of living due to disability, funeral grant, etc.).

3.1.3 Continue with restructuring of the tax burden

In 2006, the tax burden in the Czech Republic, expressed as the tax-to-GDP ratio, hovered at around 36.0 % of GDP and accordingly experienced a slight year-on-year decrease by 0.6 percentage points. The slowly decreasing tax-to-GDP ratio is given both by the fact that tax revenues exhibit smaller unit elasticity with regard to GDP as well as by measures aimed primarily at reducing the high taxation of labour and corporate income. By the same token, the increase in indirect taxation has positively influenced the share of government sector revenues on GDP.

The government-approved expenditure-based consolidation will facilitate, in addition to a reduced deficit, an additional gradual decrease of the composite tax-to-GDP ratio. The objective of the tax system restructuring now in progress is a shift from direct to indirect taxes in order to reduce the effective level of taxes levied on labour and corporate income. The reduction in the effective level of tax imposed on corporate income has so far been accomplished by a decrease in the rate from 28 % in 2004 to 24 % in 2006; the proposed public finance reform envisages further reductions.

The proposed restructuring of direct taxes relies mostly on the following measures:

- the rate of the corporate income tax will be reduced to 21 % in 2008, to 20 % in 2009, and to 19 % in 2010. Simultaneously, the tax assessment base will be gradually broadened and the existing tax exemptions applied to interest will be restricted;
- with regard to the personal income tax, a single rate will be introduced in 2008, equal to 15 % including withholding tax. At the same time the tax assessment base will be broadened to include contributions to social and health care insurance paid by both the employee and the employer, i.e., by 54.3 %. In 2009 the rate is expected to drop further to 12.5 %; concrete figures will be laid down in an amendment to the Income Tax Act, expected to be enacted in the first half of 2008;
- the institute of the minimum tax assessment base will be abolished together with the institute of the joint taxation of spouses;
- a cap equal to four times the average annual wage will be introduced for the annual assessment base for social and healthcare contributions;
- inheritance tax will be abolished for group II together with a gift tax for group I and II;
- land not encumbering municipal infrastructure (arable land, vineyards, etc.) will be exempt from real estate tax and optional local coefficients will be introduced to allow municipalities to raise the final tax rate.

In the area of indirect taxes, the restructuring relies on modifications of the VAT rates and the introduction of environmental taxes, specifically on the following measures:

- in connection with VAT, the reduced VAT rate will be raised from 5 % to 9 %; the introduction of a reduced VAT rate for environmentally friendly fuels and technologies is envisaged;

- as part of the environmental tax reform a tax will be levied on electric power, natural gas, and solid fuels as of 1 January 2008, and the taxing of CO₂ emissions as of 2010 is envisaged as part of the stage II of the environmental tax reform.

3.1.4 Prevent indirect indebtedness in the form of extrabudgetary fiscal risks

The reform of public finances also focuses on one of several fiscal risks originating in excessive fragmentation of the public finances with several, relatively autonomous, expenditure centres at the central level – the state budget, extrabudgetary funds and “transformation institutions”.

In conformity with intentions presented in the NRP 2005 – 2008, extrabudgetary institutions are gradually reduced in order to eliminate the above mentioned risks and to enhance fiscal transparency. The National Property Fund has been abolished as of 1 January 2006; assets administered by the Fund were transferred to the state and are held on special accounts administered by the Ministry of Finance together with future income from the sale of privatised assets. These funds are not a part of the state budget and can be used exclusively for purposes identified in applicable law. The State Fund for Land Reclamation has been abolished as of the same date and its rights, obligations and assets were approved on the Ministry of Agriculture.

The abolishment of the Czech Consolidation Agency, approved as of 31 December 2007, will represent a further step towards an increase in the stability and transparency of public finances. The state, represented by the Ministry of Finance, will become the legal successor of the Agency.

In connection with abolishment of the Land Assets Fund of the Czech Republic, the Government has cancelled the original termination date and entrusted the Minister of Agriculture with the obligation to prepare and submit new principles governing its transformation by 31 December 2007.

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

The Czech Republic intends to reduce the sensitivity of public finances to demographic trends and to adopt strategic decisions ensuring long-term stable and efficient financing of the pension system and the system of health care.

In 2005 a Working Group established to prepare underlying materials for a decision on a pension reform completed its work. The analytical results obtained demonstrate that the Czech pension system is unsustainable in the long term and microeconomically inefficient. The final report and the underlying materials contain sufficient analytical foundations for a decision on the essentials of the future reform of the pension system.

Already in its Programme Declaration, the present Government identified a three-stage policy of resolving the existing pension system’s problems, Parametric changes are being prepared for the stage one, comprising in particular a continual increase in retirement age, extension of the minimum duration of insurance to 35 years, introduction of a maximum assessment base (ceilings) for the premiums, and implementation of a flexible retirement age band. Stage two will bring about separation of shareholders' and clients' assets in the voluntary contributory pension insurance system, creation of a reserve pension fund, and establishment of a separate state budget chapter to finance the pension system. A guaranteed minimum income for pensioners equal to the subsistence level will be introduced. Stage three reckons on the possible establishment of an

additional savings pillar underlying the pension system, based on a voluntary, partial opt-out from the state, pay-as-you-go system in a manner ensuring that fiscal sustainability is not adversely affected.

The Government has re-established a political discussion on strategic issues concerning the future of the pension system. A team consisting of the top representatives of individual parliamentary parties, who have been dealing with pension reform for a long time, met in June 2007. The team is expected to prepare a generally acceptable proposal of a pension reform, based on the results obtained by the Working Group in 2005. A concurrent expert discussion concerning possible variants for the separation of assets owned respectively by shareholders and clients of pension funds is under way.

The approved package of reform measures contains *inter alia* changes of the healthcare system. The modifications aim at strengthened fair competition among healthcare providers and also involve the transformation of health insurers into joint-stock companies to achieve higher transparency. The extent of the health insurance will be revised and optional selection of some other, non-standard insurance solution, introduced where above-average care can be obtained for an extra charge (or contributory insurance covering such above-average care). Fees will be introduced per medical prescription, per visit to a physician and per day spent in a hospital.

The Czech Republic continues its efforts to improve transparency in the handling of public health care funds. Concrete proposals will be presented in 2008.

By its June 2007 resolution, the Government established a group of independent experts (analogous to the former working group established to prepare the pension reform) to evaluate the current state of the healthcare system and its perspectives. The group is also expected to prepare an expert analysis of strategic reform proposals submitted by individual political parties.

4. MICROECONOMIC PART

4.1. BUSINESS ENVIRONMENT

The small and medium enterprises (SME's – both natural and legal persons) represent an important component of the Czech economy. The conditions for businesses in the Czech Republic are comparable to those in other member states of the EU, including the tax burden and regulation intensity.

Based on the data available at the end of 2006, SME's accounted for 99.85 % of all business entities in the Czech Republic, and employ 61.38 % of the total number of employees. In 2006, SME's represented 34.36 % of GDP, 54.42 % of total investments, 52.62% of value added and 43.5 % of total exports of goods and services.⁴

There were 5 new national programmes for small and medium enterprises launched this year (financed from the state budget). The programmes should be ready to be used at the end of this year. Within the programming period of 2007 - 2013, SME's may also fund their business plans within several operational programmes, co-financed by EU and Czech public budget resources. The broadest opportunities for the development of business environment and transfer of research and development achievements to business practice are within the Operational Programme Enterprise and Innovation. The programme's total allocation, including financial resources from public budgets, amounts to EUR 3.58 billion, and represents the third largest operational programme. That comprises 11.4 % of total EU resources for the Czech Republic. Other relevant operational programmes will enable to draw financial support in the field of research and development, innovation policies and life-long education for SME's employees. In the course of the entire 2007 - 2013 period, the structure of resources will be adjusted to SME needs.

Graph 15. SME's share in GDP and Investments (%)



Source: Ministry of Industry and Trade

⁴ Report on SME Development and Support 2006.

SUMMARY OF ADOPTED AND IMPLEMENTED MEASURES:

- **A complex amendment to the Trade Act was prepared and should come into force as of 1 January 2008; its aim is to simplify and accelerate the process of issuing the trade licences and thus facilitate the start-up procedures for enterprises. f. At the same time, simplified version of Uniform Registration Forms for Start-up of Business Activities was prepared.**
- **Insolvency law re-codification was adopted with effect as from 1 January 2008, which should reduce the duration of court proceedings and strengthen the role of creditors.**
- **The establishment of an insolvency register was prepared (system is open to public), which should enhance, starting from 2008, the transparency of proceedings, facilitate communication among courts and smooth insolvency proceedings.**
- **The government approved Regulatory Impact Assessment (RIA) Guidelines, based on which every draft legislation proposed at the government level (primary and secondary legislation) shall be obliged, as of 1 November 2007, to a complex assessment of the expected impacts.**
- **Further working agenda on the government programme reducing the administrative burdens imposed on businesses was approved, with the objective to reduce the total burden by the end of 2010 by 20%.**
- **Preparation of the revision of the act on financial market supervision has started. That should consolidate the procedures to be used by the Czech National Bank in performing its supervision tasks. The act's factual object should be submitted for the government's approval in the beginning of 2008.**
- **Preparations are under way on general advance binding rulings. The act on the stabilisation of public budgets is proposed to enter into force as of 1 January 2008 and extends the advance binding rulings in the area of income tax and value added tax.**

4.1.1 Carry out a transparent procedure of new legislation impact assessment

The first version of the Regulatory Impact Assessment Guidelines was approved by the government in April 2005; on its basis, a pilot phase of the assessment of the impacts in selected cases of newly prepared legislation in the CR has been launched. Prepared in its framework was the impact assessment of the amended Trades Act (which establishes the Central Registration Points); the method was also used for the assessment of the proposed establishment of the Register of Public Budget Arrears. The pilot phase was also joined, at its own initiative, by the Ministry of Environment, which started to prepare, as of December 2005, assessment of the regulatory impacts of draft legislation it submits. Other activities undertaken in the course of the pilot phase concentrated on education in RIA. The aim is to train employees of central administration bodies in the application of this method, ensuring thus appropriate specialised capacities for the assessment of impacts in individual central administration bodies before the imposition of obligatory assessment, based on the RIA methodology, of all draft regulations prepared on the central administration level. Prepared for this purpose was a training course, which has been offered since 2006 by the Institute of State Administration, which is a central educational institution.

With the purpose of completion and further elaboration of the Regulatory Impact Assessment, Guidelines a project was implemented in 2006 in cooperation with the Council for the

Development of Business Environment⁵, which was transformed in April 2007 into a new advisory body of the Ministry of Industry and Trade entitled the Business Council⁶. The project's output was an updated RIA version. These principles stipulate individual procedural rules and material requisites of comprehensive assessment of every draft legislation. In August 2007, the government approved it as a binding methodology for the impact assessment, which will enter into force as of 1 November 2007. As of the same date, the amended Government Legislative Rules⁷ also enter into force, which newly introduce an obligation to proceed the impact assessment of the anticipated modification of the legal status or impacts of the draft regulation in accordance with RIA. The amended Government Legislative Rules also stipulate that a final impact assessment report, meeting factual requisites contained in RIA, must form a mandatory part of the explanatory report or of the statement of reasons. A review of the RIA efficiency will be performed by the end of 2008, and its conclusions will be submitted for consideration by the government.

With a view to support and ensure uniform proceedings in the assessment of impacts in various spheres or on various groups, other methodologies are also being developed. Before the imposition of an obligation to assess the impacts of all draft legal regulations, prepared and approved by the government was the „Methodology of Determination of Planned Costs of State Administration“ and the „Methodology for Determining the Amount and Origin of Administrative Burdens Imposed on Businesses“ (see item 4.1.2 below). Additional methodologies will be prepared during the implementation phase of the impact assessment, depending on the needs of individual bodies or government priorities.

Newly created is also the control and coordination mechanism of the system of the regulatory impact assessment. A transdepartmental coordination body, the „Board for Regulatory Reform and Effective Public Administration“, was established to examine whether the submitted draft legislation underwent the assessment of its impacts in accordance with the approved RIA methodology. The compositions of this governmental advisory body as well as its competences are contained in its government-approved statutes⁸.

As a complementary material to the General Principles for Impact Assessment, approved by the government in August 2007 was also a proposal on the process of introduction of the methodology with a view to involve the public in the preparation of government documents within the pilot phase up to the end of 2008. The methodology will be „tested“ within the pilot phase on selected proposals prepared for consideration by the government. It contains a list of

⁵ The Council for Development of Business Environment (CDBE) was established in the beginning of 2004 as a professional interdepartmental advisory body of the Ministry of Industry and Trade with the aim to enhance the quality of business conditions in the Czech Republic through clearly formulated steps. Represented in CDBE are state administration departments at the level of deputy ministers or heads and general directors of MIT agencies, the highest representatives of the employees' and employer's organisations and of tertiary education institutions.

⁶ Based on the Decision of the Minister of Industry and Trade No. 34/2007 and in accordance with the Resolution No. 439 of the Government of the CR of 25 April 2007, the Council for Development of Business Environment was transformed into a new MIT advisory body, the Business Council.

⁷ This is a fundamental standard for the formulation of legislation at the governmental level, which defines general requirements for the preparation of draft primary and secondary legislation by central administration bodies.

⁸ It was originally established with the purpose of the preparation of the strategy entitled Effective State Administration and Friendly Public Services. Following its transformation approved in August 2007, its composition was enlarged to include deputy ministers and representatives (deputy heads) of other central administration bodies, representatives of the Association of the CR Regions, Union of Towns and Municipalities of the CR and representatives of the Economic Chamber. The Board is headed by the Minister of the Interior.

possible techniques and methods of involvement of the public in the preparation of such proposals, starting from the early phase of their preparation; the material thus elaborates the method of consultation with the public as one of the obligatory components of the RIA methodology procedure. Based on the evaluation of the results of the above pilot phase, a complemented draft of the Methodology and proposed amendment of the Government Legislation Rules for the identification of the obligatory involvement of the public in the preparation of draft legal regulations for central administration bodies will be submitted by the end of 2008.

With a view to facilitate the involvement of non-governmental organisations in the process of preparation of legal regulations, a database entitled „DataKO“ was created as early as in 2006. This is a database of non-governmental organisations active in widely diverse areas, including contacts to their representatives, who expressed interest in rendering consultations with respect to the specialised documents prepared by state administration authorities. The authorities which prepare legal regulations and strategy materials may thus address the registered organisations and discuss with them those draft materials, which relate to their sphere of activities. Registered in the database in August 2007 were 312 organisations.

From March 2006 to March 2007, an initiative was organised entitled „Devote 10 minutes to improvement of legal environment of the CR“. Its aim was to address not only entrepreneurs, but all citizens, non-governmental organisations and interested entities that wish to express their views on legal regulations of the CR and advance proposals aimed at their improvement. The initiative was expected to bring about a reduced burden for citizens as well as the business sphere arising from the regulation and an overall simplification and improvement of the legal environment in the Czech Republic. The citizens, entrepreneurs and representatives of organisations, who believed that the existing law or ordinances bring about unnecessary problems, were able to express their views in a questionnaire available on the website of the Office of the Government of the CR. The first wave of suggestions (303 suggestions during the period of March - May 2006) was passed on to competent authorities for use in the preparation of government proposals. At present, a renewal of the initiative is under preparation.

4.1.2 Decrease administrative burden on businesses by at least 20%

The process of evaluation of the administrative burden was launched in April 2005, when the Plan of Action Aimed at Reduction of the Administrative Burdens Imposed on Businesses and the Methodology for Determining the Amount and Origin of Administrative Burdens Imposed on Businesses were approved. At the same time, the government resolution imposed upon the central bodies of state administration an obligation to measure the administrative burdens imposed on businesses stemming from the existing legal regulations.

Based on the documentation of the performed measurement (in the course of 2005), the Office of the Government prepared in February 2006 an Analysis of the Administrative Burdens Imposed on Businesses that was only submitted to the government – due to the unstable setting following the parliamentary elections in June 2006 characterised by the absence of a government with an approved mandate – several months later, in the first half of 2007. The government approved the analysis, which evaluated total annual administrative burdens at more than CZK 86.0 billion, in July 2007, together with a set of additional proposed steps. The results showed that the largest administrative burden is mainly caused by legal regulations within the purview of the Ministry of Labour and Social Affairs, Ministry of Agriculture, Ministry of Health, Ministry of Finance,

Ministry of Environment and Ministry of Industry and Trade, and the government enjoined these ministries to perform, by the end of 2007, an inquiry into some twenty legal regulations⁹, whose share in the total ascertained burden amounted to 89 %, and to submit specific proposals aimed at amending these regulations. The Ministry of Industry and Trade, which is the main administrator of the project, should submit by 31 March 2008 a summary output and should propose a procedure for the reduction of administrative burdens of these legal regulations aimed at the adoption of their amendment to achieve, by 2010, a reduction of total administrative burdens imposed on businesses by 20 % (as compared with the 2005 level).

The same government resolution approved the obligation to perform ex ante evaluation of administrative burdens imposed on businesses within the regulatory impact assessment (RIA) in case of newly prepared proposals; at the same time, all central authorities are obliged to adopt continuous measures against the increase of total administrative burdens imposed on businesses and caused by information obligations, whose origin and form are fully within the responsibilities of these authorities.

4.1.3 Simplify administration burden related to setting up and running a business

One year passed on 1 August 2007 from the establishment of the Central Registration Points (CRP) at municipal trades licensing offices. Thanks to the CRP, an entrepreneur may meet the registration obligation with the appropriate administration bodies at a single registration point by filling out a uniform registration form (URF). Thus, in addition to notifying the trades business at CRP, also filed may be the registration form for taxation, social and health insurance, notification of the commencement of self-employment activities, notification on vacancies and notification under the Act on General Health Insurance. After gathering this information, the trades licensing office distributes the data to the relevant bodies of state administration. The time required for the issuance of a trades licence differs, depending on the type of trades; in case of notifiable trades on the date of its notification (or later, depending on the enterpriser's choice), in case of permitted trades on the date on which the decision on granting the permit comes into force. Maximum time-limit for the issuance of the decision is 60 days and, in the practice, the time-limit depends on the issuance of the opinion of the relevant body. As compared with 31 December 2006, the number of newly issued trade licences increased in the first half of 2007 by 111 991.

The conditions to be met for carrying out trades include also attestation of the non-existence of debts with respect to the obligations vis-à-vis the State, etc. A draft law, presently being considered by the Parliament of the CR, would abolish this obligation. The time-limit for the registration with the Trades Register was cut from ten to five working days.

A simplified version of URF is being prepared in 2007, simultaneously with a fundamental amendment of the Trades Act. The government should consider the simplified URF in September 2007. The amended trades act is expected to enter into force as of 1 January 2008.

The amended act should bring about reduced administrative burdens imposed on entrepreneurs, simplification and acceleration of the process of issuance of trade licences; it should also facilitate the commencement of business activities mainly for young and beginning entrepreneurs. Essential changes include:

⁹ This involves e.g the Act on Food and Tobacco Products, Act on General Health Insurance, Act on the Organisation and Performance of Social Insurance and the Income Tax Act.

- Cancellation of the principle of issuance of trades licence for every trade, i.e. an entrepreneur will prove his/her trade licences/permits by means of a single document – excerpt from the Trades Register.
- An entrepreneur will be able to file any petition to trades licensing office with any trade licensing office in the Czech Republic.
- Where several trades are notifiable, a single administrative fee will be paid (formerly a fee for every trade licence).
- A single unqualified trade will be introduced – an entrepreneur will only notify the line of activities he/she will perform within the trade. There will no need for several trade licences to perform business activities in several activity lines.
- The attestation of blamelessness will be simplified and made more transparent – offences committed out of negligence will not be considered by the trades licence offices, only intentional offences for which an enterpriser was sentenced to imprisonment for a term exceeding one year and offences committed in connection with business activities will be considered.
- In case of vocational trades, practical experience in the line of business will not be required when education can be proved in the same line of business. This will be advantageous for young entrepreneurs, who will no longer have to appoint an agent in charge of the trade. Graduates will not have to be first employed, and only then engage in trades.
- Entrepreneurs will not be obliged to provide notifications on the data that will be available from other registers (Commercial Register).
- The new system of trades will be simpler and more transparent because the contents of individual trades will increase – an entrepreneur will be able to engage in several activities under a single trades licence.
- The number of trades will decrease (permitted trades from 29 to 21, notifiable from 56 to 32, vocational from 51 to 41, unqualified from 125 to 1, which will include 74 lines of business).
- Only the trades licence office will apply on behalf of an entrepreneur for a statement of criminal records. The changes notified and made by the commercial registration court will be automatically effected by the trades licence office, based on the decision of the commercial registration court communicated in an electronic form.
- In view of the fact that any controlling body will be able to consult the Trades Register (the entire register will be public), there will be no need for an entrepreneur to prove his/her right to engage in business activities by keeping the trade licence/permit on business premises.

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

In connection with the establishment of Central Registration Points and adoption of the Directive 2006/123/EC of the European Parliament and of the Council on Services in the Internal Market, a possibility was analysed in 2007, among others, to resolve the relationship of the records in the Commercial Register and the Trades Register in terms of the legislative and procedural rules. The need for registration in two registers represents, in particular with respect to the activities that do

not require additional qualifications (unqualified trades), an unjustified administrative burden. These analyses recommend extending the CRP services to include the entries in the Commercial Register and procurement of procedures and formalities beyond the Trades Act. The CRMs already perform a certain measure of information activities as defined in the Directive on Services. Efficient functioning of CRPs is at present facilitated by the interlinkage of the Trades Register with the Commercial Register and other registers (financial offices, the Czech Social Security Administration), criminal conviction records and with the civil registration data within the comprehensive eGovernment project. Trial testing is underway in cooperation among the Ministry of Industry and Trade, the Ministry of Finance and the Ministry of Labour and Social Affairs.

The amendment to the Trades Act now under preparation simplifies the relationship between the entries in the Commercial Register and the Trade Register. The persons registered in the Commercial Register do not have to notify the trades licensing office about changes; the office will effect changes on the basis of the electronic information received from the Commercial Register. This eliminates the duplicity obligation to notify the changes by entrepreneurs registered in the Commercial Register as well as in the Trades Register.

4.1.5 Strengthen the position of creditors in bankruptcy proceedings

In March 2006, the Insolvency Act was adopted with the aim to improve the overall situation in bankruptcy proceedings¹⁰. It is expected that the legislation will bring about a reduction in the duration of court proceedings on the debtor's bankruptcy as well as improve standing of the creditors. Creditors will hold the reins in the decision on the ways of resolution of the debtor's bankruptcy, and will also influence the appointment of the trustee by the court. Substantially will also be increased the chance to save the company, namely through its sale or reorganisation, in the case of which the debtor will continue to control further activities of the company. The act also regulates the institute of the discharge from debts, which is provided for debtors, who are not entrepreneurs, and enables the debtor to resolve his/her indebtedness through reaching an agreement with creditors outside the execution regime.

One of the pillars of the new insolvency law is the introduction of the insolvency register, which will be freely accessible on Internet. This will ensure maximum transparency of the course of the insolvency proceedings. The insolvency register will contain the list of trustees, the list of debtors and their insolvency files. The introduction of an electronic file will enable faster communication among the courts and, consequently, smoother proceedings. From the autumn of 2007, the register will be tested by all courts. Finalisation of the insolvency register was responsible for the deferment of the entry into force of the two above mentioned acts from 1 July 2007 to 1 January 2008.

The re-codification of the insolvency law includes also the act on insolvency trustees¹¹, which stipulates an entirely new organisation of the appointment and activities of insolvency trustees. These changes were mainly caused by the need to create a new system of insolvency trustees, which would accentuate their education, incorruptness and professional qualifications.

¹⁰ Act No. 182/2006 Coll., on Bankruptcy and Ways of its Resolution (The Insolvency Act).

¹¹ Act No. 312/2006 Coll., on Insolvency Trustees.

4.1.6 Ensure effective functioning of financial market

The integration of supervisory functions over the financial market by the Czech National Bank in April 2006 created a basis for further improvement in the context of the integrating European financial market. As a follow up, the recent period was characterised, above all within the Czech National Bank, by preparations for such changes of its organisation structure that should result, with the effect from 1 January 2008, into a transition from the current sectoral model to the functional one.

In the near future, legal arrangements of the procedures used by the Czech National Bank in the supervision or of its powers in the sphere of the financial market should also be unified. Factual purport of the law on financial market supervision now under preparation should be submitted for consideration by the government in the beginning of 2008.

In the past year, activities progressed in the area of protection of consumer interests with a view to the strengthening of their position in the financial market. Adopted in August 2007 was the General Policy of the Protection of Consumers in the Financial Market. Its conceptual framework reflects the developments on the European level, above all certain proposals contained in the Green Book.

The legislation of the past period brought about several important legal norms, especially for the financial market. First of all, it was the new regulation on capital adequacy¹², which transposes, effective as of 1 July 2007, Directive 2006/48/EC and 2006/49/EC on Capital Requirements, based on the Basel II Agreement. Another draft legislation, which is now nearing its completion, is the transposition of Directive 2004/39/ES (MiFID) on Markets in Financial Instruments, which will fundamentally change conditions for the functioning of the capital market as a whole. In addition, a new law on money laundering and an important amendment of the foreign exchange law have also been prepared.

The adoption of these legal regulations will substantially improve the transposition balance of the CR, which will then show nearly full compatibility with the legislative framework adopted at the European level within the so-called Financial Services Action Plan.

4.1.7 Modernise and increase effectiveness of the tax administration

With the aim to raise the standards of services rendered to the tax audience, new Internet pages of the Czech tax administration were launched in the beginning of February as a primary source of information in the taxation area. In connection with the extension of services rendered through the Internet pages of the Czech tax administration, the tax audience has also been offered an opportunity to receive taxation news by means of electronic mail or through using the „Really Simple Syndication“ (RSS) service, which makes it possible to pick the contents of Internet sources, and offer them in a well-arranged form to the user.

Another step aimed at improving the standards of the services rendered was in the mid of 2006 the launching of the „Tax Portal“, a tool of electronic communication between the tax administration and tax entities. The application forms part of the Internet pages of the Czech tax administration, and enables its users to obtain information on the account state and turnovers as

¹² Act No. 120/2007 Coll., on the amendment of certain laws in connection with the determination of capital requirements to banks, savings and credit cooperatives, security traders and electronic money institutions.

well as information on their tax information mailbox. Other services offered by the „Tax Portal“, which will be accessible in the course of 2007, include electronic delivery, personal tax calendar, consultation of tax records and personalised tax returns.

In the field of human resource management, uniform rules are at present being introduced for the evaluation of tax administration employees. In 2006, sections or positions of analysts/search specialists were created at all levels of tax administration, i.e. in the Ministry of Finance, financial directorates and financial offices. The aim was to strengthen the capacities and enhance the tax collection performance in cases of tax evasion and non-payment, and to increase the efficiency of the tax search.

In December 2006, the Government of the CR approved the scheme of merging the tax and customs administration bodies and merging the collection of taxes and statutory insurance, and decided to prepare the process of merging the collection of taxes, customs duties and statutory insurance and to assess the impact of such merger on its individual systems. In connection with this task, preparations are underway at present aimed at the integration of tax and customs administration bodies (a new law on the structure and competences of the uniform system is expected to enter into force as of 1 January 2010).

In the period under review, preparations continued for the extension of areas of general advance binding rulings. The Act on Public Budgets Stabilisation approved by the Parliament of the CR with the effect as of 1 January 2008 extends the advance binding rulings in the income tax area to the following: 1) distribution of expenses (costs) of natural persons, who use real property for both business and private purposes, 2) distribution of expenses (costs) mainly of legal persons that were not founded or established for business purposes with the aim of their proper allocation to taxable income and non-taxable income, 3) appraisal of interventions in the property, i.e. whether the expended costs are of the nature of technical betterment or of the nature of repairs, 4) assessment of research and development expenses (costs). Another area with respect to which a tax entity will have the right to demand a binding ruling from the tax administration concerns the application of the correct VAT rates in the provision of goods, services or lease.

4.2. RESEARCH AND DEVELOPMENT, INNOVATIONS

In the period of the second half of 2006 and the first half of 2007, research and development (R&D) tended to develop on the whole in accordance with the targets set out by the National Research and Development Policy for 2004–2008, National Innovation Policy (2005–2010) and the basic documents and recommendations of the European Commission (e.g. CR access to the Action Plan for Europe – Invest in Research, the Green Paper: the European Research Area – new perspectives, etc.). The system of public support for research and development is based on Act No. 130/2002 Coll. An amendment to this act is under preparation at present. The Research and Development Council (RDC) prepared the annual Analysis and Assessment of the existing state of research, development and innovation in the Czech Republic and a comparison with the situation abroad - 2006¹³, which was used for the preparation of operational R&D programmes, of the new National R&D Policy as well as of the National Research and Development Programme III, whose preparations commenced in the course of 2006.

¹³ Government Resolution No. 1353 of 30 November 2006.

Past experience shows that a mere increase of R&D expenditures and partial modifications failed to sufficiently encourage the flow of private R&D expenditures, co-operation between the R&D sphere and enterprises and, above all, effective application of R&D results in the practice. In connection with the gradual increase of overall R&D expenditures, stress is being laid upon their efficient use. In cooperation with other interested parties, the RDC therefore decided to formulate principles of the R&D system reform in the Czech Republic.

SUMMARY OF ADOPTED AND IMPLEMENTED MEASURES:

- **The Government of the CR approved the state budget expenditures for research and development in 2007 and in the mid-term perspective 2008 and 2009, with a view to reaching a 1.0% GDP share by 2010.**
- **Underway is the preparation of the principles of the reform of the R&D system in the CR, which will be reflected in the National R&D Policy in the CR as well as in the National R&D Programme III.**
- **Work proceeds on the update of the Methodology on Evaluation of R&D and their Results for 2007.**
- **A marked increase was observed in resources from structural funds for financing projects in the field of innovations, research and development.**
- **Implemented at the national level are projects aimed at young researchers, at supporting studies of technical and science specialisations and at supporting mobility of researchers.**
- **Underway is the project on *Enforcement of intellectual property rights*, whose aim is to increase the effectiveness of the cooperation among state administration bodies, and to strengthen legal conscience of government employees with respect to the tools of intellectual property protection. Introduced from 1 July 2006 was the system of electronic filings of patent applications**
- **Specialised programmes were implemented within OPIE (2004-2006) aimed at the creation and development of innovation infrastructure (scientific and scientific/technological parks, technology transfer centres, entrepreneurial incubators and business innovation centres) and at innovating SMEs.**
- **In the Operational Programme Enterprise and Innovations for the period of 2007-2013, there was an increase of financial resources from structural funds earmarked for the development of innovation infrastructure, support of innovating SMEs and for the development of Business Angels networks.**
- **With the aim of strengthening the research, development and pro-innovation potential of the CR, mainly through universities, research institutions and their cooperation with the private sector, Operational Programme Research and Development was prepared in the framework of the utilisation of financial resources from structural funds.**
- **Implemented was a specialised programme CLUSTERS (2004-2006), which aims at supporting the integration of business entities, research institutions and tertiary education institutions into clusters. Also prepared was the follow-up programme COOPERATION for 2007-2013.**

4.2.1 Increase year-on-year public expenditures on research and development by the 20% to 25%

As compared with the developed economies, R&D expenditures in the CR continue to be relatively low, and the rate of their growth slow. This is caused by the state budget difficulties, but also by the insufficient absorption capacity of their beneficiaries. The CR's objective is not only to increase public expenditures on R&D, but also to ensure efficient use of these funds. According to the governmental proposal on the public finance reform, however, R&D, education

and social expenditures are priority areas and, therefore, R&D expenditures should not be cut. The level of importance attributed by the government to R&D for economic development and competitiveness is witnessed by the fact that a post of the Government Representative for European research was established on 1 June 2006. And in January 2007, the Prime Minister of the CR became Chairman of the Research and Development Council.

In 2006, state budget expenditures on research and development for 2006 and mid-term perspective of 2008 and 2009 were set out. The Government of the CR thus approved a final draft of state budget expenditures¹⁴ amounting to nearly CZK 23.0 billion for 2008, 24.8 billion for 2009 and 26.8 billion for 2010.¹⁵

Table 1. State budget expenditures on R&D in 2005-2010

Year	2005	2006	2007	2008	2009	2010
State budget R&D expenditures (CZK thous.)	16 457 905	18 178 683	21 496 551	22 996 206	24 835 902	26 882 775
Share in GDP (%)	0.55	0.57	0.62	0.62	0.62	0.62
Assumed EU funds (from 2007)			3 570 379	11 721 125	13 722 348	16 689 233
Total assumed R&D expenditures from 2007 (CZK thous., CR + EU)			25 066 930	34 717 331	38 558 250	43 512 008
Total share in GDP (%)			0,73	0,93	0,96	1,00

Source: Research and Development Council

From 2007 onwards, the table includes also operational programmes expenditures (in the R&D field there are three mutually complementary programmes for the period of 2007-2013: OP Enterprise and Innovation, OP Research and Development for Innovation and OP Education for Competitiveness). R&D expenditures also comprise funds to cover co-participation of the CR in operational programme projects and EU funds. The amount for 2007 is relatively low due to the fact that operational programmes are at a stage of final discussion with the European Commission; starting from 2008, however, smooth commencement of these projects may be assumed. Thanks to the possibility to use EU funds for research and development (structural funds, EU framework programmes) the assumed financial support for R&D from public sources will represent 1 % of GDP in 2010.

¹⁴ Government Resolution No. 564 of 23 May 2007.

¹⁵ For detailed breakdown of funds into budget chapters and for explanation of the proposal, see web pages: <http://www.vyzkum.cz>.

Table 2. Year-on-year growth of state budget R&D expenditures

Period	2006/2005	2007/2006	2008/2007	2009/2008	2010/2009
Year-on-year growth, absolute (CZK billion)	1.7	3.3	1.5	1.8	2.0
Year-on-year growth (%)	10.46	18.25	6.98	8.00	8.00

Source: Research and Development Council

The increase of public expenditures on research and development will be primarily directed towards the participation of Czech researchers in EC framework programmes, operational programmes and long-term main research directions (LMDsR). These directions will thus concentrate both financial and human resources onto a limited number of those research directions that are essential for the economy and its competitiveness (in compliance with the National Research and Development Policy).

With the aim of improved control over the expended funds, a methodology was elaborated in the Czech Republic in 2004 under the title Methodology on Evaluation of R&D and their Results; the methodology aims at the principles of matter-of-fact and transparent evaluation of the achieved results. The methodology is being updated every year, and the preparation of the Methodology on Evaluation of R&D and their Results for 2007 is currently underway. The aim of annual updates of the Methodology is to create a basis for introducing changes in the allocation of R&D funds with a view to an integrated set of information on the efficiency of the use of state budget funds for research and development. The Czech Republic wishes to come as close as possible to international R&D evaluation methods performed, e.g. in the OECD or EU countries.

4.2.2 Change the structure of public R&D expenditures

The support of research and development from public funds can be divided into institutional financing (financing of specific research intentions, specific research at universities and selected activities involving international cooperation) and target-oriented funding (funding of research projects on the basis of public competition). The Czech Republic's aim is to accord preference to programmes involving financial co-participation of the private sector, and to bring the ratio between the two categories of R&D financing to 60:40, for the benefit of target-oriented funding. However, this is a long-term objective, which depends on a number of factors. First, the public support structure is significantly influenced by research intentions, which account for more than 80 % of institutional support. The work on research intentions commenced in 2005 (for a seven-year period). The second factor is represented by international cooperation, where institutional funds are used to cover the participation of the Czech Republic in various international research organisations. From 2007, institutional support newly includes funds earmarked for co-financing of projects of the EU framework programmes and structural funds, provided that such co-participation may be financed from public funds. The newly prepared law on research support from public funds should be able to better distinguish between these categories, and target-oriented funding should be markedly strengthened in the newly prepared National Research Programme III. Conducive to more efficient expenditure of research and development funds should also be an institutional transformation of the former state allowance organisations into

public research institutions (from 1 January 2007), as a result of which these institutions acquired a full legal personality status.

In 2005, the ratio of institutional/target-oriented funding was 56.9 % : 43.1 %, while in 2006 it amounted to 52.6 % : 47.4 %.

Table 3. Expected trends of institutional support in the period of 2007-2010

Year	2007	2008	2009	2010
SB R&D expenditures (CZK thous.)	21 500 293	22 996 206	24 835 902	26 822 775
Institutional R&D expenditures (CZK thous.)	10 815 587	10 886 023	10 948 871	10 698 979
Share of institutional expenditures in total state budget R&D expenditures	50 %	47 %	44 %	40 %

Source: Research and Development Council

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

While research and development expenditures from private sources display an increasing trend, they are long way from the Barcelona 2 % target.

Table 4. Private R&D expenditures

Year	2004	2005	2006
Private R&D expenditures (% of GDP)	0.67	0.77	0.89

Source: Research and Development Council

The amended Income Tax Act of 1 January 2005 allows reducing the tax base by a deductible amount representing 100 % of costs expended on the implementation of R&D projects (without state budget support). The first evaluation of this indirect support tool was published by the Ministry of Finance in June 2007.

In the income tax calculation for the taxation period of 2005, 434 taxpayers, i.e. 0.17 % of the total number of 259 490 entities that filed tax returns, claimed deduction of expenditures on research and development projects. The total claimed deductible amount represented CZK 3.31 billion, which amounts - at the 26 % tax rate - to the reduction of the tax liability by CZK 0.86 billion.

The relatively low interest in the above tax incentive can be explained by the fact that a number of projects commenced before 2005, and had been awarded grants from the State. The data for

2006 are not available yet, because the time-limit for filing corporate tax returns through tax advisors expires in the mid of the subsequent year.

Based on the more detailed evaluation of this indirect form of R&D support and of the stability of public budgets, consideration will be given to possible extension of tax concessions by research and development ordered by companies from universities or research organisations.

4.2.4 Provide human resources for R&D

One of the key factors of increased competitiveness of the Czech Republic and efficient use of the funds expended on R&D are workers in scientific and research institutions and universities. It is therefore necessary to create such conditions that would enable them to develop their careers and capabilities, to acquire additional experience and practical knowledge abroad, and to make subsequent use of the acquired knowledge and experience.

Although the Czech Republic has a number of top quality researchers and scientific teams, especially in the field of medicine, biochemistry, material sciences, mechanical engineering and nanoscience, it lags behind the average EU indicators – for example because of the higher age structure of researchers (many are in the category of 50-60 years of age), lower share of university graduates of technological and science specialisations, lower share of population with university education. However, the number of university graduates in the CR tends to rapidly increase. Between 2000 and 2004, the number of university graduates rose by 41.6 %, a fact which ranks the CR among the countries experiencing the fastest growth of university graduates. The number of Czech researchers tends to increase, too. The number of researchers relative to 1000 labour force represented in 2004 the ratio of 3.2; it rose to as much as 4.7 in 2005.

A number of discussions among professional audiences was organised on the recommendation of the European Commission of 11 March 2005 on the European Charter for Researchers and the Code of Conduct for the Recruitment of Researchers (hereinafter referred to as the Charter and the Code), which resulted into the accession of the CR to the Charter as well as to the Code.¹⁶ The principles contained in the two documents will be taken into account in the preparation of the new National Research and Development Policy.

The measures aimed at the reduction of obstacles to mobility were included in the 6th Framework Programme entitled ERAMORE – the panEuropean Network of Mobility Centres. These centres provide researchers with information on vacancies and administrative procedures required for employment and residence in individual EU countries. The Czech Mobility Centre was established at the Academy of Sciences of the Czech Republic and commenced its activities on 1 January 2005. The Centre renders assistance and specialised information to foreign researchers interested in employment in the Czech Republic as well as to Czech researchers interested in employment abroad.

At present, the transposition of the Council Directive 2005/71/EC on special procedures for recruitment of foreign nationals from third countries for the purposes of scientific research is being finalised. The Directive reduces the barriers to employment of researchers from third countries. Its entry into force was set as of 12 October 2007 at the latest. The Directive became incorporated in the proposed amendment of the law on the stay of foreigners in the territory of the CR.¹⁷ According to the draft law, a public research institution may employ a researcher from a

¹⁶ Government Decision No. 951 of 16 August 2006.

¹⁷ Act No. 326/1999 Coll.

third country for a term exceeding three months for participation in a research project provided, however, that he/she meets the conditions set out by the law. The draft law was approved by the government, and was submitted for adoption by the Parliament of the Czech Republic.

Financial resources from structural funds represent an extremely important factor in supporting human resources in research and development and in the development of their professional and specialised knowledge. Implementation is underway at present of the Operational Programme Human Resource Development, one of whose components focuses on supporting tertiary education, research and development. Besides the three sub-programmes that aim above all at the improvement and development of university education (Upgrading university education, Development of teacher study programmes, Development of continuing education at universities), other components focus on the Development of Human Resources in the field of research and development. The aim is to implement programmes of continuing education of R&D workers, upgrade their knowledge in the field of substantive and financial management, innovation enterprises, and dissemination of R&D achievements in the practice, technology transfer and protection of intellectual property rights. Of the total allocation of CZK 517.5 million for the above grant scheme „Promotion of Tertiary Education, Research and Development“, more than 20% of the funds has been already drawn, and from the total of 400 submitted projects, nearly 200 project have already been approved.

Highly successful in the programming period of 2004 - 2006 was the implementation of the measure entitled „Cooperation of research and development institutions with the business sphere, support of innovations“ within the Uniform Programme Document for Objective 3 of the Capital City of Prague. Sponsors proposed 52 projects of the total value of CZK 704 million, and 38 projects worth CZK 424.7 million were selected for financing. Similar priority topic has been proposed for the subsequent programme period, namely the development of human potential in research and innovation in the territory of the Capital City of Prague. The said topic forms part of the priority axis „Support for the development of the knowledge economy“ with a total allocation of EUR 48.7 million within the new Operational Programme Prague Adaptability.

Other important programmes in the area of research and support of innovation in the subsequent programme period for 2007 – 2013 will include the Operational Programme Education for Competitiveness and Operational Programme Research and Development for Innovation.

Allocated for the Operational Programme Education for Competitiveness has been 6.8 % of total EU funds for the Czech Republic, and the total allocation including public budget funds amounts to EUR 2.15 billion; the programme supports education of all forms with special stress upon life-long learning and the formation of appropriate environment for research, development and innovation activities, stimulating at the same time cooperation among all participating partners. The programme should promote creativity and adaptability of university graduates, and improve conditions for research and development activities. The R&D support should focus on two priority areas, namely Modernisation of Tertiary Education with total allocation of EUR 0.74 billion, which represents 34.3 % of total funds earmarked for this operational programme, and Development of Continuing Education with total allocation of EUR 0.34 billion and the share of 15.8 %.

The Operational programme Research and Development for Innovations, which is the fourth largest Czech programme with total allocation of EUR 2.43 billion (including public budget funds) is expected to contribute to the creation of stimulating environment for R&D and

innovations, facilitate the transfer of R&D results into the practice and strengthen the research, development and pro-innovation potential of the CR.

The number of accepted university applicants in technical and science disciplines tends to increase in absolute terms, but their share in the total number of accepted applicants declined. With the aim of increasing the interest in study of technical and science disciplines, a pilot development programme was announced in 2006, and was received with wide interest of gifted youth; the programme continues in 2007 as well (for more details, see part 5.3. Education).

A number of activities on national level is focused on young researchers and on the support of mobility. These are, among others, the cross-sectional programme „Human Resources“ within the National Research Programme II (Sabbatical, Clutch and Rudolf II Stipend programmes). An important contribution in supporting young researchers is made by the Academy of Sciences of the Czech Republic, which announces junior research grant projects for talented young scholars and junior start-up projects. Supported since 2003 have been 223 junior research grant projects involving a total financial support of CZK 283.7 million.¹⁸

The Academy of Sciences of the Czech Republic provides for the construction of hostels and apartments for researchers. Aiming at upgrading the qualifications of beginning scientists, the Academy of Sciences of the Czech Republic organises training courses on the basics of scientific work. Highly talented young scientists may be awarded Otta Wichterle's Award - the Academy of Sciences of the Czech Republic annually awards 20-25 excellent young scientists below 35 years of age. The Grant Agency of the CR supports young researchers in the form of doctorate and post-doctorate grant projects.

4.2.5 Intensify the use of intellectual property protection tools by scientific and research institutions and enterprises

In 2006, 3 317 patents were granted with the effect for the CR, of which 264 to domestic applicants. Among foreign applications filed in the national way, most came from the USA, Germany, Japan and Slovakia. Nearly 2 000 patents of the total number were granted via the European Patent Convention and validated for the CR. It is worth noting that, in the year under review, the number of European patents validated in the CR for the first time exceeded that of the patents granted in the national way. By the end of 2006, more than 13 100 patents were in force in the CR. The activity of Czech applicants registered a certain increase in 2006. 641 patent applications were filed, mainly in the field of transport, measurements, optics and photography and engines and pumps. This represents the best results in the past ten years, yet a more fundamental progress that would confirm scientific and technological forwardness of the Czech society still remains to be achieved. The number of European patent applications designating the Czech Republic bears witness to the interest of advanced technology owners to carry on business activities in our country.

Apart from patents, 1 021 utility models were registered in 2006 (of which 1 000 applications were filed by domestic applicants) and 576 registrations of industrial designs were made (of which 387 were national applications).

Besides the relatively low number of R&D outputs, reasons for a low number of patent applications in the CR as compared with international standards include also insufficient awareness of the need for proper use of the possibilities of patent protection and the persisting

¹⁸ As of 1 May 2007.

impression about the technical and financial complexity of the patent proceedings. In addition, especially for the small and medium-sized enterprises, an important role is being played by higher financial and HR expenditures related with patents and long-term return rates of such investments.

One of the many directions contributing to the fulfilment of the task to increase the intensity of the use of intellectual property rights is to enhance the awareness of the importance of the protection of technological creative activities, which is being actively promoted by the Industrial Property Office of the CR (IPO). In 2006, its activities focused on professional unions and university students. Specialised seminars were organised on issues of industrial property protection and exchange of information in the area of intellectual property took place in cooperation with the Association for Innovation Enterprise, Czech Union of Inventors and Innovators, Research Institute for Aviation and the European Patent Academy. With the aim of increasing general awareness about the importance of intellectual property and on the need to make full use of this system, lectures and seminars were also organised by selected universities.

With the aim of increasing the intensity of the use of tools of protection of intellectual property rights, a new system of electronic filings of patent and other applications was launched on 1 July 2006. In order to acquaint the professional public with the new system, the Industrial Property Office has been organising training courses on electronic filings using attested electronic signature, and free of charge training courses on searching.

An important activity is represented by the implementation of the project entitled Enforcement of Intellectual Property Rights, aimed at a more efficient cooperation among the state administration bodies, which are according to the Czech legal system responsible for enforcement of rights and at the fostering of legal awareness of the relevant employees. The project's output includes training for some 1000 employees of such institutions starting in September 2007, preparation of the methodology on the enforcement of intellectual property rights, of the guidelines on cooperation among the bodies responsible for enforcement of intellectual property rights and preparation of audiovisual and printed training materials.

The efforts aimed at increasing the intensity of IP protection of results of technological creative activities are felt in the legislative area, too. In the connection with transposition of the relevant Directive of the European Parliament and the Council, a law¹⁹ was adopted in 2006, which contributes to the more efficient protection of the rights of patent and other industrial property owners. The law reduces the evidentiary burden of the entitled person in claiming damages, appropriate compensation and rendition of unjust enrichment. The support for the protection of intellectual property rights belongs among the priorities of the area of innovations, which form part of the Operational Programme Enterprise and Innovations for the programming period of 2007 - 2013. It is elaborated in more detail in the INNOVATIONS Programme. In the current programming period, the INNOVATIONS Programme aims at supporting technological and non-technological innovations, i.e. product, process, organisation and marketing innovations. In addition, its activities have newly been extended to include stimulation of patenting activities of small and medium-sized enterprises. The assumed financial allocation to the INNOVATIONS Programme represents CZK 14.1 billion for the entire programming period. Of this total, CZK 356 million should be earmarked to the above mentioned increase of the intensity in the use of the tools of intellectual property protection and to the overall improvement of the situation in this

¹⁹ Act No. 221/2006 Coll., on the Enforcement of Industrial Property Rights.

area. The Programme will partly cover the expenditures related with obtaining patents for inventions, registration of utility models and industrial designs and co-finance the expenditures related with the filing of patent applications and patent proceedings before the Industrial Property Office (in the case of national patents) and the European Patent Office (in the case of European patents).

The INNOVATIONS Programme was in existence in the programming period 2004-2006, too, and is being considered one of the most successful programmes, where the demand markedly exceeded the offer. Supported by the INNOVATIONS Programme were mainly product and process innovations, to a lesser degree also non-technological innovations. So far, no support has been accorded to the protection of intellectual property.

As of the beginning of August 2007, throughout the entire programming period of the INNOVATIONS programme, 331 projects were submitted and their sponsors included not only companies, but also universities and scientific and research institutions. 229 submitted projects were rejected and 102 projects were awarded support of the overall amount of CZK 1.49 billion. The greatest number of projects was implemented in the South Moravia Region.

Within the INNOVATIONS Programme, project support decisions were issued in 2006 to 69 applications in the overall amount of CZK 1.01 billion.

4.2.6 Develop innovation infrastructure

Up to the end of 2006, the development of the innovation infrastructure was supported from the Operational Programme Industry and Enterprise 2004-2006 (OPIE) through the PROSPERITY Programme. The Programme focused mainly on the foundation and operation of enterprise incubators, scientific and technological parks and technology transfer centres, thus facilitating the development of innovation environment in individual regions. In 2006, support was accorded to 21 projects of an overall amount of CZK 994 million. Only three projects received the decision on project support of an overall amount of CZK 391 million in the course of 2007. The greatest number of projects was submitted in the South Moravia Region. The most significant projects in terms of the amount of awarded support, however, were implemented in the Pardubice Region. These were two projects of TechnoPark Pardubice k. s., supported by nearly CZK 150 million each.

By the beginning of August 2007, 70 projects were submitted throughout the entire programming period of the PROSPERITY Programme, not only by companies but also by universities and scientific and research institutions. There were 32 projects awarded support of the overall amount of CZK 1.74 billion.

In the period 2007-2013, the Operational Programme Enterprise and Innovations will also include a successor of the programme entitled PROSPERITY II. Total financial allocation to this programme amounts to some CZK 12.0 billion. The Programme focuses again on supporting scientific or scientific and technological parks, technology transfer centres, enterprise incubators and enterprise innovation centres. Due to the fact that an important part of the innovation infrastructure is represented also by the providers of funds for innovation projects, the support should also apply to the development of Business Angels networks and their activities. The Programme is under the notification within the European Commission.

Designed for supporting the innovation infrastructure of enterprises, the POTENTIAL Programme aims at supporting the introduction and development of capacities of the companies

to implement the research, development and innovation activities and to increase the number of companies that carry out own research, development and innovation activities. The Programme supports the intensification of cooperation between companies and R&D institutions as well. It also supports the activities leading to highly-qualified employment and helps to improve of the conditions for the participation of companies in national as well as European R&D programmes. The total financial allocation to the Programme amounts to approximately CZK 8.5 billion for the entire programming period.

CLUSTERS PROGRAMME was implemented within the Operational Programme Industry and Enterprise within the period 2004-2006. This programme supported from public funds the integration of enterprises, research institutions and tertiary education institutions into clusters, simplifying establishment of such groupings. The Programme granted financial support for matching suitable firms for clusters, cluster foundation and development on regional and inter-regional levels. The Programme aimed at supporting mutual cooperation among the cluster members in joint projects in the field of research and development, purchase and sale, joint advertising activities, market and competitors research and at the intensification of cooperation with research institutions and tertiary education institutions, with the aim to increase competitiveness, innovation and economic growth of the cluster members.

The phase of the Search for Suitable Cluster Entities was concluded in 2006 by successful cluster foundation and by filing the applications for support at the phase of Cluster Foundation and Development. Thus, the envisaged objective of the Programme was achieved – cooperation groupings were founded and it became possible to group within these clusters. Mostly private manufacturing firms created the cluster's core; further members were specialised educational institutions and research capacities, also outside the university system.

As compared with the preceding year, the year of 2006 registered an important increase of applicants for support under this Programme. Altogether 41 applications were filed in for the phase of the search of suitable firms for clusters, requesting an overall support of CZK 3.03 million. 29 projects were recommended to be supported, amounting altogether to CZK 22.60 million. Thus, in the course of the entire implementation of the Cluster Programme, the Support Awarding Decisions were issued with respect to 42 projects comprising the overall support of CZK 32.58 million.

In 2006, increased interest of applicants for support was also registered in the phase of the foundation and development of the CLUSTERS PROGRAMME. Altogether 18 applications were submitted for the phase of cluster foundation and development, and the requests for support amounted to CZK 530.4 million. The evaluation commissions recommended for support 14 projects, and 10 Support Decisions were issued amounting to the overall support of CZK 175.3 million. In the course of the programme implementation, 14 Support Awarding Decisions were issued amounting to CZK 246 908 thousand.

The projects came from diverse sectors, e.g. engineering industries, woodworking industries, clothing industries, breweries, pharmaceuticals, packaging materials, nanotechnologies, etc.

Within the new programming period for 2007-2013, the COOPERATION programme is aimed at supporting the foundation and development of the cooperation within sector groupings – clusters, poles of excellence, technological platforms and cooperation projects on regional, interregional and international levels. Total allocation, including the funds from public budgets, amounts to EUR 1.37 billion. This represents the highest share of funds (38.4 %) within the Operational

Programme Enterprise and Innovations. The Programme aims at continuation of the creation of favourable business environment, improvement of the conditions for enterprises and innovation and at the use and development of the competitive advantages arising from the links among research sphere, universities and the business sphere.

In the creation of the innovation infrastructure, regions or organisations established by regions, are often involved (e.g. the South Moravia Region). Some of the regions have already prepared their regional innovation strategies (e.g. the Zlín Region).

The most important projects of this programme include the cluster projects of the packaging manufacturers and textile industries – OMNIPACK and CLUTEX.

The OMNIPACK cluster associates 26 companies engaged in the packaging industry and related areas. The cluster focuses on the development and manufacture of packaging and combined packages (i.e. packages comprising various types of materials – plastics, paper, wood, and metals). The cluster's objective is to create a strong community of cooperating, but also competing firms, in the area of packaging industries, packaging technology, servicing organisations, research and educational institutions. The cluster aims at supporting and coordinating the cooperation among these entities and thus at increasing the competitiveness and the number of implemented innovations. The cluster's vision is to become, within five years, a top-level centre for the development of the combined packaging and transport industry in the CR under the trademark of OMNIPACK. The project was presented at the conference „New Horizons in Graz – Shaping Best Practice“ held on 15-17 November 2006, as one of the exemplary structural funds project selected from among all EU member countries. The total grant represented CZK 44.9 million. Under one of its joint projects (also supported by public budget and structural funds), the cluster equipped a development and testing centre, which specialises in the development of unique technologies and qualitatively new types of packaging with the total investment amounting to CZK 22 million.

The 18-member CLUTEX cluster endeavours to increase the reputation of its member firms and thus of the Czech textile industries through the transition to products of higher use and added values. The cluster's aim is to engage its members in the manufacturing of special types of technical textiles (depending on the potential of its companies) and depending on the output of the resolved scientific and technological tasks by Technical University in Liberec and other research institutions. The cluster was supported by CZK 23.91 million, and honoured in 2006 as the „Cluster of the Year“.

4.2.7 Increase availability of funds to innovative firms

According to the analysis performed by the European Investment Fund (EIF) of January 2007, the Czech Republic is characterised by a low ratio of rendered micro financing for tradesmen and start-up firms, low ratio of credits and guarantees for SME's to GDP, insufficient venture capital activity (compared to GDP and other Central European countries), insufficient degree of transfer of knowledge and by the existence of only two networks of the so-called Business Angels.

The financing of firms in the form of private venture capital registered an impressive growth in the Czech Republic – it amounted to EUR 109 million in 2005 (i.e. 0.112 % of GDP) as compared with EUR 16.1 million (i.e. 0.019 % of GDP) in 2004. However, in terms of the structure of investments, the largest part of funds was invested in the late phases of the firms' life.

Investment in buy-outs was a total of EUR 66.59 million and in capital restoration EUR 31.33 million. A mere EUR 10.62 million was invested in companies during their expansion phase, EUR 0.41 million in their start-up phase, and not a single one investment scheme was undertaken during the seed phase. At the same time, it is well-known that most needed are investments in the firms' initial phases. In addition the exit from funds increased in 2005, by EUR 60.7 million as compared with EUR 8.4 million.

Although statistics for 2006 are not available yet, it is well-known that the last year was relatively successful in terms of venture capital investments as compared with the preceding years, despite the fact that venture capital investments do not enjoy any tax concessions, and such funds as the pension funds may not invest in this type of funds. Nevertheless with a view to the potential demand, even the above mentioned size of investments is insufficient.

Also within the Operational Programme Enterprise and Innovation, improvement of access to financial resources to the innovating firms, namely in the form of guarantees and soft credits for start-up firms under the programmes GUARANTEE and START is supported. The START programme supports the enterprise start-up through interest-free credits or soft guarantees with a financial contribution to the secured credit. The GUARANTEE programme is designed for already existing SME's. The aim is to support the implementation of SME investment projects through soft credit guarantees. The guarantees and credits will be extended through the Czech-Moravian Guarantee and Development Bank. Under consideration is the use of the initiative of the European Investment Bank entitled JEREMIE, which should contribute to an improved access by innovating firms to the venture capital. While the above mentioned programmes are not in principle designed only for the innovating SME's, the start-up innovating firms may make use of them.

The South Moravia Innovation Centre Brno (JIC) has rendered since 2004 micro financing for SME's in the form of micro loans. A micro loan is a special-purpose medium-term credit in the amount of CZK 250 – 750 thousand at the interest rate of 3 % p. a., extended from the JIC Microloan Fund to enterprises (natural and legal persons) located in the VUT Technological Incubator for co-financing of their innovation projects. The credit's maturity is as a rule 3 years, with an option of a grace period of up to 12 months or premature repayment without any incidental fees. Micro loans serve mainly for financing of the early stages of the firms' development, which is a period characterised by the most difficult access to funds.

From the start of the Microloans Fund in 2004 up to July 2007, the South Moravia Innovation Centre extended altogether 8 loans in the overall amount of CZK 5.3 million. The JIC Microloan Fund is funded by subsidies from the South Moravia Region and the Statutory City of Brno. At present, the JIC Microloans Fund has some CZK 5.8 million of disposable finance.

One of the examples, where a micro loan evidently helped develop an innovation project is that of Y soft, s. r. o. At the time of the extension of the micro loan in November 2004, the firm's annual turnover amounted to CZK 2.8 million (2003), and the firm employed eight workers. The firm needed the micro loan for financing the completion of the development phase and start-up of the manufacture of an innovated software product SmartQ for administration, accounting and printing and reproduction tasks. Thanks to, among other sources, the micro loan, Y soft, s. r. o. achieved its goals, and at the end of the fiscal year 2006/2007 it has 60 employees and its turnover for the preceding year amounted to CZK 60

million. The firm also expanded into 11 foreign countries through partnership representation and established a foreign subsidiary. The firm's owner and director, Mr. Václav Muchna, was honoured as the „Start-up Entrepreneur of the Year“, for 2006, a title awarded by Ernst & Young.

The support from structural funds for firms in the early stages of their life, with the aim of the creation and development of the Business Angels networks, is prepared also under the PROSPERITY programme. The support should represent an immediate follow-up of the activities supported by the JEREMIE initiative.

The Czech Republic also participates in the communitarian programme Competitiveness and Innovations (CIP), which comprises two tools of innovation financing, namely the mechanism for the innovating small and medium-sized enterprises and the small and medium-sized enterprises characterised by high growth rates (GIF) and the guarantee mechanism for the small and medium-sized enterprises (SMEG). The two tools will be operated by the European Investment Fund. The start-up of their implementation in the CR is expected at the turn of 2007 and 2008. In the member countries, information on the programme, announcement invitations, assistance in the knowledge and technology transfer and in the cooperation with foreign partners, etc. will be provided by the members of the so-called network for rendering supporting services. Various consortia interested in support for rendering such services are being established at present at the level of EU regions. Consortium comprising European Information Centres (EIC), Innovation Contact Centres (IRC), and the Technological Centre of the Academy of Sciences and of the Economic Chamber will be established in the Czech Republic. The projects are passing at present through the evaluation phase, whose outcome should be made known this autumn, and the network is expected to be operational in January 2008. In 2007, in the meantime, information on the CIP programme is rendered by the European Information Centres, which have also been entrusted with rendering information on the preceding communitarian Multi-Annual Programme for Industry and Enterprise (MAP).

4.3. SUSTAINABLE UTILISATION OF RESOURCES

SUMMARY OF ADOPTED AND IMPLEMENTED MEASURES:

- **Preparation of the Programme of Sustainable Utilisation and Productivity of Resources continued; the Programme focuses on dematerialization of processes and increased productivity of resources as well as on reduced impact of production and consumption processes on the environment.**
- **The IPPC (Integrated Pollution Prevention and Control) process (prevention and control of pollution caused by industrial activities) was implemented; realisation of voluntary instruments aimed at implementation of the best available technologies was supported as part of the process.**
- **Within the framework of the Operational Programme Entrepreneurial Activities and Innovation (OPPI) 2007 - 2013 programmes were prepared in support of increased efficiency in utilisation of energy in the industry and utilisation of renewable or secondary energy sources.**

- Realisation of the State Programme in Support of Energy Savings and Renewable Energy Sources Utilisation and of national R&D programmes IMPULS and TANDEM is in progress. A programme entitled "PERMANENT PROSPERITY" has been launched, dealing *inter alia* with problems of renewable and alternative energy sources and energy savings, and so has a new programme CERTIFICATION aimed at launching a system of environmental management.
- Stage one of an environmental tax reform was completed. Acts dealing with taxing electrical power, natural gas and solid fuels have been submitted to the Parliament of the Czech Republic; 1 January 2008 is expected to be the effective date.

4.3.1 Maximise energy and material effectiveness and rational use of resources

Material efficiency

The reported local material consumption decreased somewhat in 2005 to 188.1 million tonnes, compared with 192.1 million tonnes in 2004 (after data verification according to the Czech Statistical Office). The 2005/2004 index of local material consumption thus is 0.98. Efficiency of material consumption remains below the average value for EU-25 (data for 2006 will be available at the end of September 2007).

A Situation Report to the Strategy of Sustainable Development, which covers energy and material efficiency and rational utilisation of resources, was approved on 23 October 2006 by the Committee for Strategy of the Government Council for Sustainable Development. Work continued on preparation of an updated Strategy of Sustainable Development of the CR, to be submitted by the Government Council for Sustainable Development by the end of 2007. Material efficiency represents the fundamental topic dealt with in Chapter 2.6, entitled Sustainable Consumption and Production.

The problem of secondary raw materials is a highly sensitive and as yet neglected area in the Czech Republic. No definition of secondary raw materials can be found in European or Czech legislation. Such definition must be established and a related efficient system of material and financial flows set up. The ensuing simplification of administration will be a bonus (since the complicated process whereby it is decided when a waste ceases to be waste and becomes a product will disappear), together with increased transparency of statistical data and the ensuing financial savings. To this end two working groups have been established to deal with these problems: a Working Group for By-products and Waste from Energy Generation Facilities and a Working Group for a Comprehensive System of Secondary Raw Materials Utilisation. The working groups consist of representatives of the affected sectors, industry associations, universities, research institutions, businesses, etc.

Work also continues on the Programme of Sustainable Utilisation and Productivity of Resources, which focuses on dematerialisation of processes and increased productivity of resources as well as on reduced impact of production and consumption on the environment. In preparation of the Programme output from the two aforementioned working groups dealing with secondary raw materials will be made use of since the ability of a society to make wasteless use of all products in their subsequent life cycles is prerequisite for sustainable utilisation of resources. The

Programme of Sustainable Utilisation and Productivity of Resources are expected to be completed in Q1 2008, owing to the necessary connection with work on the updated Strategy of Sustainable Development of the Czech Republic. The Programme will be realised in the period 2008 - 2013.

Sustainable productivity of sources can be achieved by implementation of progressive (e.g., wasteless) processes and technologies exhibiting reduced energy demand. The problems are dealt with as a part of the IPPC process aimed at integrated prevention and restriction of contamination due to industrial activities. The IPPC project supports application of voluntary instruments in implementation of BAT (best available technology) and BEP (best environmental practice) procedures. The periodically updated web pages <http://www.ippc.cz> serve the general entrepreneurial public primarily as a source of information about the best available technologies, create working space for members of technical working groups - experts from individual industrial sectors, and act as a discussion forum for experts and lay public alike.

Support extended to research and development of low-waste and wasteless technologies, new materials (e.g., by utilisation of secondary raw materials) and other related areas is realised through R&D programmes TANDEM and IMPULS.

Support continues to be extended to voluntarily implemented management systems through the programme CERTIFIKACE that targets small and medium-sized businesses. The support comprises certification of a system of environmental management in conformity with ISO 14001 and the system of quality management according to ISO 9001, or implementation of the system of entrepreneurial management according to the requirements imposed in the programme EMAS (Eco-Management and Audit Scheme). As of 31 January 2006 2,122 Czech companies received certification according to ISO 14001. The year 2006 experienced a substantial increase in the number of companies that implemented and certified the EMAS system - from 14 to 26. The above managerial systems offer entrepreneurs energy and material savings, thus eliminating adverse effects of manufacturing activity on the environment. The ensuing beneficial economic effects include reduced expenditures on input raw materials and energy, cost of waste disposal, water and air pollution charges, etc.

Energy efficiency

As a part of the State Programme in Support of Energy Savings and Renewable Energy Sources Utilisation 208 projects were supported in 2006 by funds totalling CZK 85.3 million. Realisation of the supported projects results in savings of energy equal to 187,474 GJ a year. A State Programme in Support of Energy Savings and Renewable Energy Sources Utilisation (Programme EFEKT) established for 2007 offers support to savings of energy and to utilisation of renewable energy sources in the Czech Republic and focuses on education, energy planning, minor investment projects and pilot projects. It serves as a supplement to energy programmes supported from EU funds.

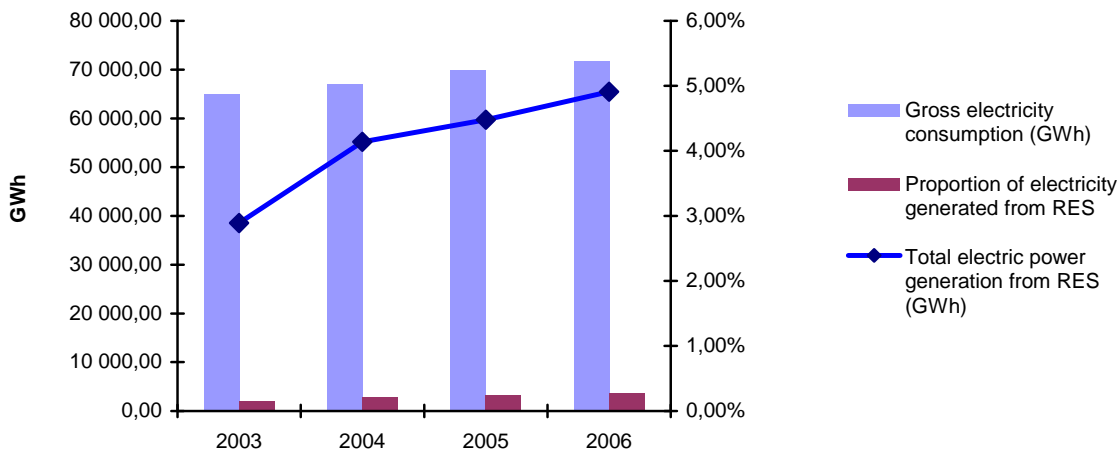
In 2006 gross electric power generation from renewable sources participated in domestic gross electric power generation by 4.9 %. The proportion of renewable energy sources in primary energy sources amounted to 4.3 %.

Table 5 Gross electric power generation from renewable sources (data in MWh)

Year	2003	2004	2005	2006
Hydroelectric power plants	1 383 467	2 019 400	2 379 910	2 550 700
Total biomass	372 972	564 546	560 252	731 066
Total biogas	107 856	138 793	160 857	175 837
Wind farms	9 588	10 031	10 612	11 264
Solid municipal waste (BRO)	3 900	9 871	21 442	49 400
Photovoltaics	b.d.	cca 300	390	540
Total	1 877 783	2 742 941	3 133 463	3 518 830

Source: Ministry of Industry and Trade

Graph 16. Electric power generation from renewable energy sources



Source: Ministry of Industry and Trade

The highest potential of all renewable energy sources in the Czech Republic was determined at 190 PJ, where the need of primary energy sources in the Czech Republic has been estimated at 1,900 PJ. Assuming that the consumption of primary energy sources will remain the same and the attainable potential of RS will be made use of by 2020, the proportion of renewable energy sources in primary energy consumption in 2020 will reach 10 %. This is however a highly theoretical assumption, attainable only in case of dramatic savings in the consumption of primary energy sources. In practice one should expect a rise in the primary energy consumption and, accordingly, the proportion of RS with the above potential will be most probably smaller.

The amendment to the Energy Management Act effective as of 1 July 2006 has significantly contributed to maximisation of energy efficiency. Mandatory periodic inspections of boilers and air-conditioning equipment, aimed at their efficiency, the obligation to prepare buildings' energy

efficiency certificates and to consider alternative methods of heating of large buildings have been newly implemented. The requirements imposed on energy audits and energy auditors have been detailed on the basis of practical experience previously gained and is expected to raise the quality of energy audits.

Funds from the state budget, earmarked for the broadly conceived R&D programmes IMPULS and TANDEM, are primarily used in support of research and development in the energy sector. They also deal with issues of nuclear power generation, safety aspects of progressive nuclear reactors, their long-term service life, increased efficiency of nuclear plant operation as well as problems related to storage of used nuclear fuel and highly radioactive waste including progressive methods of their processing. The above programmes also deal with issues of hydrogen generation and its use in transport. The research programme "PERMANENT PROSPERITY" has been launched in 2007; the programme *inter alia* focuses on problems related to renewable and alternative energy sources and to energy savings. The submitted projects are at present being assessed.

Three programmes related to industrial research and development have been launched in 2006: TANDEM, IMPULS and PERMANENT PROSPERITY. All support the research of new materials, new industrial products, manufacturing technologies, information and management products and technologies, and services. Programmes devoted to industrial research and development sponsored by the Ministry of Industry and Trade, targeting subjects regardless of their size, supported 377 projects submitted by small and medium-sized enterprises by funds totalling CZK 1.13 billion.

The operational programme Industry and Business launched for the period 2004 - 2006 continues to support reductions of energy intensity in generation, distribution and use of energy as well as build-up or reconstruction of facilities that utilise renewable energy sources. The support is co-financed from the EU structural funds and is earmarked for small and medium-sized enterprises. The Operational Programme OPPI for the period 2007 - 2013 represents a continuation of the OP Industry and Business. By means of its priority axis 3, "Efficient Energy", with total allocated amount of 143.12 million € including funds from public budgets and its specific objective, the programme will support increased efficiency of energy use in the industry and utilisation of renewable, alternatively secondary energy sources. Subsidies will be released from OPPI in the form of soft loans and guarantees.

4.3.2 Promote environmental technologies

Programme of support of for environmental technologies in the Czech Republic was approved on 22 February 2006; its objective is to co-ordinate support of environmental technologies in a manner ensuring that it takes effect in concrete measures reflected in individual sectoral policies and programmes, and also to adopt appropriate steps in implementation of ETAP. The programme focuses on maximum utilisation of the potential offered by extension and utilisation of environmental technologies, reduced environmental burden, improved quality of live of the population, and support of economic growth. The programme determines a number of measures like, e.g., to focus the on environmental technologies; to propose measures to enhance the use of environmentally friendly public contracts; to adopt measures to increase utilisation of energy contracting in the Czech Republic within the framework of the State Programme in Support of Energy Savings and Use of Renewable Sources for Energy; to propose a system of energy benchmarking for energy demanding products and technologies or to propose indicators for

assessing the support extended to environmental technologies. The programme will be evaluated annually and updated as required. The Czech Government will be informed about fulfilment of the programme biannually.

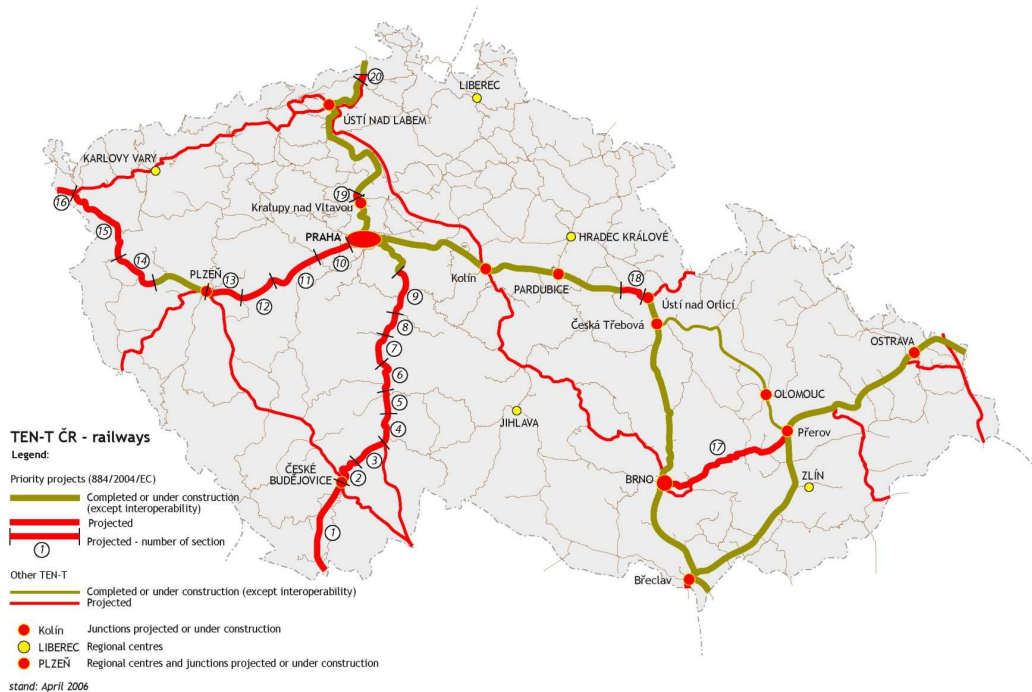
Projects in support of environmental technologies are financed within the framework of several titles of subsidies as, e.g., the Operational Programme Industry and Business and Operational Programme Infrastructure; within the 2007 - 2013 Research Programme of Ministry of the Environment (research areas: environmental technologies, rational utilisation of energy and renewable energy sources); and from the state budget and other public and private sources.

4.3.3 Implement fiscally-neutral environmental tax reform

As part of the environmental tax reform excise duties will be levied on solid fuels, natural gas and electric power; the increased tax burden will be however compensated by reduced tax burden levied on labour. At present the Czech Republic levies excise tax on petrol, medium oil, heavy gas oil, heavy fuel oil, liquefied oil gases and hydrocarbon gases. Directive 2003/96/EC however directs that excise tax be levied also on electricity, solid fuels and natural gas. The Directive lists the minimum rates of tax levied on individual types of solid fuels, natural gas and electricity and specifies the mandatory and facultative exemptions. The Czech Republic has negotiated a transitory period until 31 December 2007 for implementation of Directive 2003/96/EC. The Parliament has approved the relevant government bills dealing with taxes levied on electricity, natural gas and solid fuels with effective date of 1 January 2008. This in essence represents the end of stage one of the environmental tax reform.

4.4. MODERNISATION AND DEVELOPMENT OF TRANSPORT AND ICT NETWORKS

The Czech Republic considers transport as an important tool for enhanced competitiveness, in particular with regard to increasing mobility of the workforce and lowering regional disparities inter alia in unemployment. Transport infrastructure plays an important role in the improvement of business environment and constitutes an indispensable element of support to tourism. In conformity with the approved integrated guideline "Expand, Improve and Interconnect the European Infrastructure and Complete the Priority Cross-border Projects" the main objective is to improve the quality of infrastructure and to enhance interoperability of European road, rail and inland waterways transport. At present, the TEN-T road network in the Czech Republic consists of 1,862 km, the railway network of 2,341 km, and the inland waterways network of 303 km.



SUMMARY OF ADOPTED AND IMLEMENED MEASURES:

- The Operational Programme for Transport has been prepared to draw assistance from the structural funds; the programme represents the most extensive Czech operational programme, representing almost 22 % of the total sum to be drawn from the EU funds assigned for the Czech Republic.
- New sections of road and motorway network in total length of 88.6 km were opened in 2006, and 40 km of railway lines were reconstructed or modernised as a part of the TEN-T railway network. A 46-km long newly electrified section was put in operation again as part of the TEN-T network.
- Preparatory work continued on preparation of the European Rail Traffic Management System (ERTMS). In the road traffic segment the Unified System of Transport Information was implemented.
- An Act to govern the method of electronic communication between public and public authorities is being prepared (the so-called eGovernment Act).
- Work continued on a project devoted to interconnection of the basic public administration information systems by establishment of four registers - register of territorial identification, addresses and real estate, an economy register, a register of inhabitants, and a register of rights and obligations.
- Project CzechPOINT comprising creation of places of contact of citizens with the public administration authorities was launched (at present 11 CzechPOINTS are in operation).
- Stage one of the transition from terrestrial analogue to terrestrial digital TV was completed.

4.4.1 Modernise and develop transport networks

In April 2006 the Government discussed a draft General Plan of Transport Infrastructure Development. For the period of 2007 - 2013 the Plan proposes concrete priorities with regard to development of transport infrastructure in the Czech Republic, and sets up a strategy of financing based on realistically available sources, respecting balanced allocation to specific priorities/measures/projects within the financial plan framework. The system to be used to select individual priorities in the field of transport infrastructure development was prepared and a model of allocation of funds to individual priorities is being completed. The general plan of transport infrastructure development, prepared in conformity with the Operational Programme Transport for the period 2007 - 2013, was submitted to the Czech Government in September 2007 as "Time Schedule of Transport Infrastructure Build up and Methods of Financing". The Operational Programme for Transport represents an important tool in the development of transport infrastructure. With its allocation equal to 6.78 billion € (including funds allocated in public budgets) it is the most extensive Czech operational programme and represents about 21.6 % of all European funds earmarked for the Czech Republic. Special attention is devoted to construction and modernisation of the TEN-T network and the associated networks; improved quality of transport; progressive management systems; and preparation of progressive transport technologies.

Credits granted by international financial institutions also play an important role in project financing. The loan from the European Investment Bank planned for the period of 2007 - 2013 to be provided to the Directorate for Roads and Motorways is to amount to CZK 16.03 billion and that for the Railway Lines Administration to CZK 8.7 billion.

In 2006 an important progress was achieved in the territory of the Czech Republic also in connection with the TEN-T networks: Additional 88.6 km of road and motorway projects were completed at overall cost of CZK 44.93 billion. The total sum invested in 2006 in construction of roads and motorways was CZK 22.23 billion. Investments in the railway network amounted to CZK 11.11 billion and involved modernisation, optimisation, electrification and improvement of track capacity (speed). The total sum invested in 2006 in the TEN-T infrastructure of land and inland waterways transport, primarily into development of inland waterways, improvement of sailing conditions and port modernisation, amounted to CZK 508.8 million.

Table 6 State of the network of motorways and expressways in the Czech Republic at the end of 2006

Route	Length (km) in operation	Length (km) in preparation or under construction				Total route length
		Under construction	Advance state of preparation	Other in preparation	Total	
Total	964	143	169	860	1 172	2 136

Source: Ministry of Transport

The last section (3.5 km long) of the by-pass motorway of Plzeň was completed in 2006 and at the same time another section of the A6 federal motorway was put in operation in Germany; the

motorway link connecting Prague and Munich was thus completed. In December 2006 a section (23.4 km long) of motorway D8 was open between Ústí nad Labem and the German border at Petrovice, where it continues as German federal motorway A17 to Dresden and further to Berlin. Also in December 2006 a section of motorway D11 (42 km long) between Poděbrady and Hradec Králové was opened. Construction of a section, approximately 80 km long, of motorway D47 Lipník nad Bečvou - Ostrava - state border with Poland is in progress. The motorway forms a part of the TEN-T network, specifically the motorway axis Gdaňsk - Brno/Bratislava - Vienna; the section is expected to be completed in 2009. Construction is in progress on motorway D1 near Kroměříž and motorway D3 north of Tábor.

In the development of transport infrastructure in the Czech Republic public-private partnership (PPP) projects are planned. A study devoted to the application of public-private partnership to finance projects in the transport sector from the EU funds was completed in January 2006. The objective of the study was to establish the scope of and the method how the other EU Members States combined financing of projects realised by means of PPP with financing from EU funds, and also to prepare recommendations for the programme period 2007 - 2013. The process of selection of the main consultant and project manager involved in realisation of the pilot PPP motorway project dealing with a 30-km section of motorway D3, Tábor - Bošilec, commenced in April 2006.

In the area of modernisation and reconstruction of railway lines realisation of the line connecting branches 1 and 2 of the corridor between Přerov and Česká Třebová will continue in the period of 2006 - 2008. Optimisation of the line Plzeň - Stříbro was launched in March 2006. The project is a part of the 3rd national transit corridor. The last major project, which started in 2006, is modernisation of the first three sections of the 4th transit railway corridor Prague - České Budějovice - Horní Dvořiště with continuation to Linz.

In connection with modernisation of transit railway corridors, modernisation of some major railway junctions has taken place. Modernisation and optimisation of the junctions Děčín, Choceň, Bohumín and Ostrava - Svinov was completed in 2006 at a cost of total CZK 6 billion. Optimisation of the railway junction Ústí nad Labem is currently in progress; partial modernisation of junctions Prague, Brno and Kolín is also in progress.

4.4.2 Introduce intelligent systems for transport and traffic control

Preparatory work to build-up the European Railway Traffic Management System (ERTMS) continued in 2006. ERTMS will increase efficiency of the rail transport. The system consists of two fundamental subsystems: the communication system GSM-R - total cost CZK 3.7 billion - and the European Train Control System (ETCS), where it is envisaged to cover 578 km by 2013 and thereafter additional 754 km of railway lines at total cost of CZK 5.6 billion. The ETCS system is at present being operated in the form of a pilot project in the section Poříčany - Kolín. Since 2006 the GSM-R system has been in operation in the section Děčín station block - Ústí nad Labem - Kolín.

The Unified System of Transport Information (JSDI) comprises acquisition, sharing and dissemination of authorised, state-guaranteed transport information about the road system of the Czech Republic. The system of meteorological stations operated on motorways and expressways was supplemented by a similar system on class I roads. A census took place on Czech motorways in 2006. The systems operated by the Fire Rescue Service of the Czech Republic and by the Czech Police were modified in 2006 to make them compatible with JSDI. Preparation was in

progress for exchange of information with local centres like, e.g., the Transport Information Centre Prague. The total length of roads covered by the JSDI system is 55,510 km.

Work on the European Euro-regional project CONNECT continued in 2006; the objective is to prepare a strategic plan for development and expansion of intelligent transport systems and services in the TEN-T network in the Czech Republic, the Slovak Republic, the eastern part of Germany, Slovenia, Hungary, Poland, and Italy. Within the CONNECT framework a pilot project involving the regional and municipal transport-information centre Ostrava was launched. Again as part of CONNECT a new digital information system for managing, monitoring and controlling road traffic, vehicle identification and emergency calling was launched in 2006 along a 20-km long section of motorway D8, Prague - Nová Ves. Preparations are in progress for a stepwise implementation of a transport-information system for drivers utilising the RDS-TMC technology as an integral part of the JSDI project. Application of the RDS-TMC system was extended to send transport information including abroad services information from the system operated by the National Transport and Information Centre (NDIC). Analysis, proposal and implementation of the NDIC system were undertaken to enable it to receive information from abroad.

Work continued on the pilot project automated emergency call from vehicles (eCall) in the territory of the Czech Republic. The eCall system (total cost CZK 6.2 million) will offer the rescue corps automated identification and localisation of traffic accidents and other relevant information. In 2006 work on the project focused on preparation and modification of the environment in which the final equipment will be eventually tested; a pilot project integrated into the system of unified European emergency call 112 was launched in April 2007.

EASYWAY is another programme currently in preparation, expected to support future investment projects in the TEN-T network. EASYWAY is closely related to euro-regional programmes to be completed in 2007; EASYWAY deals with transport-information services, services related to traffic control and operational infrastructure serving intelligent communication technologies.

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

In view of the permanently increasing transport performance in the Czech Republic, where transport by road represents some 74 % and transport by rail about 25 % of freight performance, it will be necessary to adapt the development of the transport infrastructure *inter alia* to respect the effects on environment and public health. In this respect multimodal approach has been incorporated into the planned development of transport infrastructure in the Czech Republic. At present, the transport performance of intermodal freight transport represents 1.74 % of the overall traffic performance (expressed in t.km). Within the incoming programme period 2007 - 2013 it will be possible to draw from structural funds *via* the priorities incorporated in the Operational Programme for Transport, *inter alia* in support of multimodal freight transport and development of inland waterways transport. This priority axis includes support extended to the programme „Revitalisation of Railway Sidings“; its implementation will be beneficial to shifting transport of goods from the road to other transport modes, more friendly to environment and human health. Benefits will be apparent primarily at the supranational level. The amount allocated to this area within the framework of the aforementioned programme is about 140 million €.

4.4.4 Create consistent countrywide broadband ICT infrastructure

The dynamic growth in the number of active, broadband Internet connections continued apace in 2006 and 2007. As of 1 July 2007 the year-on-year increase was 39 %. Penetration of broadband Internet connections (the proportion of Internet connections to the number of inhabitants) thus rose to some 13 % in the Czech Republic. The Czech Republic still lags behind the EU average equal to 15.7 % as of 1 July 2006. The aforementioned year-on-year increase was similar to and not higher than that experienced in the EU. As a result of the proceeding modernisation of the transmission paths (cable and wireless) most operators have substantially raised the nominal speed of internet connections provided, usually by a factor between two and four, in most instances without rising the price of the service. The conditions offered to the users were improved simultaneously as part of FUP (Fair User Policy) implementation, in particular by enhanced data limits. In this connection it is of interest that already two operators in the Czech Republic offer digital TV *via* broadband (ADSL) networks using the IP protocol. The proportion of broadband, ADSL cable connections in the Czech Republic remains the lowest among the EU member states (about 40 %). A proportionally high number of Most Internet connections are wireless or realised by means of cable TV connections, a unique situation in Europe.

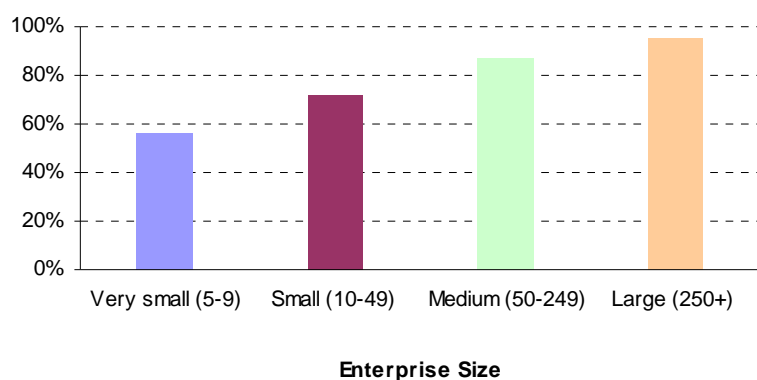
Substantial contributions to modernisation of cable access networks was made by the dominant telephone operator, Telefonica O2 Czech Republic, and furthermore by local operators of broadband, mostly wireless, access networks, and other operators. Contributions from structural funds were drawn for projects of regional or local character, without any marked central support.

Since investing in networks providing broadband Internet access is relatively demanding financially, the necessary funds for build-up or modernisation will stem primarily from private sources. The EU structural funds still represent an important source in financing future development of high-speed infrastructure. As part of the Operational Programme Entrepreneurial Activity and Innovation projects devoted *inter alia* to qualitative increase of accessibility and quality of technical infrastructure and broadband Internet connection will be supported, including acquisition of the appropriate ICTs by small and very small enterprises. The total allocation amounts to € 508.08 million inclusive of public funds, and represents 14.2 % of the total sum of the Operational Programme. The Regional Operational Programme Southeast supports development of ICT in areas adversely affected by evident market failure, typically due to low or non-existent return on private investments, through creation of a more easily accessible, non-discriminatory environment for realisation of private services. In view of the low penetration, rising demand for the service and the necessity presently to start building optical access networks it is obvious that investments in these access networks will continue to rise for a considerable time.

4.4.5 Promote development and effective use of ICT

In its Policy Statement the Czech Government signed up for the programme of electronification and installation of instruments conducive to both less expensive and more efficient public administration and full utilisation of benefits offered by application of information and communication technologies in the private sector. The new law currently under preparation, known as eGovernment Act, with 1 January 2008 as the expected effective date, ranks among the pillars supporting the above objective; the Act will enable electronisation of public administration, full-valued practical utilisation of information and communication technologies

Graph 17. Enterprises utilising Internet vis-à-vis the public administration sector (2006) (in %)



Source: Ministry of Interior (Ministry of Informatics)

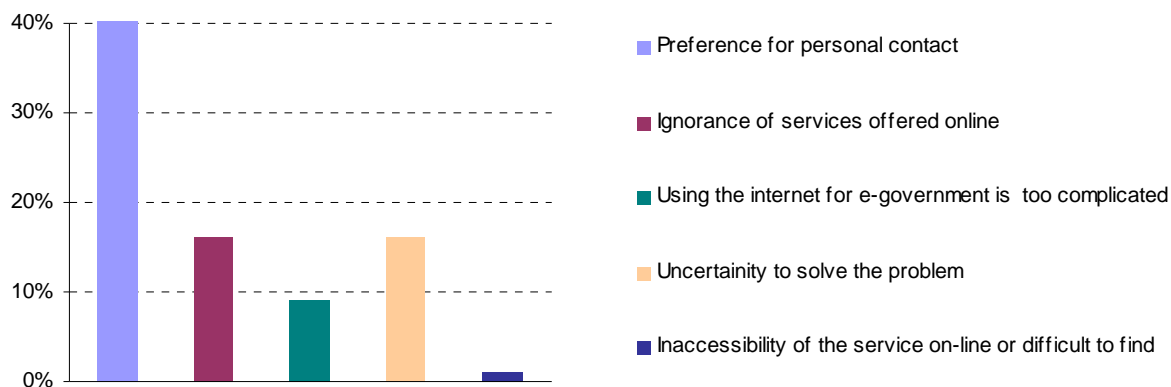
both in, and in contacts with, the public administration sector. The Act is expected to stipulate the method of electronic communication with state administration authorities and the principles governing conversion of printed documents into electronic format and *vice versa*.

Safe and reliably interconnected basic information systems in public administration constitute another prerequisite for electronic public

administration. Four newly created registers - register of territorial identification, addresses and real estate; economy register; register of inhabitants; and register of rights and obligations - will become the primary source of information about the public administration system and the core element of eGovernment. The Act currently prepared to govern the general rules involved in preparation of, and filling data items in, the above registers is directly related to the above four registers. Discussing the essentials of and enacting this Act must be made conditional on submission and discussion of laws prepared to govern essentials of individual registers.

A draft Act is being prepared dealing with essentials of the register of territorial identification, addresses and real estate, to be launched in 2009. A unified economy register will be launched in subsequent years; a proposal dealing with its preparation was approved already in 2006. The economy register will consolidate data referring to economic subjects active in the Czech Republic and will replace several tens of information systems currently in operation. Implementation of a unified economy register will simplify issuance of extracts, improve the processes involved in provision of information, and remove the obligation imposed on businesses to provide data at several locations and repeatedly.

Graph 18. Reasons why internet users are not interested in e-government (2006) (in %)



Source: Ministry of Interior (Ministry of Informatics)

Issuing extracts and authenticated output from information systems operated by public administration authorities, launched in 2006, continues to expand. Since March 2007 regional offices, registries and other municipal authorities, Czech embassies abroad, the Chamber of Commerce of the Czech Republic, the holder of the mailing licence (at present Česká pošta, s.e.) and notaries public are at present entitled to issue authenticated output from information systems operated by public administration authorities. To this end a project entitled CzechPOINT was launched as part of the government set of measures aimed at facilitation of eGovernment development in the Czech Republic; the project creates a set of basic places of contact between citizens and the state administration sector. At present 121 CzechPOINTS are in operation where citizens can obtain all data, copies and extracts from centrally administered registers, authenticate documents, written instruments and signatures. Other functions are being prepared like, e.g., conversion of documents from printed into electronic form. The proposed measures will significantly simplify communication of natural and juridical persons with public administration authorities. More than 3,000 CzechPOINTS are expected to be operative at the end of 2008.

The single site offering public electronic information and transaction services is the Public Administration Portal.²⁰ At present the Portal offers more than 350 directives how to take care of official transactions; a directory of public administration with more than ten thousand entries; and free access to topical wording of valid Czech legal regulations. Moreover, the Portal contains the so-called transaction part, where visitors may apply to, and terminate participation in, health care insurance, and a summary of income and expenditures of self-employed persons. At the end of January 2006 the Portal was extended to contain free e-learning courses. During its operation - until June 2007 - more than 17,000 visitors registered and attended more than 16,500 courses.

The National Computer Literacy Programme offers the general public an opportunity to learn computer and internet essentials and assists visitors in overcoming potential misgivings about new technology.

The project entitled eHealth combines projects that should create a unified, integral sectoral information system sponsored by the Ministry of Health. The following projects are in the pipeline for the period 2007 - 2013: E-prescription; Electronic Patient's Record; Electronic Insured Person's Card; Central Reference Interface of Health Records; Internet eHealth Centre Portal; Data Interface for ZIS Communication; Consolidation of Sectoral Data and Information; Information Portal of the eHealth Centre for Insured Persons; General Practitioners' Portal; Medical Specialists' Portal; Communication Infrastructure of the eHealth Projects; Data and Hardware Facilities of the eHealth Centre Projects; Identifier of Health Care Professional; and Telemedicine.

4.4.6 Ensure convergence of networks and services on electronic communications market

Prerequisite for continuing liberalisation and creation of conditions underlying enhanced competition on the electronic communications market is support extended to convergence of communication technologies and services, including digital radio and TV broadcasting. The Electronic Communications Act effective as of 1 May 2005 fully transposed the 2002 regulatory framework for electronic communications services and networks, enabled continuing market liberalisation including enhanced competition, and depressed end-user prices.

²⁰ <http://www.portal.gov.cz>

Government Resolution of 18 July 2007 approved a bill (known as "digi amendment") amending some laws in connection with transition to digital TV broadcasting. One provision of the amendment authorises the Government in the Electronic Communications Act to issue a Government Directive laying down a Technical Plan of Transition from the Terrestrial Analog TV Broadcasting to Terrestrial Digital TV Broadcasting. The draft digi amendment reckons with termination of analog TV broadcasting in the Czech Republic on 31 December 2012, unless the Government lays down in the Technical Plan of Transition an earlier date (not before 10 October 2010).

The Electronic Communications Act constitutes an important regulatory instrument on the rapidly developing electronic communications market. An amendment currently under preparation, expected to be submitted in Q2 2008, will react to recent developments in this area and to problems encountered in practice (e.g. portability of telephone numbers, illegal redirection of calls, etc.).

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

National Strategy of Information Security of the Czech Republic was approved in October 2005 to ensure security of networks and information. The Government approved an action plan underlying fulfilment of individual adopted measures.

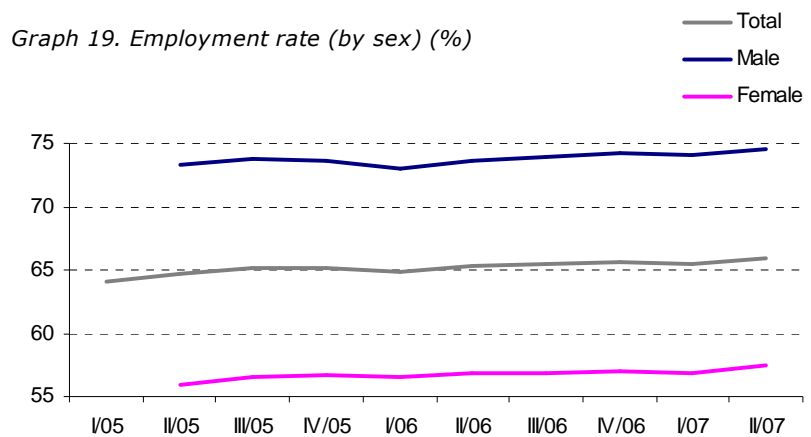
In the area of interoperability the Czech Republic promotes open standards capable of securing definition and application of open and compatible specifications, protocols and interfaces in ICT products and services. This policy has been mostly applied to development of public administration information systems and to eGovernment. The Czech Republic supports the objectives of the Action Plan of eGovernment i2010, in particular in connection with interoperability and open standards. The Czech Republic has collaborated and will collaborate with preparation of updated recommendations of the IDABC (EC) programme (Interoperable Delivery of pan-European eGovernment Services to Public Administrations, Businesses and Citizens) in the field of open format of (office/official) documents. In the field of semantic and organisational interoperability (and in connection with the Public Administration Information Systems Act) an information system dealing with data items and an information system dealing with public administration information systems was launched as of 1 January 2007, including the associated methodical and accompanying materials.

5. EMPLOYMENT

In its National Reform Programme, the Czech Republic set itself the target for 2008 of achieving an overall employment rate of 66.4% (in the second quarter of 2007, this rate was 66.0%), a female employment rate of 57.6% (the rate was 57.5% in the second quarter of 2007) and an employment rate of older workers (55-64 years) of 47.5% (the rate in the second quarter of 2007 was 45.8%). Employment has risen steadily for the third consecutive year, reporting between 1.2% and 1.8% year-on-year growth.

Developments in employment

Employment has reached its highest level since the beginning of 1998; it has risen without disruption since the second half of 2004. Employment growth has been boosted by the continuing favourable economic development. The employment rate (the proportion of the number of persons with a sole or principal occupation in the 15-64 age group) amounted to 66.0%, climbing by 0.7 p.p. in the year-on-year comparison. The male employment rate went up by 0.9 p.p. to 74.5%; the female employment rate rose by 0.6 p.p. to 57.5%. The employment rate of older workers (55-64 years) increased by 0.4 p.p. to 45.8%.



Source: Ministry of Labour and Social Affairs

The employment rate in the Czech Republic is being decreased by the rapid growth of students at universities; however, this is countered by an appreciable increase in the number of employed persons attributable to the concurrence of employment of people from among the baby boom generation born in the late 1940s and early 1950s together with those born in the high birth-rate years in the mid-1970s. The trend of growing employment rate of older workers, deriving from the post-war baby boom era and the rising retirement age, will continue, albeit at a decreasing rate of growth.

The employment structure is dominated by persons with employment relationship, the number of whom increased on the second quarter of 2006 by 75,500 to 4,100,000, thus stabilizing their share in total employment at 83.5%. The upward trend in growing number of entrepreneurs was confirmed; compared to the comparative period of 2006, there was an increase by 13,500 to 793,800. The share of entrepreneurs in total employment in the Czech Republic stood at 18%, which is higher than the EU average (15.6% based on 2005 figures).

In all 4,660,000 million people (94.9% of employed) work on full time in their principal employment; 249,800 people (5.1% of all employees) worked on part-time in their principal occupation – these were largely women (185,400, i.e. less than 9% of women in employment).

The share of people working full time in their principal occupation in the Czech Republic is the fourth highest in the EU; for women, it is the fifth highest. The extremely high share of full-time workers is particularly notable among women; conversely, in a number of the EU-15 Member States a large number of women take advantage of the possibility of working part-time.

Developments in unemployment

The number of persons unemployed gauged with ILO methodology went down year on year by 92,200 to 274,600 (of which 148,600 were women). The unemployment rate was dropped by 1.8 p.p. year on year to 5.3%, i.e. to the lowest level in nine years. The number of long-term unemployed persons decreased by 55,600 to 150,400, but they still account for more than half of all unemployed persons (54.8%).

Registered unemployment (i.e. job-seekers registered by employment offices) also showed the same trend (up to 30 June 2007). The number of persons unemployed decreased to 370,791 and the unemployment rate to 6.3%. The number of job-seekers is down by 80,315 year on year; the unemployment rate decreased by 1.4 p.p. a turnaround in unemployment development is clearly evident as of the second half of 2004; the level of unemployment attained is the lowest since 1998.

The upward trend in the number of job vacancies registered by employment offices is continuing. At the end of June, the employment offices reported 123,269 vacancies, i.e. 37,324 more than in June 2006. This is the highest number of reported vacancies since monitoring started in 1991. Presently, on average there are 3.0 job-seekers per vacancy.

Reforming the social system

Concrete steps aimed at enhancing the specific targeting of the welfare system are part of the government's public finance reform proposal, which is divided into three stages. The first stage was approved by the Chamber of Deputies of the Czech Republic in August 2007 and sent to the Senate of the Czech Parliament for discussion. Next stages will be put forward by the government at the latest by mid-2008. The reforms are focused in particular on reducing the government deficit, halting the increase in government debt, decreasing the tax burden across the board, limiting the administrative burden, enhancing the efficiency of government expenditure, and reducing the extent of re-allocation of such expenditure.

The social reform proposal is designed to prevent the overall effects of changes to the fiscal and welfare system from harming the interests of any social group, except for those citizens who have grown accustomed to life on social benefits, have no motivation to adopt a more proactive approach in their search for employment, and would continue trying to abuse the welfare system at the expense of others.

The first stage of the social reforms encompass all areas, i.e. subsistence levels, state social support (family benefits) and social assistance in material need, social services, insurance schemes and employment policy. In all social transfers (apart from pensions) automatic

indexation will be abolished; in all systems, the government will take decisions on indexation after taking stock of the economic and social circumstances, and any such indexation will be subject to the Czech Parliament's approval. This principle will prevent the uncontrolled growth of social mandatory expenditure irrespective of the public finance situation.

5.1. LABOUR MARKET FLEXIBILITY

SUMMARY OF ADOPTED AND IMPLEMENTED MEASURES:

- The Czech Government has approved a technical amendment to the Labour Code which is on track to expand contractual freedom in employment relationships.
- The public finance reform introduces a ceiling for the calculation basis in social and health insurance, limiting it to quadruple of the average wage. This measure will reduce non-wage labour costs and will contribute to better conditions for the employment of a high-skilled workforce.
- New legislation on assistance in material need and on subsistence levels, along with an amendment to the Act on State Social Support, entered into effect on 1 January 2007; this new legislation increased the financial incentives to find work and tightened the conditions for an entitlement to social benefits.
- The reform of the social welfare system introduces other measures to increase motivation to accept a job. The new system for the provision of social benefits works to the advantage of those who work or who actively search for a job.
- Preparations are under way for a fundamental change in the organizational structure of employment services and social services; the National Office for Employment and Social Administration should start operating on 1 January 2009.

5.1.1 Extend contractual freedom in employment relationships

In keeping with the concept of flexicurity, the government has continued its efforts to expand freedom of contract in employment relationships and to increase the flexibility of the labour market with a view to facilitating broader negotiations on deviations from the general measures of the Labour Code by means of contracts or internal regulations of employers, expanding the opportunities that employees and employers have to adapt the organization of their work and working hours flexibly to each other's needs, and thus sharpen their competitiveness.

On 29 August 2007, the government approved a bill amending Act No 262/2006, the Labour Code, as amended, and certain other related laws. The bill will be presented to the Czech Parliament for approval. This bill is expected to enter into effect in the first half of 2008.

The technical part of the amendment to the Labour Code removes the incoherence existing between the Labour Code and, for example, the Legal Practice Act, the Social Services Act, the Act on Registered Partnership, the Act on Conflict of Interest, the Act on the Recognition of the Results of Further Education, and the Act on the European Cooperative Society. The amendment also incorporated changes arising from an agreement concluded with social partners in the Council of Economic and Social Agreement in May 2007.

5.1.2 Reduce statutory non-wage labour costs

The introduction of ceilings for social security premiums was initially a key measure in 2006, but the proposed changes were not accepted by the Czech Parliament at the time. Consequently, the introduction of a ceiling for social insurance and, newly, health insurance (i.e. the implementation of a uniform maximum basis of calculation) became part of welfare system reform in 2007. This measure will help improve the competitiveness of employers, cultivate conditions more conducive to the employment of an educated, highly skilled workforce, experts and foreign specialists in the Czech Republic, and reduce non-wage labour costs.

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

New legislation on assistance in material need and on subsistence levels, along with an amendment to the Act on State Social Support, entered into effect on 1 January 2007. A new concept of social assistance was introduced, based on the personal responsibility of the individual for his or her situation, along with greater financial incentives to find work; the conditions of entitlements to benefits were made more stringent. Although it only entered into effect recently, the new law has already resulted in the first positive developments. There was a fall in the number of beneficiaries, some of whom returned to the labour market, a reduction in long-term beneficiary dependence, and savings in budgetary expenditure.

Under the social welfare system reform this year, the government continued stepping up the motivation for low-skilled population groups to find a work. The provision and amount of benefits are closely linked to the activities of beneficiaries – those who work or actively search for a job find them in a better position. The reform provides the incentive to take on any work, even if poorly paid; only part of work-related earnings are taken into account in assessments of material need, and those beneficiaries who do not cooperate in the search for employment receive lower benefits. The range of different groups of citizens (families) entitled to various types of social benefits has also been narrowed. In addition, the modernization of the welfare system has increased the balance of the basic protective function of the subsistence and living minimum in favour of those people who genuinely need assistance.

Greater motivation to find work will be further bolstered by changes approved in the sickness insurance system and the Employment Act; a primary factor is the limited availability of unemployment benefit for those who are dismissed for gross misconduct.

5.1.4 Increase geographical mobility

EURES, the pan-European information and advisory system implemented as a standard service at all employment offices in the Czech Republic, plays a major role in facilitating the mobility of potential employees. Those interested in employment obtain information about job vacancies in the EU, in the European Economic Area and in Switzerland, and about the living and working conditions in those countries. Since the introduction of EURES, around 100,000 clients looking for work abroad or, inversely, looking for suitable foreign employees to work at their undertakings, have contacted EURES consultants. All age categories of clients have come to grips with the way the system works. The EURES web pages on the website of the Ministry of Labour and Social Affairs attract 200,000 clients a month on average.

The implementation of programmes to promote the creation of new jobs and the training (retraining) of employees help reduce regional disparities in unemployment in the Czech Republic and increase geographic mobility. Unemployment decreased year-on-year in all regions and districts in the Czech Republic. The gaps between the regions and districts with the highest and lowest unemployment rate have continued to close. At 31 December 2005, the difference between the regions with the highest and lowest unemployment rate was 12.2 p.p.; as at 31 December 2006 the difference had dwindled to 11.1 p.p., and by 30 June 2007 it had decreased to 9.5 p.p. The same development could be seen in the disparities between districts; here the overall decrease between 31 December 2005 and 30 June 2007 was 2.9 p.p.

5.1.5 Modernise employment policy

The organizational structure of employment services and social services needs to be reviewed following the change in the situation on the labour market and the need to step up the focus and the efficacy of the employment policy and social policy in relation to those who need assistance most. Accordingly, the Ministry of Labour and Social Affairs is preparing the draft of a new, common structure for employment and social governance services to be implemented as of 1 January 2009 – the National Office for Employment and Social Administration – the basis of which will be the current system of employment offices. The purview of this specialized body of state administration will comprise activities currently carried out by employment offices (the active employment policy, job placement and unemployment benefits and state social support benefits). There are also plans for the new institution to assume competence relating to benefits in material need, social care benefits for people with disabilities, care allowances and child protection, all of which are currently managed by provincial and municipal authorities. At the same time, existing employees will be transferred to the newly established National Office.

The objective is to streamline the administration of social benefits and employment-related activities in a single place (promoting a client-based approach), to try to synchronize and enhance the efficiency of the provision of these services, and to foster conditions to comply with the government's international commitments irrespective of local politics. Unifying organization and management in this area in the hands of the state is essential for the efficiency of welfare systems from the perspective of their substance too; this is also in line with the World Bank's recommendations of 15 February 2007. The proposal that has been put forward is the first step; following the transfer of competencies there will be further substantive changes in benefits. Once the situation has been analysed, we can also expect changes in other agendas, e.g. in the future the proposed state administration dedicated to the integrated comprehensive rehabilitation of disabled persons should play an important role.

5.2. INCLUSION ON LABOUR MARKET

In keeping with the European Employment Strategy and the European Council's recommendations, the implementation of the employment policy has focused on addressing the situation faced by people on the margins of the labour market. The decrease in the total number of job-seekers reflects the solid growth of the Czech economy – new jobs are being created in virtually all sectors and in almost all regions. The steady stream of new investors in the last few years has continued to expand the number of vacancies. Another important factor contributing to

the fall in unemployment is demographics, as those born in years with leaner birth rates make their way onto the labour market.

During the period of analysis, there was a decrease in the absolute numbers of people on the margins of the labour market, i.e. disabled persons, persons over 50 years old, women, and young people up to the age of 25; however, the proportion of these groups in the overall number of job-seekers went up. The rise in the relative share taken up by these groups can be attributed to the slower fall in their number compared to the decrease in unemployment as a whole.

The number of long-term unemployed persons (unemployed for longer than 12 months) has also gone down; their share in unemployment decreased slightly year-on-year to 43%. The decrease in this shares group was reported despite the fact that the proportion of those registered as job-seekers for longer than 24 months went up to 27% of the total number of unemployed persons.

From the perspective of achieved level of education, the largest group of registered unemployed persons comprises job-seekers who have undergone an apprenticeship (38.4% of all job-seekers), followed by those who failed to complete their secondary education or left school on completing primary education (32.9%).

Programmes financed by the European Social Fund have played a crucial role in the positive developments reported by the employment policy. These programmes are the Human Resources Development Operational Programme and the Single Programming Document for the City of Prague (SPD 3).

In the context of the Human Resources Development OP, the main Measure at stake is the 'Reinforcement of the active employment policy in the employment of job-seekers and persons interested in employment', which is instrumental in bolstering the active employment policy with a view to dismantling barriers on the labour market and helping to find work or enhance employability. It is implemented by means of national projects, regional grant schemes and a supra-regional grant scheme at central level. As at 31 December 2006, grant agreements for 365 projects had been made under this measure. In the context of the this Measure, the competent employment offices realize two types of national projects – 'Back to Work' and 'Get a Job'. As at 31 December 2006, grant agreements for 30 national projects had been made under this Measure. As at the same date, assistance had been provided to 46,515 clients, 27,783 course participants and 1,597 jobs.

A crucial role in the process of labour market integration is played by the Measure 'Integration of specific population groups at risk of social exclusion', which is geared towards people on the margins of the labour market, i.e. members of Roma communities, disabled people, older persons, young people up to 25, and the unskilled or poorly skilled. This Measure is implemented via the supra-regional grant scheme 'Integration of groups at risk of social exclusion'. As at 31 December 2006, grant agreements for 36 projects had been concluded.

In the context of this Measure, the competent employment offices also realize the national project 'Getting Ready for a Job', the objective of which is to balance out opportunities in access to education, employment and other social and career prospects for members of groups at risk of social exclusion. At the end of 2006, agreements had been concluded for 13 national projects. As at 31 December 2006, under this measure assistance had been provided to 8,719 clients; 5,400 people had participated in courses.

SUMMARY OF ADOPTED AND IMPLEMENTED MEASURES:

- Programmes financed from the European Social Fund are being implemented in the field of the active employment policy.
- In the context of public finance reform, more effective financial assistance is being introduced for motherhood and parenthood within the social security system, and the method of fiscal aid for families has been modified.
- Steps have been taken to ensure that older workers are more motivated to remain on the labour market. Preparations are also in place for a new government active ageing strategy in the upcoming period, due to be submitted to the government for discussion in October 2007.
- There has been a rise in the number of persons placed in retraining schemes by employment offices (up from 46,772 in 2005 to 53,504 in 2006). Half of those retrained were persons with primary education or apprenticeships.
- Preparations are under way to implement a system of 'green cards', aimed at simplifying the granting of work permits and residence permits in the Czech Republic for foreign workers.

5.2.1 Decrease unemployment of young people (under 25)

The positive trend in reducing unemployment among people under 25 years old continued. There was a decrease in both their number and share. Contributors to this fall were the growing interest of employers, the implementation of individual action plans by employment offices, and the growing numbers studying at secondary schools and universities. Adopted legislative changes which made the conditions for the granting of unemployment benefit more restrictive for school-leavers and fresh graduates have also been a positive factor in this development.

5.2.2 Promote equal opportunities for women and men on labour market

Work continued on implementing the measures of the Action Plan for the Support of Families with Children 2006-2009, which aims to strengthen the position of the family in Czech society, create a universally better social climate and conditions for the family, and make it easier to reconcile professional and parental roles. In the context of social reform, more effective financial assistance is being channelled into motherhood and parenthood within the social security system, and the method of effective fiscal aid for various types of families has been modified. The duration over which maternity benefit is granted to married and single mothers has been unified; parents can now choose when they will return to work following the introduction of three types of parental allowance disbursement (differing in terms of the period of disbursement and the amounts available).

In the context of family policy, proposals are being drawn up to increase the incentives of kindergarten operators to adapt their opening hours to the needs of working parents, to motivate employers to set up company kindergarten and other childcare services in the workplace, to promote the training of employers' employees on parental leave, and to make greater use of flexible forms of employment.

Under the HRD OP the Measure ‘Equal opportunities for women and men on the labour market’, the ‘Promotion of equal opportunities for women and men on the labour market’ is realized by means of a supra-regional grant scheme. As at 31 December 2006, grant agreements for 53 projects had been concluded. As at 31 December 2006, under this Measure assistance had been provided to 5,263 clients; 3,828 people had participated in courses, and 52 jobs had been supported.

5.2.3 Increase older workers’ participation on labour market

The MoLSA is presently assessing a document outlining an active ageing strategy – the National Programme of Preparation for Ageing 2003-2007, containing measures on the labour market and employment, pension system reform, housing, education, health care, social services and other areas. This programme stresses human rights and the involvement of older persons in social and economic life and personal development.

Preparations are also in place for a new government active ageing strategy in the upcoming period, due to be submitted to the government for discussion in October 2007. The government’s approach to prolonging working lives is based on the scenario that it is necessary to start adapting the skills and education potential of workers as soon as possible. Low-skilled older persons, those approaching retirement age, and older persons in areas reporting above-average unemployment are particularly at risk of unemployment. Maintaining economic growth and improved educational attainment are key requirements for an increase in their employment. The first steps on the way to adapt the pension system have also been taken in the context of social reform in 2007.

Older workers are more motivated to remain on the labour market. Workers who choose to keep working after they are entitled to old-age benefit may be paid half their old-age benefit while increasing the percentage-based assessment of their pension for the set number of days worked. Time limits on the duration of employment (occupational activity) for those who collect old-age benefit and simultaneously earn a wage have been abolished. Working pensioners have been put on an equal footing with other workers as regards tax bonification.

This area of the reform aims to achieve at least 50% employment rate among persons older than 55. The positive effects of the new tax bonification should come to the fore in further stages of the reform prepared for the pension system.

5.2.4 Promote professional mobility via effective retraining system

Support for the training and retraining of job-seekers and persons interested in employment are instrumental in tackling the structural nature of Czech unemployment. In numerous cases, it is a fundamental prerequisite for the new employment of job-seekers in keeping with employer requirements. In 2005, the employment offices placed 46,772 job-seekers in retraining schemes, of whom 28,042 were women (60 %); the total figure for 2006 was 53,504 job-seekers, of whom 35,883 were women (60.8%). In 2006, there was an increase in retraining participants in all age categories. Most retraining job-seekers were aged up to 25 (10,970) and in the 30-39 category (15,946). Attention also focused on the 40-49 age group (12,000) and the group of over 50s (9,119). Of those retrained, 14.9% had primary education and 36.5% had apprenticeships.

In the implementation of the active employment policy, programmes and projects realized by virtue of Measures under the Human Resources Development OP are becoming increasingly important. The following Measures are most significant in increasing and redirecting qualifications:

The ‘Development of further vocational training’ Measure, which takes the form of regional grant projects, and ‘Development of the capacities of further vocational training’, run by competent employment offices. Their objective is to increase the range of training activities, create new and innovated educational programmes, and push up the standard of lecturers providing further vocational training and those providing training services. As at 31 December 2006, grant agreements for 339 projects had been concluded. Under these projects, 2,444 service providers or service provision supporters received assistance and 171 new or innovated educational programmes were drawn up.

Another Measure is ‘Increase in the adaptability of employers and employees to changes in economic and technological conditions, support of competitiveness’, the aim of which is to develop the expertise and skills of employers and employees in relation to the ongoing structural changes by means of vocational training programmes. This Measure is implemented in the form of regional and supra-regional grant schemes ‘Adaptability and support of the competitiveness of undertakings and organizations’. As at 31 December 2006, contracts had been concluded for 402 projects, 27 under the supra-regional grant scheme and 375 under the regional grant schemes.

In addition, this Measure includes the implementation of a national project by CzechInvest, the agency for the promotion of business and investments called ‘Standard of human resources management and development in undertakings (Investors in People)’. As at 31 December 2006, under this Measure assistance had been provided to 45,371 service clients; 41,843 people had participated in courses, and 1,610 jobs had been supported.

5.2.5 Facilitate foreigners’ access to the labour market

In 2007, the Ministry of Labour and Social Affairs launched an evaluation of the implementation of the pilot project ‘Selection of skilled foreign workers’. The objective of this project was not to resolve current problems on the labour market in the Czech Republic, but to lay down rules for a system for the long-term recruitment of skilled foreign labour and the permanent integration of these workers into Czech society to address the negative ramifications of the ageing Czech population on the labour market in the next 20-30 years. However, in recent years the situation on the labour market has dramatically changed. Economic growth running at around 6% of GDP per year is generating more and more new jobs. Supply still exceeds demand by far. The employment offices currently have records of more than 125,000 job vacancies. The growth in the number of trained and retrained persons interested in employment and job-seekers cannot keep up with employer demand; consequently, employers look abroad for the labour they need.

At present, preparations involving the cooperation of several ministries are under way to implement a system of ‘green cards’, aimed at simplifying the granting of work permits and residence permits in the Czech Republic for foreign workers. The green card process will entail a single procedure for the streamlined, accelerated granting of both permits.

It is designed to be as open as possible to foreign persons interested in employment while preserving elements for the protection of security and public order. The project’s target groups are skilled workers (who have completed secondary school or an apprenticeship), highly qualified

workers (holding a university degree), managers and 'key personnel'. The prospect of allowing unskilled workers to enter the country has not been ruled out either.

5.3. EDUCATION

SUMMARY OF ADOPTED AND IMPLEMENTED MEASURES:

- The implementation of curriculum reform at primary and secondary schools has continued – the preparation of school curricula and their verification in a teaching environment have taken place at individual schools.
- The project 'White Paper for Tertiary Education' has been launched with a view to creating an integrated programme of tertiary education reform and preparing the general principle of a new tertiary education bill.
- In the context of the National Research programme II for 2006-2008, a programme was announced to increase the number of students in technical and natural sciences study programmes.
- For the 2007-2013 period, the Education for Competitiveness Operational Programme has been prepared, which focuses inter alia on scaling up the cooperation between universities and businesses, and encouraging young people to take an interest in technical subjects and natural sciences.
- As at 1 August 2007, the Act on the Recognition of the Results of Further Education entered into effect; this law smoothes the way for evaluations of education attained outside the education system and expands the opportunities available to individuals to obtain new qualifications.
- Work has continued on the implementation of the project Recognition of the Results of Non-Formal Education and Informal Learning (UNIV), which is dedicated to the promotion and development of further education at secondary schools.
- In July 2007, the Czech government adopted a comprehensive national Lifelong Learning Strategy.
- Work continues on the National Computer Literacy Programme, which incorporates special courses geared towards disadvantaged groups.

5.3.1 Implement Curriculum Reform

During the period of analysis, the drive to implement individual steps of education reform continued, focusing on improving the key skills and knowledge wielded by all individuals, and improved prospects in their education, personal life and employment, including access to the pan-European labour market. Alongside the Framework educational programmes already prepared for pre-primary and primary education, the preparation and verification of other Framework educational programmes (RVP) continued in other areas, e.g. primary art schools, secondary schools and language education (including sports grammar schools), as well as education at the conservatoire. Based on RVP issued by the Ministry of Education, Youth and Sports, across-the-board preparation of school educational programmes (SVP) took place at individual schools. The production of the SVP required the in-depth training of teachers. Considering the interaction of curricular reform with processes taking place in EU countries, and bearing in mind the opportunity to co-finance certain reform steps from the European Social Fund (ESF) – the Human Resources Development Operational Programme – individual actions were implemented

by means of systemic and national projects, and where appropriate grant schemes. Under the systemic projects, the SVP output was validated, along with teaching in line with these programmes with across-the-board methodological support of schools.

The aim of the PILOZ Z project, completed in 2007, was to kick-start the modernization and streamlining of primary education by means of school curricula and methodological texts (teamwork, the adaptation of education content to the conditions at schools and the needs of pupils, the consideration of methodological approaches geared towards the development of pupils' key competences, especially in foreign languages and ICT, new approaches to pupil assessment and the self-assessment of schools). Fourteen pilot schools were involved in the project; they were responsible for examining the SVP production and teaching under the programmes. Across-the-board support of all primary schools mainly comprised: the methodological handbook 'Key competences in primary education', which provides schools with more information on key skills and how to achieve them, based on levels under preparation and numerous examples of model situations (teaching activities) aimed at the formation and development of key competences; a series of texts entitled 'Good Practice Manual', which contains 32 printed and 62 digitized examples of teaching according to SVP geared towards the formation of key competences. The project results were presented at a national conference for approximately 250 delegates in November 2006, with direct input from the head teachers of the pilot schools. The budget for this project was CZK 27.8 million. Under a related development programme, the teaching plans of primary schools were supplemented by three lessons at the first level of primary school, mainly for foreign-language teaching and ICT, and two lessons at the second level; these extra lessons were funded from the national budget.

An assessment of the now finished HODINA (LESSON) project, which focused on developing the key competences of seventh-grade pupils by adding one lesson for an optional subject, showed that the schools registered a significant rise in interest in key competences and in teacher training in this field. The project helped launch educational reform at primary schools at the time the SVP were being drawn up.

Initial experience of teaching according to SVP at grammar schools was obtained via the project 'Producing and validating pilot SVP at selected grammar schools – Pilot G/GP'²¹. In the first stage of the project, the focus was on producing SVP at 16 pilot grammar schools from the whole of the Czech Republic; as of September 2006, the project concentrated on validating the teaching provided in accordance with the SVP. To make the transmission of information and experience from pilot grammar schools easier, a website was set up²². Besides information about the project and experience from the schools involved, the website keeps track of examples of good practice. This mainly involves the provision of integrated subjects, the integration of cross-sectional themes into teaching, a description of the tools used for the self-appraisal of schools, and instruments for the evaluation of core skills. The approved project budget is CZK 40.6 million.

The implementation of the project PILOT S – 'Production and validation of pilot school educational programmes at selected secondary technical schools and secondary vocational schools – also pushed ahead; this project is the pilot platform for curricular reform in vocational education (covering 24 fields). The pilot schools produced modernized school curricular

²¹ Pilot G is a systemic project of the Ministry of Education, Youth and Sports that is implemented by the Research Institute of Education in Prague together with a Prague City Hall project. The pilot GP is intended solely for grammar schools in Prague.

²² <http://www.pilotg-gp.cz/>.

applicable not only in the educational activities of the pilot schools involved, but also as an example for other schools that will go on to develop their own school curricula. Besides the school curricula, the project stresses the training of teaching staff at pilot schools and deeper cooperation between social partners and secondary vocational schools and secondary vocational centres in the region. The schools analysed the labour market to identify how their graduates were able to put their skills to use. In doing so, they started cooperating with employers singled out in the region; these employers influence the appearance of the school curricular and can also help improve the quality of teaching – especially in practical lessons. At the end of June 2006, 52 pilot school curricular in vocational training had been completed. Since September 2006, 48 of them have been validated in the teaching environment. Besides this pilot verification, in 2007 the emphasis has been on further teacher training for the production of SVP and the transmission of experience to other secondary vocational schools and centres. The total project budget is CZK 39.8 million.

Work also continued on the systemic project METODIKA (METHODOLOGY), under which a methodological portal was set up²³ as a means of supporting teachers in the creation of SVP and in subsequent teaching at schools according to their own programmes. In the reporting period, the project generated a lot of interesting experience and information for primary and secondary school teachers, including issues related to the teaching of disabled and socially disadvantaged pupils. The methodological portal was modified following an analysis of pilot operations, and was put into live operation in mid-2006. Most of the portal is taken up by methodological articles on SVP production and on teaching in individual subjects. Readers can also find theme-based inputs (cross-sectional themes, key competences, evaluations, talented pupils, etc.), answers to frequently asked questions from schools, presentations by various organizations, information about projects implemented with assistance from the ESF (Pilot Z, Pilot G, Hodina), and information from government organizations. To promote the project and raise awareness about curricular reform, a collection of the most popular and most interesting texts was published and distributed (from project resources) to schools. The project budget is CZK 18.9 million.

Finally, it is necessary to mention the implementation of the National Plan for the Teaching of Foreign Languages, which promotes the cultivation of linguistic skills from an early age, increases the number of foreign-language lessons at schools and facilitates greater diversity by supporting less taught languages. At the same time, it channels major assistance into the language teaching of teaching staff. An instruction of the Minister for Education, Youth and Sports permitting the teaching of certain subjects in a foreign language smoothes the way for schools to scale up language skills by introducing the content and language integrated learning (CLIL).

5.3.2 Improve access to post-secondary technical and tertiary education

In March 2007, the project ‘White Paper on Tertiary Education’ was launched. Work on this project is in the hands of the relevant experts, under the guidance of the Ministry of Education, Youth and Sports. The aim of the project is to put forward an integrated programme of tertiary education reform and the general principle of a new law on tertiary education, which in 2009 should supersede the current Higher Education Act²⁴. The basic tenets of the White Paper were presented to universities for discussion, it is envisaged that work will progress on underlying

²³ <http://www.rvp.cz>.

²⁴ Act No 111/1998 on higher education and amending other laws, as amended.

studies concerning the following principal themes: the structure of the system, its greater diversification, governance, financing, research and development, the third role of universities, equal opportunities, mobility, quality, etc. Preparatory work on the general principle of the tertiary education bill will start in December 2007.

From the perspective of expanding access to tertiary education it should be noted that in the 2006/07 academic year Czech Republic had 71 universities with more than 328,000 students, structured as follows: 26 public universities with 293,000 students, 43 private universities with almost 31,000 students, and two state universities with 4,300 students. The growth in the total number of students at private and public universities compared to 2005/06 was 9%, which exceeded the growth planned in the Long-Term Plan of University Development.

The total number of students in tertiary education (universities and tertiary professional schools) stood at 356,000 in the 2006/07 academic year; of this number, 328,000 students were at university and 28,000 were at tertiary professional schools. Compared to the previous year, student numbers rose by 8% (in the 2005/06 academic year, 301,000 students were at university and 29,000 students were at tertiary professional schools, i.e. in all there were 330,000 students). In the 2006/07 academic year, 7.4% growth was supported from the national budget.

The success rate of candidates²⁵ in admission procedure at public universities rose to almost 67%; it dropped slightly at private universities, but still hovers around 95%.

One of the key indicators monitored at European Union level in the context of the revised Lisbon Strategy is the numbers of students in natural sciences and technical subjects. In the Czech Republic the number of applicants admitted to natural sciences and technical fields at universities is steadily rising; it has doubled since 1995 (18,421 were admitted in 1995/96, 36,785 in 2006/07). Compared to the previous year, the number of students admitted was up by more than 7%. In the overall comparison, however, the growth has only been in absolute figures; from the perspective of the total number of students admitted there is a downward trend – from 43% in the 2005/06 academic year to 41% in 2006/07. When structured studies are introduced²⁶, i.e. bachelor and master levels instead of the traditional 5-6 year study programmes, the failure rate of students in these fields is expected to diminish. Since 2005, the Ministry of Education, Youth and Sports has scored universities on the basis of their successful graduates. In 2006, a pilot development programme was announced to promote interest among gifted young people in studying technical subjects and natural sciences; this programme was well received and was continued in 2007 in the context of centralized development projects. In this respect, 10 projects of eleven universities were supported in 2007 with total aid of CZK 17.1 million.

In the 2007-13 programming period, the promotion of interest among young people in studying technical subjects and natural sciences is a priority of the Education for Competitiveness OP (under the priority axis Tertiary Education, Research and Development). In the context of the National Research Programme II, the programme 'Human Resources' – with total assistance of CZK 123.4 million – was announced in December 2005 for the 2006-2008 period. Efforts to push up the number of students in technical subjects and natural sciences are fully or partially in the

²⁵ The success rate of candidates is calculated as a percentage of accepted applicants from among those who took the entrance examinations. This rate has been calculated in this manner since 2004/05; up to 2004/05 it was calculated as a percentage of accepted applicants from among those who applied.

²⁶ Structured studies have already been introduced in all technical fields. At present, teaching subjects are being structured, except for first-level teaching, and programmes in the fields of law and administration are also being structured.

competence of four projects: 1) Research into new methods of competition in the creativity of young people, geared towards motivation to engage in research in natural sciences, in particular in the fields of mathematics, physics and chemistry; 2) Media coverage of the needs of science and the prospects of studying exact fields; 3) Popularization of molecular biology and biochemistry for teachers and students; and 4) Physics education for the all-round preparation and development of human resources at the level of primary and secondary schools. These projects are currently being addressed and their results will be available in 2009 at the earliest.

5.3.3 Promote the cooperation between employers and education institutions

Cooperation between educational institutions and businesses is a priority in curricular reform and from the perspective of tertiary education development.

In terms of higher education, measures to foster cooperation between schools and clients primarily comprise the annual notification of development programmes for public universities²⁷. The aim is to motivate public universities to draw up integrated projects based on the priorities contained in the Long-Term Plan for Universities: cooperation between universities and the region, the interplay of theory and practice, and cooperation between universities and the client sphere. By reference to these priorities, the 'Programme to support the creation of common structures between universities and the client sphere' was announced in 2006 and 2007. In 2006, ten universities seized this opportunity and received assistance of CZK 23 million to implement projects that focus on promoting internships and student involvement in the handling of problems in practice, including cooperation/guidance with bachelor, diploma and dissertation work, and on the participation of leading industrial experts in lectures and projects at universities, the placement of academic staff in businesses, the transfer of technology in practice, the creation of and cooperation in the context of technology centres, etc.

As of 2008, cooperation between universities and industry will be a key priority of the Education for Competitiveness Operational Programme. The Ministry of Education identifies examples of good practice in cooperation between universities and the client sphere and organizes seminars for interested persons from universities and employers where these examples can be presented²⁸.

At the level of primary and secondary education, the aim of support for an integrated system of career guidance at schools within the systemic project VIP Career (VIP Kariéra) is to eliminate disparities between the outputs of educational institutions and employer demand. Up to June 2007, 18 analytical studies and two summary publications had been prepared; e-learning was used to train 3,500 guidance counsellors. Under this project an information system on job perspectives for graduates on the labour market has been prepared, which as of September 2007 will provide comprehensive information connected with career guidance and the choice of education, including the range of education offered by schools, in an online interactive form. The activities of guidance centres at a hundred schools are being examined under the project with a view to the provision of psychological and special pedagogy services at schools.

²⁷ The issue of cooperation between educational institutions and businesses is handled by a working group of the Business Environment Development Council – 'Promotion of cooperation between educational institutions and businesses from the perspective of human resources development'. The prime objective of this working group is to improve the current state of cooperation between business entities and the sphere of vocational training so that the education structure, or graduate profile, complies with the needs of industrial production and business. The working group includes representatives of individual ministries, universities, the economic chamber and social partners.

²⁸ <http://www.bologna.msmt.cz>.

Under the systemic project Quality I - New Final Examination (2005-2008) [Kvalita I – Nová závěrečná zkouška (2005-2008)], the National Institute of Vocational Training addresses the preparation and testing of new final examinations in fields ending with an apprenticeship certificate. The new final examination is based on close cooperation between experts from schools and employers, who every year create uniform requirements of final examinations for fields of education ending with a certificate of apprenticeship. The aim of the project is to increase the transparency of the links between the content of the uniform requirements of the final examination and the skill needs under the relevant professional qualifications. To this end, evaluation standards are applied in which representatives from the world of work set expert skills which students in the given field of education must master at the end of their studies. The use of an evaluation standard in the creation of uniform requirements is one way of ensuring the incorporation of employers' requirements in vocational training. In 2007, 41 uniform final examination requirements were drawn up, which were examined at 200 schools (approximately 530 school subjects). The new final examination was taken by approximately 12,000 pupils (roughly 30% of those in a field of education ending with an apprenticeship certificate).

An example of good practice for the preparation of restructured study programmes is the cooperation in the preparation of bachelor courses and fields of study at the Institute of Chemical Technology in Prague and University of Pardubice. Study programmes in the context of projects supported by the European Social Fund have also been innovated: 1) 'Innovation of the masters course in Engineering Informatics in Transport and Communications in the context of automotive industry requirements' and 'Innovation and implementation of the subject 'Transport and Handling Technology for the strategic requirements of industry' at the Czech Technical University in Prague; 2) 'Innovation of university fields of study in mechanical engineering in the conditions of the information society' at Brno University of Technology; and 3) 'Enhancing the efficiency of the education process in the context of cooperation between the university and the business environment' and 'Innovation of the Mechanical Engineering course in accordance with the requirements of Czech industry' at the Technical University of Liberec. Other universities are also familiar with the experience gained and many of them are trying to proceed in a similar vein.

5.3.4 Improve interconnection between the systems of initial and further education

From the perspective of developing lifelong learning, most attention in the Czech Republic has been paid to the production of a comprehensive national lifelong learning strategy. This strategy is the basic document for other cross-sectional and sub-concepts and policies in this field and represent a coherent concept of lifelong learning. The representatives of social partners, Parliament, the European Parliament, the Association of Provinces of the Czech Republic, educational institutions and the nongovernmental sector took part in debates on the formation of a lifelong learning strategy. The strategy was also consulted with ministries, the representatives of the provinces, social partners and employers, and was approved at a plenary session of the Council of Economic and Social Agreement of the Czech Republic. The objective of this consultation mechanism was to involve all relevant partners in the preparation of the strategy so that the resultant text was the product of broad consensus. The lifelong learning strategy was approved by the government on 11 July 2007; the implementation plan should be ready by the end of 2008.

For the policy of education and vocational training, the lifelong learning strategy sets seven principal strategic guidelines, i.e. seven priority areas, in which reform efforts should be concentrated with consideration for existing challenges. They are: 1) recognition, permeability; 2) equal access; 3) functional literacy; 4) social partnership; 5) demand stimulation; 6) quality; and finally 7) guidance. An integral part of the lifelong learning strategy is the interaction of the proposed measures with the Czech Republic's operational programmes for the 2007-2013 period.

The basic system framework for the interconnection of the systems of initial and further education is the Act on the Recognition of the Results of Further Education²⁹, entering into effect on 1 August 2007. This law has been construed to motivate the adult population in the Czech Republic to participate in further education, to expand the opportunities people have of earning new qualifications and improving their prospects on the labour market, and to improve the response of the education system to the needs of the labour market.

The law provides for a universal system of evaluating training obtained outside the education system, and introduces a uniform, transparent and objective way of verifying people's knowledge and skills. A key instrument for the application of the Act on the Recognition of the Results of Further Education is the National Qualification System (NSK), consistent with the European qualification framework (EQF). The output is a public register of all full and partial qualifications recognized in the Czech Republic. The standards for qualifications up to ISCED 3C level are presently being entered in the NSK³⁰. In the upcoming programming period (the Education for Competitiveness Operational Programme), the NSK II will be realized – this is a follow-up to the initial project and will pave the way for qualification standards up to ISCED 4 level.

At the same time, the National Qualification System/Framework will be developed to embrace higher qualification levels (especially tertiary education). The National Qualification System/Framework for tertiary education unifies the concept of the European Qualifications Framework (EQF) for lifelong learning and the Framework for the European higher education area³¹. A systemic project for the preparation of a National Qualification System Framework for tertiary education is expected to be submitted in the context of the Education for Competitiveness Operational Programme.

Since 2005, the Czech Republic has realized a systemic project entitled 'Recognition of the results of non-formal education and informal learning' (UNIV) in networks of schools providing adult education services, the aim of which is to promote and develop further education provided by secondary schools or post-secondary vocational colleges. Two sub-goals of the project are geared towards the achievement of this objective: 1) the development and improvement of the range of further education at secondary schools and tertiary professional schools; 2) the enrichment of adult education services to include processes facilitating the recognition of the results of non-formal and informal learning, i.e. previous learning.

In the realization of both these goals, the project cooperates closely with numerous social partners; the extent to which they are involved in the implementation of the project changes in response to the specific task or stage of project implementation. One of the demonstrable results

²⁹ Act No 179/2006 on the verification and recognition of the results of further education and amending certain laws, as amended by Act No 110/2007.

³⁰ As at 1 August 2007, the first versions of qualification standards had been drawn up for 80 full and 280 partial qualifications, plus evaluation standards for 80 full and 260 partial qualifications.

³¹ Adopted at the Conference of Ministers and Senior Officials Responsible for Higher Education in May 2005.

of cooperation with social partners is the further education programmes that are being prepared. Each of the prepared 132 programmes tries to respond to the needs of the local labour market; relevance to the needs of the labour market, along with material correctness and expertise, is a subject of assessment by social partners in respect of programmes under preparation or ready for implementation. These social partners are businesses and entrepreneurs working with the school, and where appropriate the local economic chamber.

The aim of the UNIV project in the new programming period is to transform secondary schools into open education centres offering initial and further education and ensuring the recognition of results of non-formal education and informal learning.

Lifelong learning is also provided at universities in accordance with the Universities Act and is fully in the competence of the individual schools. Lifelong learning courses can have both vocational and special-interest slants. The numbers of courses and their students are growing every year. In 2006, there were 2,439 courses, double the number compared with the year before. These courses were attended by 75,258 participants, which is approximately 44% more than in 2005. In 2007, a rise of approximately 15% in course and student numbers can be expected. Occupational courses are based primarily on practical demand; they are courses that can be provided to order for a particular company, or that respond to educational requirements in a given region. Universities play a crucial role in the further training of teachers and medical staff in particular. Numerous courses are also designed for those with difficult access to the labour market (e.g. persons returning to work after parental leave). In the context of lifelong learning it is also possible to study subjects selected from curricula of accredited bachelor and master courses.

A specific type of lifelong learning course is the university of the third age, which is designed for seniors and is offered by almost all public – and some private – universities. Subsidies totalling roughly CZK 30 million are available under development programmes. Universities receive funding for lifelong learning courses from the national budget (via Development Programmes), from participant contributions, from ESF resources and from other programmes of the European Commission.

5.3.5 Promote permeability across specific levels of tertiary education

The legislative framework for permeability between post-secondary vocational colleges is enshrined in the current³² and Universities Act³³. This nurtured conditions for the admission of students and graduates of tertiary professional schools to universities. Ensuring permeability between the various types of study programmes at universities and between post-secondary vocational colleges and universities is one of the priorities of the Long-Term Plan for the Development of Universities (2006-2010).

Development programmes also improve permeability in that they foster cooperation between universities, secondary schools and tertiary professional schools. Besides the above-mentioned CZK 25 million to nurture interest in studying natural sciences and technical fields, CZK 11 million was ploughed into projects fostering cooperation with regional education.

³² Act No 561/2004 on preschool, primary, secondary, further vocational, and other education, as amended.

³³ Act No 111/1998 on universities and amending other laws, as amended.

Within the scope of the range of university education available, in April 2007 19 bachelor courses with 46 specializations, provided jointly by 27 tertiary professional schools and 11 universities, were accredited.

Permeability should receive a significant boost from the National Qualification System/Framework. By the end of 2008 a draft National Qualification System/Framework will be prepared for tertiary education. The aim is to improve the recognition of qualifications/parts of studies obtained or taken abroad and to create a framework for the recognition of education obtained outside university, whether formal (e.g. an improvement in the recognition of parts of a course and/or discharges at a tertiary professional schools for the requirements of further study in a bachelor programme) or non-formal. The National Qualification System/Framework will be based on outputs, skills and profiles of graduates and will use the European credit system.

5.3.6 Promote further education in firms

The Profession [Profese] programme, co-financed from the European Social Fund under the Human Resources Development Operational Programme, was prepared to promote further education in the workplace in the last programming period (2004-2006). The aim is to increase competitiveness and employment, and maintain the employability of persons on the labour market in the sectors of manufacturing, business, construction and services for these sectors. The programme helps develop the adaptability and skills of the workforce in the business and service sectors, while raising awareness of the horizontal theme of sustainable development. Concrete objectives are an increase in the qualifications and skills of workers in the above sectors relating to the implementation of progressive systems for production process control, the roll-out of new technology, sophisticated products and services, information and communication technology, and the introduction of environmentally-friendly equipment. The total amount allocated to this programme is CZK 256 million.

The implementation of the programme in 2006 was met with keen interest by entrepreneurs. Since implementation was launched, 286 projects have been selected for assistance, and the whole programme sum of CZK 256 million has been contracted out. The largest number of projects supported in the programme comes from the provinces of Jihomoravský kraj and Moravskoslezský kraj. Support from the European Social Fund will facilitate the implementation of more than 3,000 educational programmes, with the participation of up to 53,196 people envisaged.

In the 2007-2013 programming period, the Profession programme will be succeeded by Educa, a programme with a similar focus; this programme will also be implemented in conjunction with the individual provinces in the Czech Republic.

The introduction of an international standard of quality in human resources management is the objective of the programme 'Investors In People'. The purpose is to support human resources management and the efficiency thereof in undertakings and to ensure interplay between strategic company management and personnel activities down to the level of each individual in a specific firm. It follows up on the Phare programme, and since 2006 has also been implemented in the context of the HRD OP. The total allocation of public funds is CZK 31 million. The pilot stage of the programme ran from July 2004 to September 2005, during which ten small and medium-sized enterprises received assistance in the implementation of the IIP standard; two of them (TANEX PLASTY, a.s. and SERVISBAL OBALY, s.r.o.) did well in the competition Employer of the

Year 2006. The projects were funded from the Phare programme and the undertakings received a 65% contribution to reach the given standard. This highly successful pilot stage has been succeeded by the national project Human Resources Development Standard, which was announced on 14 June 2006 and which is financed from the Human Resources Development Operational Programme. The project's principal activities are the support of companies introducing the IIP Standard by providing subsidized services, and the training and registration of Czech consultants and auditors, who provide assistance to Czech undertakings as they implement the standard. Agreements on the roll-out of the standard have been concluded with 26 undertakings, and a further four undertakings are to submit registration forms. Other entities are introducing the IIP Standard without financial assistance from the HRD OP. In all, nine IIP consultants and three auditors selected in a tender are or will be registered at the International Quality Centre. In the first half of 2008, companies involved in the project should undergo a final evaluation, based on which they will be accredited with the IIP Standard. The project will end in mid-2008, and should be followed up by a new project called 'Modern forms of human resources management', financed from the HRE OP.

5.3.7 Increase information literacy

An important tool in the development of information skills among broad groups of the population, irrespective of their profession and qualifications, including those who are encountering a computer for the first time, is the National Computer Literacy Programme (NPPG), which is now being implemented. The programme is divided into several parts (courses) dedicated to computing in general, relations in public administration, and in particular working with the Public Administration Portal; a separate area comprises courses for the disabled. Since 2003, 254,146 courses have been attended by 101,856 participants. In 2005 and 2006, the NPPG Handicap was implemented, focusing on individual disadvantaged groups. The objective of this programme was to overcome everyday (especially physical) barriers by means of information technology, and to give participants the chance of fully-fledged integration into society and successful entry to the labour market.

The National Computer Literacy Programme reached the final of the prestigious pan-European competition eGovernment Awards 2007, which will be announced on 20 September 2007 in Lisbon.

Free e-learning courses posted on the Public Administration Portal were an appropriate complement to the programme. These courses focus on perfecting computing skills, and also include an informative course entitled 'Guide to the Public Administration Portal'. Since operations were launched in January 2006, approximately 17,000 users have registered.

Through international projects, the Czech Republic also contributes to increased computer literacy in Africa, where, in the context of seven projects in Kenya and Uganda, over 300 students have been trained and now teach their fellow pupils and teachers how to use a computer.