

Country Report

# Czech Republic

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## The Unfinished Business of the Fifth Enlargement Countries

The views expressed in this report are those of the author and do not necessarily reflect the views of the Open Society Institute – Sofia.

This publication is a product of the Open Society Institute – Sofia within the European Policies Initiative (EuPI) and the project “The Unfinished Business of the Fifth Enlargement Countries”.

Country Report

## **Czech Republic**

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## About this publication

This publication is a product of the Open Society Institute – Sofia within the European Policies Initiative (EuPI) and the project “The Unfinished Business of the Fifth Enlargement Countries”.

“The Unfinished Business of the Fifth Enlargement Countries” is a policy project of the Open Society Institute – Sofia within the European Policy Initiative (EuPI).

The EuPI aims at stimulating and assisting new Member States from CEE to develop capacity for constructive co-authorship of common European policies at both government and civil society levels ([www.eupi.eu](http://www.eupi.eu)).

The project was implemented from May 2008 to April 2009. The main outcome of the project is a publication comprised of ten national reports and a comparative analysis. The national reports describe and analyse the post-accession state of affairs in the ten new member states (NMS) from CEE. They do not include data gathered after December 2008, and therefore do not reflect the latest impact of the global economic crisis. The comparative analysis may have references beyond this period.

The project’s research methodology was based on the initial hypothesis that although the new EU member states from CEE have formally complied with all EU membership criteria and thus completed the accession agenda, specific problems persist. These problems are, to a certain extent, common among them due to shared historical experiences and legacies. In view of their comparable level of integration in the EU, the new member states could look for common answers to their post-accession challenges and, in doing so, contribute to the competitive advantage of the EU as a whole.

The research hypothesis has been tested through inquiry and analysis conducted by national experts from each of the ten new member states from CEE: Bulgaria, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia and Slovenia. These national experts adhered to the same methodology and were asked to describe and analyse the post-accession state of affairs in eleven policy areas. Through this process, the experts were able to identify existing and/or potential post-accession “problem areas” in their countries’ political development and governance, economic development, welfare system and social inclusion, health system, educational system, justice and home affairs, migration, research and innovation, agriculture and rural

development, regional development, level of EU funds absorption and their correlating impact.

The national experts were also asked to identify the existing membership leverage for post-accession problem-solving in each policy area and to provide a typology according to the following criteria: active and passive EU leverage,<sup>1</sup> hard and soft mechanisms for influence, and level of significance and effectiveness of their impact.<sup>2</sup>

On the basis of the national experts' ten country reports and the typology of the membership leverage represented by a table (Part C) in each report, a comparative analysis of the post-accession state of affairs was developed.

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<sup>1</sup> The *active* and *passive* leverage typology is defined and used by other authors mainly with regard to the EU's role for stimulating reforms in the candidate countries (Vachudova, M. A. (2002) *The Leverage of the European Union on Reform in Postcommunist Europe*, Paper presented at the Conference of Europeanists, The Council of European Studies, Chicago, 14-16 March, 2002) where the active EU leverage concerns the linking of the progress of accession with the adoption of EU norms while the passive one is the attraction of the EU as a gravity centre of prosperity and successful development. For the purpose of the present study the typology is used to assess the effectiveness of the membership leverage over the new member states from CEE.

<sup>2</sup> After the accession to the European Union the membership leverage over the member states is *active* with the exception of some policy areas, where the EU still exerts *passive* leverage because further integration depends on meeting certain post-membership conditionality (i.e. accession to the Schengen area; accession to the Euro area). Moreover in the policy areas where decisions are taken primarily on the EU level, the membership leverage is *hard* as breaching the rules is accompanied by sanctions and therefore it is *significant* in terms of influence on a national level and *effective* as it manages to ensure the necessary enforcement by national stakeholders. The opposite is evident with regard to the membership leverage in policy domains of national competence where the EU produces mainly recommendations which are not binding and therefore are not accompanied by sanctions (*soft leverage*) and most often neglected by national decision-makers, which makes them *non-significant* in terms of impact and therefore *non-effective* (e.g. the Open Method of Coordination in education and social inclusion).

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## xecutive Summary

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The Czech Republic has been a member of the European Union since 2004 and, generally speaking, is benefiting from its membership. There are two main areas which are gaining most benefits – agriculture and regional development, i.e. the policies which are the main share of the EU budget.

Due to the EU Common Agricultural Policy system of direct payments to farmers, the sector has become profitable. Although there are many challenges and a high necessity of further investments, Czech farmers have become competitive and have good prospects for further development in the EU common market. As regards the environment, more attention should be paid to environment-friendly farming and the whole CAP should stress this aspect financially too.

Regional development is subject to strict rules which do not allow higher flexibility in spending EU funds. Despite the relatively solid absorption capacity, there is much higher demand for infrastructure projects, including environment and transport networks, i.e. the sectors which are in many aspects lagging behind the EU average. Orientation towards bigger investments in accordance with the concentration principle might save other funds allocated for management and implementation of the ESF projects which are not expected to be as efficient as “the hard projects”.

Apart from the above-mentioned issues, the Czech Republic also suffers from other ailments partly resulting from the communist legacy and partly caused by some challenges of the globalised world. While the problems which have been indicated in the health care sector or social policy in the broader sense are more or less similar to those found in countries in Western Europe too, the area of governance is more acute to resolve in the Czech Republic. Political corruption connected with unclear (and often tailored) public procurement is one of the most serious problems in the Czech Republic which is significantly decreasing the trust of citizens in democracy itself. EU pressure regarding transparency and accountability in managing EU funds has to be evaluated positively.

There are many crucial issues which the Czech Republic has to resolve by itself (pensions, health care, education), but there are some others in

which the EU plays an important role – at least in coordination or even financial support (environment, research and development, transport, migration).

It is possible to claim that the initial hypothesis that new EU member states are facing some specific problems (political culture, neglected infrastructure) even after their accession to the EU is valid. On the other hand, a catch-up process in the Czech Republic has already brought some challenges which are similar for all countries regardless of their history and position in the EU (migration, pension reform, health care sustainability etc).

# **A** **Analysis of the Post-Accession State of Affairs in Selected Policy Areas**

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Subsection B.1:  
Political Development and Governance

Subsection B.2:  
Economic Development

Subsection B.3:  
Welfare System and Social Inclusion

Subsection B.4:  
Health System

Subsection B.5:  
Educational System

Subsection B.6:  
Justice and Home Affairs

Subsection B.7:  
Migration

Subsection B.8:  
Research and Innovation

Subsection B.9:  
Agriculture and Rural Development

Subsection B.10:  
Regional Development

Subsection B.11:  
Level of Absorption of EU Funds and Their Impact



# Political Development and Governance

## Summary

Although the European agenda seems to have started playing a more important role in domestic politics, the explicit influence of the EU on the development of political parties, their reshaping or even their results in elections, has been negligible.

The situation of political parties in the Czech Republic is relatively stable compared to some of the neighbouring countries. Currently there are five political parties represented in parliament and there is no other party which might have a potential to become a parliamentary party after the next general elections due in June 2010.

Since 2002 the governments of the Czech Republic have been suffering from fragile majorities in the Chamber of Deputies.

This situation leads to insufficient capacity of the Czech governments to implement any reforms.

**Issue: Current dynamics of party development – state of traditional parties, emergence of new political parties, reshaping existing party platforms**

The situation of political parties in the Czech Republic is relatively stable compared to some of the neighbouring countries (Slovakia, Poland). Currently there are five political parties represented in parliament. Three of them have a long (sometimes even painful) history.

Social Democrats, a traditional party established in 1878, now represent the major opposition party after being in power from 1998 to 2006. Christian Democrats form the second oldest political party, established in 1900, which survived even the communist regime when it was involved in the National Front (a bloc of pro-socialist and the only exist-

ing parties). The Communist Party was founded in 1921 and has been in opposition since 1989, with minimum political power but loyal voters.

Other important parties were established after the Velvet Revolution – the Civic Democrats were established in 1991 after the dissolution of the revolutionary platform “Civic Forum”, the major engine of political and economic reforms in the country. They are a right-wing party with a pro-liberal economic platform. The Greens are the fifth party currently

represented in parliament. Even though this party was established in 1990, it only entered parliament in 2006.

As for other political parties, at least two are worth mentioning – the Civic Democratic Alliance, another pro-liberal party established after the dissolution of the Civic Forum in 1991. It became an important (even though smaller) power participating in the government coalitions from 1992 to 1998. The second party which played an important role on the Czech political scene is the Union of Freedom; its stands in the middle of the political spectrum and was especially active between 1998 and 2006.

Nowadays there is no other party which (according to opinion polls) might have the potential to become a parliamentary party after the next general elections, which are due in June 2010. The situation at the regional and municipal levels is a bit more complicated since there are many platforms of independent candidates running in local elections, but none of them have realistic prospects of playing a more important role at the national level.

### **Issue: Recent political developments – election results (general, local, EP), next elections**

The government coalition in 2008 is formed of the Civic Democrats, Christian Democrats and the Greens, while the Communists and Social Democrats are in opposition.

The Civic Democrats are very strong at the regional level, where they have 13 out of 14 regional governors. They face the big challenge of defending this situation after the October 2008 election for regional assemblies.

The elections for the European Parliament in 2004 were also won by the Civic Democrats who gained 9 out of 24 seats, while the Communists got 6 seats. The third place was won by the Association of Independent Candidates / European Democrats – a political party with a certain potential even at the national level, which now does not seem to have been used.

The situation at the local level is different since independent candidates prevail, especially in the smaller communities and towns.

### **Issue: Major veto players and their relations (President/Prime Minister, other influential figures)**

The major veto players in the Czech constitutional system are the President of the Republic and the Constitutional Court. The President must sign every law approved by both chambers of parliament and is empowered to block the legislative process by his veto. In such cases the Chamber of Deputies needs more than 50% of all elected members to overrule the President's veto. President Klaus has been exercising his right to veto laws

more often than his predecessor Vaclav Havel. He has not refrained from vetoing some laws which implement EU directives too (e.g. REACH, anti-discrimination directives, etc.).

The Constitutional Court plays a slightly different role in the legislative process but it can also be perceived as an important stakeholder in the Czech constitutional checks and balances system. This court has the power to abolish a certain law (or some parts of it) after a proposal by other bodies. The framework of decision-making of this court is limited by the Czech Constitution; the court only examines the compliance of the relevant law with the Czech Constitution.

### **Issue: Stability of government and capacity to reform**

Government stability is the Achilles' heel of the Czech political scene. Fragile coalition governments depending on one or two members of parliament cannot have the sufficient power to undertake necessary but painful reforms (e.g. the reform of the pension system). Since 2002 the government of the Czech Republic has been suffering from fragile majorities in the Chamber of Deputies. While in 2002-2006 the government had permanent support of 101 out of 200 members of parliament, the current government is facing even a worse situation as the last parliamentary elections in June 2006 resulted in a political draw (100 MPs in favour of coalition, 100 MPs in favour of opposition).

This situation has inevitably caused intensive political bargaining across all political parties in order to support the government. These practices have been strongly criticised in the media, but no suspected case of political corruption has been investigated to date.

Thus, governments based on 101/200 or 100+/200 systems do not represent a driving force for the reforms. Moreover, coalition governments which are dominating the Czech political scene can further limit the political space for enhancing some reforms or developing certain policies (e.g. energy policy and nuclear energy as a taboo for the Greens, restitution of church property as a motto of the Christian Democrats).

### **Issue: Relative influence of populism and nationalism (xenophobia)**

While xenophobia is generally perceived as a negative aspect, nationalism might be easily confused with the protection of national interests which are defended more or less by all political parties. Nevertheless some political parties (Civic Democrats) emphasise the national interest more explicitly and loudly, with very limited consideration for the EU interests or compromise on the EU level. This strict approach of the Civic Democrats can be perceived as a certain pro-nationalist stance.

While xenophobia is generally perceived as a negative aspect, nationalism might be easily confused with the protection of national interests which are defended more or less by all political parties

The second party which is consistently using nationalist and xenophobic rhetoric is the Communist Party. They actively play on, for instance, the fears of return of property to Germans expelled from the country after the end of World War II. This anti-German approach can be perceived to some extent as xenophobic.

The third topic which should be raised is the Roma minority. Here special mention should be made of the Christian Democrats as represented

by their chairman Jiří Čunek, whose policy towards the Roma minority in Vsetín (a town in which he worked as mayor) has been heavily debated and is perceived at least as controversial. There Mr. Čunek has decided to move all problem-creating Roma who lived in one block in the middle of Vsetín and for some of them he has arranged accommodation in remote towns. On the other hand, one can rarely find an explicit xenophobic declaration or reaction of a politician even though a couple of them have appeared in the past.

In this country there is no radical right-wing party against immigrants, foreigners and other minorities, with the exception of a skinhead movement which is well organised but not relevant in terms of number of members.

### **Issue: Major issues of public opinion, including corruption perceptions**

All surveys report that the five most sensitive issues are the health care system, corruption, criminality, the welfare system and the functioning of the economy including unemployment. While older people and those living in poorer social conditions prefer to focus on social and health care and unemployment, respondents with higher education and younger people emphasise the environment, research, education and legal environment.

Corruption perception is quite high in this country, with a stable tendency. It means that citizens do not see any results of government measures to combat corruption (e.g. law on conflict of interests, public procurement law, whistle-blowing tools etc.). In the Transparency International ranking of corruption perception published every year, the Czech Republic shares the 41st position (2007) together with Italy, just below Hungary and above Malaysia. The Corruption Perception Index (CPI) stays at 5.2 points on a 10-1 scale. The stability of corruption perception in the country can be demonstrated by the same CPI in 1997 (5.2), with non-relevant moves in the meantime.

The issue of corruption is perceived as a serious problem especially at the top political and economic levels, i.e. linkage between economic

criminality and political representation. On the other hand, petty or day-to-day corruption reported by respondents does not represent such a problem.

### **Issue: Euro-scepticism**

Scepticism towards the current state and development of the EU is quite high in the Czech Republic. According to the Eurostat regular surveys, the support of the Czech population for the EU has been lagging behind the EU average since the country's accession. Eurobarometer shows that only 48% of the Czechs perceive membership of the country in the EU as a good thing (compared to the EU average of 52%). The perception of the EU image is similar – for 43% of the Czechs the positive image of the EU prevails (compared to the EU average of 48%).

The reasons for this situation are various. First of all, they are associated with the President of the Republic Vaclav Klaus who is well-known even abroad for his Euro-sceptic opinions which are often quoted in the Czech media, and for his provocative and unconventional style. He usually claims that he criticises the current development of EU integration but is not against European cooperation itself. As Honorary Chairman of the Civic Democrats, he still has important influence within this party as well as many supporters. Thus, the party is sometimes divided on issues of the EU agenda when some Civic Democratic politicians in the government take a much less radical stance than others.

It is not easy to track the ideological reasons for the Euro-scepticism of the Civic Democrats who always support pro-market oriented activities and a liberal approach in the economy. Therefore they criticise the EU from a right-wing perspective, accusing it of building up a socialist and overregulated model of economy. On the other hand, in the domestic political debate they strongly defend the national interests against some deregulation activities of the European Commission.

The Communist Party, which also declares a certain Euro-scepticism, is more readable in its criticisms as it criticises EU development from the left side, i.e. too much focus on free market, deregulation, lack of social sensitivity etc.

### **Issue: Participation at EU level (representation in the EC, EP, major positions supported/promoted by the country)**

The Czech Republic ranks among the countries which are slightly critical towards further deepening of EU integration in terms of strengthening the role and competences of EU institutions. The Czech Republic has not ratified the Lisbon Treaty (March 2009), benefiting from the legal step of the Czech Senate as the Czech Senate has asked the Constitutional Court to check out the compliance of this treaty with the Czech constitutional

order. The Civic Democrats, in particular, often argue that the EU needs some time to digest the last two enlargements and get used to the new situation.

On the other hand, the Czech Republic is one of the countries strongly supporting further enlargement, especially towards the Western Balkans and Turkey. Other issues which are raised (and are expected to be raised during the Czech Presidency in 2009) by the Czech Republic in the EU include free movement of services, which is perceived as partial compared to, for example, the more or less completed market of free movement of goods. Another issue in which the Czech Republic plays quite an important and non-mainstream role is Cuba and the EU's attitude towards the Castro regime. The Czech Republic's position is probably the most radical in terms of potential sanctions against this regime and emphasis on political prisoners and more freedom on that island.

## **Conclusion**

The European Union has at least indirect influence on governance in the Czech Republic. The general trust of Czech citizens in both the EU as a whole and in individual EU institutions significantly exceeds their trust in Czech institutions (government, parliament etc.). This trust and mistrust can be interpreted as a close link between Czech society and national public institutions (compared to the anonymous and faraway EU institutions); on the other hand, many citizens believe that the EU has a positive influence on public affairs, including transfer of values (e.g. transparency, accountability, good governance, etc.).

The EU plays an important role in many concrete areas connected with governance. Such an area is the public procurement system. A new legislation based on EU rules should guarantee minimum transparency in spending public money. Unfortunately, reality is still far away from the ideal state of things. Aggressive lobbying and tailoring of selection procedures in favour of a particular applicant are the most serious failures of the system. Higher transparency, better public and media control, and accountability of both politicians and top civil servants seem to be the only feasible solutions.

Another issue, partly connected with the previous one, concerns the measures against conflict of interest and corruption. After long discussions, a new law on conflict of interest has been approved by parliament despite the veto of the Czech President. While the President criticised the bill for its large scope (referring e.g. to principals of elementary schools), experts of watchdog NGOs (Transparency International) do not consider it sufficient since family relatives are exempt from tax- and property-reporting.

# Economic Development

## Summary

Since 2003, the Czech Republic has seen significant economic growth and good economic performance. It is more than probable that the perspective of EU membership created positive expectations of further development of the country, especially in the context of global business. Moreover, EU pressure to adopt many EU standards and in general to improve the legal and business environment in the Czech Republic contributed to better perception of the country in the international business community.

The Czech Republic benefits from its membership in the EU. Even though many businessmen still complain of remaining barriers in the common market (e.g. in free movement of services) the positive aspects prevail. In the debate on establishing some form of economic government on the EU level (Eurozone entry) the Czech Republic, which has not decided yet on the date to adopt the Euro, is one of countries that are more sceptical.

## Issue: GDP per capita

At the moment the GDP per capita in purchasing power standards equals 82.4% of the EU-27 average and we can witness a catch-up process since 2002. For comparison, in 2002 the Czech GDP per capita amounted to only 70.6% of the EU-27 average.

Thanks to solid economic growth in the last six years, the Czech gross domestic product per capita has exceeded Portugal's and now ranks second among the post-socialist countries, after Slovenia. On the other hand, it is necessary to say that nominal Czech GDP is still lower than the Portuguese one, and the above-mentioned figures in purchasing power standards reflect the significantly lower price level in the Czech Republic.

## Issue: Economic growth, including sectors driving economic growth

Economic growth is significantly higher than the EU-27 average, especially since 2003. In this period Czech economic growth has been higher on average by 3.05 percentage points, and compared to the EU-15 higher even by 3.55 percentage points. On the other hand, this economic growth is comparable to that in other Central and Eastern European countries which

joined the EU in 2004 (Poland, Slovakia, the Baltic states), maybe with the exception of Hungary.

As for the sectors driving economic growth in the Czech Republic, it is above all industry (i.e. light industry – machinery, automotive, electro-technical components etc.) that dominated in the 2002-2008 period. The Czech Republic has attracted many foreign direct investments (FDI) and investors have focused primarily on manufactory works, benefiting from the lower wage level and relatively well educated labour force in the country.

### **Issue: Inflation dynamics**

The inflation rate expressed in the consumer prices level is traditionally lower in the Czech Republic than in the neighbouring countries of Central and Eastern Europe. This trend is due to the strict and consistent policy of the Czech National Bank, which benefits from large independence in the area of monetary policy (inflation targeting).

In 2008 the inflation rate reached 5.8% (July 2008) because of higher prices of food, oil and energy. This tendency also correlates with inflation pressures in the Eurozone (3.1% in July 2008).

### **Issue: Structure of the economy**

The Czech economy has traditionally been defined by a high extent of industrialisation. While during the socialist regime it was especially heavy industry (steel, metallurgical and armament industry) that created the backbone of the whole economy, since the nineties light machinery, automotive and electro-technical sectors have started dominating in the structure of national industry.

Although the role of services in GDP has steeply increased since 1990, the Czech Republic remains one of the EU countries with the highest proportion of industry in GDP. This proportion even increased by almost three percentage points in the 2003-2006 period, which is quite an unusual trend in the EU. Some Czech economists claim that the structure of the Czech economy is currently too much dependent on the automotive industry and can be seriously damaged by a global economic slowdown.

### **Issue: Employment and unemployment rates**

The unemployment rate in the Czech Republic reached its peak in 2000 (8.7%), but has been decreasing since then. The unemployment rate in the Czech Republic has always been below the EU-27 average. In 2008 this trend continued and the unemployment rate in the second quarter dropped to 4.3%, a record low since 1996.

It is necessary to add that the Czech Republic has never seriously suffered from an extremely high unemployment rate. At the beginning of

the nineties, when lots of traditional companies had to be closed down due to lack of competitiveness and the break-up of socialist economic cooperation, it was especially the new sector of various services which absorbed tens of thousands of redundant workers. Later on during the economic transformation, the social aspects were emphasised strongly enough to prevent mass redundancies. After a short economic crisis in 1997-1998, it was foreign direct investments which utilised quite well the educated and skilled labour force.

The unemployment rate in the Czech Republic has always been below the EU-27 average

The Czech Republic has quite high long-term unemployment rates (i.e. people unemployed for more than one year), which currently represent 51% of all unemployed people.

As for the employment rate in the 15-to-64 age group, the Czech Republic is slightly above the EU-27 average, with 66.1% of employed people (compared to 65.4% in the EU-27).

### **Issue: Salaries**

Salaries in both the business and public sectors are still significantly lower than the EU average; on the other hand, the real salaries (nominal salaries minus inflation rate) are growing every year. The overall average monthly salary in the second quarter of 2008 was CZK 23 182 (approximately €927). While in the business sector it was CZK 23 692 (€948), salaries in the public sector reached only CZK 21 344 (€854).

As for the methodology of these data, the above-mentioned salaries represent gross salaries before taxation. On the other hand, the expenses on labour force are much higher, as 35% of the salary must be added as a contribution from the employer to the social security and health care systems. In this perspective, the overall average expenses on an employee is CZK 31 295 (€1 252).

### **Issue: FDI flows**

The first wave of FDI flows is connected to privatisation of state-owned companies. The privatisation process has gone a long way, starting in 1991 and finishing under the current government which is expected to privatise several companies that are still state-owned (main airport, airlines, post office etc). The second wave is linked to a law on investment incentives which came into force in 2000 and which generously supported investments from abroad (tax incentives, state subsidies for working positions etc). The boom in FDI between 2000 and 2006 laid the foundation for massive growth of export of goods and the current economic growth. The third wave of FDI is connected with the country's EU accession and represents the slow transition from manufactory investments (automobile, machinery industry)

towards more sophisticated investments in the service sector, including research and development (e.g. IT and logistics).

When comparing the nominal volumes of FDI in the Czech Republic, it is obvious that the biggest inflow of FDI occurred in the 2000-2002 period, i.e. before entry into the EU. It was caused by the newly launched policy focused on investment incentives but simultaneously by the Czech Republic's prospect of becoming a member of the EU in the short term.

### **Issue: Public finance – budget surplus/deficit and public spending/distribution of wealth; government debt**

The deficit of public finance has balanced on the edge of the Maastricht criterion (3%) during the last five years. The budget deficit reached its highest level in 2003 (6.6%), and all governments since then have been striving to cut it with some success – even though the strong economic growth (and higher tax income) contributes to this more than any cuts in government spending. With the exception of 2005 (deficit at 3.6%), the Czech Republic fulfils the 3% Maastricht criterion.

As for the government debt, it is not a serious problem for the country since this figure has oscillated around 30% of GDP (compared to the 60% Maastricht criterion and 58.7% in the EU-27 in 2007).

Regarding the distribution of wealth calculated in total general government expenditure as a percentage of GDP, the Czech Republic redistributed 42.4% in 2007 (compared to the EU-27 average of 45.8%). Since 2003 the trend has been decreasing (i.e. overall government expenditures as a percentage of GDP), but this has been caused by higher tax revenues than any cuts in public expenditure. The problem the Czech Republic faces is a relative high proportion of mandatory expenses which are stipulated by law and are not easy to reduce in a yearly state budget, and they might become an unsustainable burden for public budgets in the mid-term perspective.

### **Issue: Regulatory business environment and rating of the country in terms of business environment, economic freedom, competitiveness**

The international rating of the country provided by Standard & Poor's and Moody's shows that it is getting better and has reached A ranking (S&P – 2008) or A1 (Moody's – 2008). Compared with other Central and Eastern European countries, the Czech Republic together with Slovakia is achieving the best grades.

According to rankings regularly published by the World Bank Group (DoingBusiness.org – 2008), the Czech Republic has dropped to 75th position out of 181 countries from all over the world. The ranking is based on ten

different criteria for doing business, including start and closing of business, access to credits or construction permits, and the country is criticised especially for poor enforcement of contracts, difficult closing of business and paying taxes. The comparison even with Caucasus countries or the Central Asia region is not in favour of the Czech Republic.

The Czech Republic is one of the countries with no clearly defined timetable for the adoption of the Euro

The complicated tax environment in the country and red tape are often criticised by the Czech business community too. A Czech company has to devote on average over 900 hours a year to fill in all tax forms and to communicate with a tax authority (compared with approximately 250 hours a year in the EU-15).

Despite the above-mentioned problems, the Czech Republic is still one of the most popular destinations for doing business in post-communist Europe, especially thanks to its good infrastructure, well-educated labour force and stable economic growth.

### **Issue: Adoption of the Euro and issues of economic convergence with the EU**

There is an intensive debate in the Czech Republic on the adoption of the Euro, especially after the Slovak political decision to switch to the Euro as from January 2009. The government has not set an exact date for the adoption of the Euro (due to necessary fiscal reforms that must be approved and implemented in advance), nor has the Czech National Bank. Thus, the Czech Republic is one of the countries with no clearly defined timetable for the adoption of the Euro.

Economists are divided between the “adopt as soon as possible” and “let us wait and see what will happen” approaches. The current state of affairs, where convergence with the EU is more or less guaranteed by the exchange rate of the Czech Crown which is permanently growing stronger against major international currencies, is advantageous especially for the inhabitants since a stronger currency offers some protection against higher prices, i.e. inflation.

On the other hand, exporters and businessmen in general would opt for faster adoption of the Euro because this means higher stability for their export planning and eliminates the exchange rate risks. Higher inflation as the second convergence tool would be more acceptable for the business sector since it is more predictable and enables more flexibility in solution-finding.

### **Issue: Export, import and competitiveness**

The Czech Republic is a small, open economy based on massive export. The country’s most important trade partners are the EU member

states where around 85% of all exports are realised, and especially the neighbouring countries (Germany – 30%, Slovakia – 8%).

The trade balance has been in surplus since 2005 (CZK 104 billion in August 2007 – July 2008). While the Czech Republic has a trade surplus with most EU countries, deep deficits are reported in trade with China (a deficit of CZK 189 billion) and Russia (CZK 69 billion in the last 12 months). The current tendency of the trade balance is in favour of permanently growing trade surpluses (compared to a deficit of CZK 9.5 billion in August 2004 – July 2005).

## **Conclusion**

Since 2003 the Czech Republic has seen significant economic growth and good economic performance. Data of economic growth significantly correlate with the country's EU accession in May 2004.

All the governments of the Czech Republic since 1989 have emphasised the necessity to implement economic and social reforms in order to succeed both in the global economy and in Central Europe as a successful emerging economy.

The role of the EU in the economic performance of this country can be also seen in the labelling process. Czech goods produced under the "Made in the EU" label and membership in the EU club have contributed to the better image of the country, its products and economy in general.

The Czechs benefit from the cheaper labour force, competitive industry and services in many areas as well as competitive tax regulations, and do not want to lose these benefits.

# Welfare System and Social Inclusion

## Summary

Welfare system and social inclusion issues have been intensively discussed in the Czech Republic. Given the common demographic trends characterised by an ageing population and the problem of sustainability of pension systems, this topic is expected to play a major role in political debates in the coming years too.

The Czech Republic is characterised by traditionally low poverty rates and a generous social care system which guarantees good and broadly accessible social care and services. Regarding social inclusion, the most crucial problem seems to be some excluded Roma communities living in ghettos without appropriate living standards and threatened by negative social phenomena (e.g. drug abuse, criminality, etc.). As for housing, there are some specific problems resulting from the communist legacy.

described below in the subheading on Roma/other minorities' integration and citizenship issues.

## Issue: Pensions

The issue of pensions and possible pension reform is one of the hottest themes in this country. As in other EU countries, the main public debate concerns a reform that should guarantee sustainability of the pen-

## Issue: Employment

Compared to other EU countries, unemployment rates in the Czech Republic have always been below the EU-27. In 2008 this trend continued and the unemployment rate dropped to 4.3% in the second quarter, a record low since 1996.

As for the employment rate, the situation in the Czech Republic has been more or less stable, the overall rate being between 65% and 67% (in 1998-2007); for example, 66.1% in 2007 according to Eurostat (compared with 65.4% at the EU-27 level). While the overall employment rate and the employment rate of males are slightly above the EU average, the employment rate of females is below the EU-27 average by 1 percentage point (57.3% in the Czech Republic and 58.3% in the EU-27 in 2007).

Some issues related to employment and equal opportunities based on gender are

Further and deeper reform of the pension system is still being discussed, but no political consensus among the major political parties has been reached so far

Both genders as of 2016 and 2019 respectively). The current government proposal provides for a retirement age of 65 years as of 2030, but it has not been approved yet by parliament and is unlikely to be introduced before the next parliamentary elections in 2010. Thus, the Czech Republic has not fulfilled one of the objectives set in the Lisbon Strategy.

Further and deeper reform of the pension system is still being discussed, but no political consensus among the major political parties has been reached so far. Even though prestigious international bodies (e.g. the World Bank, OECD) constantly point out the necessity to make the pension system sustainable in a mid- and long-term perspective, it is not possible to adopt any common measures at the EU supra-national level.

### **Issue: Social security system and access to services**

The social security system in the Czech Republic is quite complex. Social security insurance is divided into three headings – pension insurance, sickness insurance and contribution to active employment policy. Everyone who is economically active in the Czech Republic is obliged to pay social security insurance which is de facto conceived as a kind of special tax.

State social support is focused on individuals and families whose income is lower than a certain limit defined by law. There are many allowances (child, social, housing allowances, parental contribution or allowances for foster care), and almost all of them are payable on request. Applications for state social benefits are handled by the contact points of the competent labour offices based on the permanent residence of the person entitled to the benefit (the eligible applicant).

Citizens are eligible for benefits if they and the household members assessed with them are permanently resident in the Czech Republic or if they are EU citizens – subject to directly applicable legislation of the European Communities.

The second important category of social security policy is an unemployment allowance. A job seeker can apply for unemployment support. He/she must meet the basic conditions, and there are many exceptions for some age groups.

There are no particular problems identified relating to EU leverage in this field.

### **Issue: Social services**

No particular problems related to EU leverage in this field have been identified.

### **Issue: Roma/other minorities' integration and citizenship issues**

In the Czech Republic there are three groups of citizens for which special policies exist. Regarding gender discrimination – equal opportunities for men and women is an issue that began to be more publicly discussed in the country after the start of EU accession negotiations. Nevertheless, the situation in many areas of society has not changed significantly. The proportion of women in elected bodies at the national level remains below 20% (15% in 2008, compared to 13.9% in 1996). There is no quota for females in elected bodies, even though some political parties strive to have a balanced list of candidates by gender. The situation seems to be much better balanced at the municipal level, where female deputies make up 25%.

The second problem which is being resolved in the whole EU is the disparity of salaries between males and females. Women earn on average 72% of the annual income of men (2006 Eurostat); the gap recalculated as salary per working hour is 18 percentage points, which is still below the EU average (15 percentage points). On the other hand, women have won several lawsuits for discriminatory behaviour (lower wage, failure in a hiring process etc.). Hence, employers have started being more careful, trying to avoid explicit discrimination.

A new anti-discriminatory law implementing the EC directives 200/78 and 200/43 was approved by parliament in March 2008 but was vetoed by the President. The Czech President has argued that the content of such a law is useless and does not contain anything new for Czech legislation. Now the Czech Republic can be sued by the EC for non-implementation of EC directives.

The problem of integration and social inclusion of the Roma minority attracted more attention in the context of enlargement in 2004 and 2007. It is especially acute in Central and Eastern European countries where there are significant Roma communities, which often live in poor hygienic and living conditions. The European Commission is trying to come up with some coordination proposals, but the situation differs from country to country. Roma communities in Slovakia which live in villages without electricity and water supply can hardly be compared with Roma city ghettos in some Czech towns, whose social situation as well as overall inclusion in society is relatively much better. It is positive that there is a specific possibility

to enhance the social inclusion of some Roma communities. The Human Resources and Employment Operational Programme includes an area of support, "Enhancing Social Integration of Members of Roma Localities", which is a special and probably the most important measure in the whole system of the EU SF aimed primarily at focusing on excluded Roma localities and improving their situation. The complex approach of this measure strives to resolve all problematic areas faced by Roma communities face, i.e. housing, education and social and health services. All activities under this area of support are co-coordinated by the Government Office, the Council for Roma Community Affairs.

Disabled people's needs for special health and social care services are addressed by the Czech law on providing social services (act no 108/2006 Coll.), which is a revolutionary step in the social care area. Having been approved as the result of a long-term campaign of NGOs dealing with social care, it comes with new principles. Firstly, everybody who is defined as a needy person, i.e. in need of social services has a right to get a certain subsidy and it is up to him/her to decide how to spend it, i.e. whether to purchase homecare, to live in a special facility with social services or to pay his/her relative to take care of him/her. Secondly, this law precisely defines the social services (providing meals, accommodation, assistance in running a household, care and assistance with bringing up a child, providing information, mediation of contact with social services, psychotherapy and social therapy etc.), sets the rules for the social services providers and generally liberalises the whole environment of social services.

### **Issue: Housing**

The housing situation in the Czech Republic is quite specific. In communist times, housing was very cheap for the entire population. One of the most important pillars of the Czech communist government was to provide every citizen with satisfactory housing. On the other hand, this policy led to under-financing of older houses and a preference for huge prefabricated blocks of flats. These concrete blocks of flats have to be renovated to be more energy efficient and protected from the negative climate conditions. It is positive that the Czech government managed to include the renovation of prefabricated blocks of flats under operational programmes financed by EU funds. But whereas such a measure can be perceived as preventing social exclusion, it can inadvertently lead to the spontaneous creation of city ghettos.

As for the overall costs of housing, the tendency in the country has been recently converging with the EU-15 average, with housing costs forming the biggest share in household expenses. Currently 22% of household expenses are spent on housing, including water and energy, while 20% are spent on food and non-alcoholic drinks (2007), compared to 17.5% and 23.2% respectively in 1999!

## The housing situation in the Czech Republic is quite specific

Another specific feature related to housing is the existence of so-called regulated lease contracts. This involves a maximum limit of rent set in all contracts concluded before 1990, while there is full freedom in concluding such contracts at the moment. This discrepancy obviously leads to certain discrimination against those who have not been lucky enough to conclude a lease contract before 1990. House owners are another influential stakeholder in this issue who feel similar discrimination in favour of those owners having houses leased under freely negotiated contracts. The Association of Owners of Houses and Apartments has even sued the Czech Republic at the European Court of Human Rights in Strasbourg on the grounds of the above-mentioned discrimination. In 2007 a special law on unilateral change of rents came into force, and it sets a four-year timetable for an increase in regulated rents. The whole process is scheduled to end by December 2010 when regulated rents should get close to free market prices.

This tricky situation of regulated versus deregulated prices of flats also has further consequences. Firstly, it reduces the mobility of the labour force in the country since the market of rental flats exists only to a limited extent. It is simply disadvantageous for people paying regulated rents to move to another city for a job and pay free market prices for a flat. Secondly, serious social aspects are at stake since many elderly people and pensioners live precisely in flats with regulated rents. The government has to focus its social policy on the people whose living conditions could be significantly worsened by such deregulation.

In the Czech Republic there are approximately 750 000 households living in flats with regulated rents which represent around 20% of all flats (including small private houses etc.). The majority of the population lives in its own houses or flats (approximately 74%).

With the exception of the expected ruling of the European Court of Human Rights, it is unthinkable to involve the EU in this issue which is, in essence, a typical domestic problem.

### **Issue: Poverty**

The level of poverty in the country is relatively low. On the other hand, the extent of redistribution of national income is quite high. According to the Gini index, which is a way of measuring the inequality of distribution of income in a country, the Czech Republic was measured to be 26 (2006 – CIA report) while most of the EU countries have higher figures. The lower a country's Gini index, the more equal the distribution of income.

According to poverty rate measured by fixed thresholds (used different percentage of household income as a national median, i.e. from 40% to 70%) the Czech Republic is the leader of all statistics, reporting around 9% (60% threshold in 2005 – source: European Commission) compared to the EU-25 average of 16% and for instance Italy's 20%.

In general, thanks to traditionally high redistribution of national income and generous social benefits, poverty is not a crucial problem for the majority of Czech society. On the other hand, some minorities (especially the Roma or specifically disabled people) often face serious social problems connected with long-term unemployment and social exclusion.

## Conclusion

There are many ways in which the European Union has influenced and is still influencing the area of welfare system and social inclusion. Equal opportunities are the main issue formulated by the European Commission. The Czech Republic has not yet approved a new anti-discriminatory law which implements EC directives 200/78 and 200/43, because of the Czech President's veto. Therefore the Czechs now face a potential lawsuit at the European Court of Justice for non-implementation of the directives (infringement procedure). The Chamber of Deputies is expected to outvote the president's veto.

The second topic raised or emphasised by the European Commission is the Roma issue. Even though the whole theme of exclusion of some Roma communities has been discussed in the Czech Republic since before the start of EU accession negotiations, EU emphasis on the issue has led to more intensive debate and more strategic thinking in this area. The establishment of the Council for Roma Community Affairs at the Government Office is one of the most visible outputs.

Housing is a specific and hot issue in the Czech Republic which suffers from ageing of huge pre-fabricated blocks of flats and non-liberal and discriminatory measures concerning lease contracts for flats. It is positive that the Czech government has managed to include the renovation of prefabricated houses under operational programmes financed by EU funds. But whereas such a measure can be perceived as preventing social exclusion, it can inadvertently lead to the spontaneous creation of city ghettos. The Czech Republic is now expecting the ruling of the European Court of Human Rights concerning discrimination on the housing market.

The European Employment Strategy is a main instrument of the EU Open Method of Coordination (OMC) based on the Lisbon Strategy. It contains some measures which have not yet been implemented in the Czech Republic. The "flexicurity principle", in particular, has not been fully applied in the new Czech Labour Code approved by parliament in 2006 and enforced on 1 January 2007. The main condition of "hire and fire" has been torpedoed by the socialists and representatives of unions. Nor has the second and complementary part of the flexicurity principle – generous unemployment benefits and incentives to requalification (vocational courses etc.) – been sufficiently implemented. Moreover, in the Czech Republic there are no systematic incentives for lifelong education.

On the other hand, it is obvious that most of the objectives set in the Lisbon Strategy will not be reached. The only possibility to achieve the 70% employment rate in the EU in a mid-term perspective (regardless of the current economic slowdown) is to immediately increase the retirement age to 65 years. Unfortunately, this indispensable condition is politically inapplicable in most of the EU member states.

# H Health System

## Summary

The Czech Republic, as other countries in the EU, is faced with the challenges of an ageing population connected with the higher proportion of elderly people in society, higher expectations of citizens for medical care and better and more costly medical treatment.

Health care in the Czech Republic has been traditionally widely accessible for all citizens, regardless of incomes.

On one hand such an access to health care and coverage of most of the costs by public mandatory insurance guarantees equal distribution of health care services, but on the other hand it limits investments in modern and more sophisticated medical treatment.

## General State of Affairs in the Sector

According to some opinion polls, the situation in the health sector, the good quality of health care and access to health services are the most important priority for the majority of respondents.

The health system in the Czech Republic suffers from several weaknesses, some of them caused by the legacy of the socialist period before 1989. Mandatory health insurance for all citizens in the country guarantees broad and generally good access to health care for citizens regardless of their income.

The main weaknesses of the system are the significant dependence of health care on public resources, lack of

competitiveness on the market, poor control of expenditure and limited rights of citizens as patients as well as quality of services and corruption practices.

## Issue: Quality of health services

A SWOT analysis conducted by the present government in 2007 identified the following shortcomings which the ongoing reform is supposed to address. Firstly, the quality as well as access to health care services differs from one region to another. While a patient may have to wait for surgery for more than a year in one region, there are no waiting lists or queues for the same service in another region. Secondly, according to rough estimates, 10% to 20% of all funds allocated for health care are used inefficiently

because of insufficient control and wasteful spending. This percentage corresponds to approximately CZK 25 to 50 billion per year (approximately €1 to 2 billion). Thirdly, current Czech legislation does not enable citizens to get above-standard health care even if they are willing to pay extra. Last but not least, patients cannot effectively complain about medical care.

Politicians often point out the good quality of the health care system by referring, for example, to the extremely low infant mortality rate, which is 0.34% (2005), compared to figures around 1% in neighbouring countries. Whereas this is certainly true, on the other hand the quality of maternity hospitals is sometimes criticised for the limited freedom of women to choose the way of childbirth.

The Ministry of Health has launched a new project measuring quality of health care in hospitals. It is based on surveys of patients who have spent at least two days in hospital.

The main weaknesses of the system are the significant dependence of health care on public resources, lack of competitiveness on the market, poor control of expenditure and limited rights of citizens as patients, as well as quality of services and corruption practices

### **Issue: Reform of the health sector**

The most visible reform of the health sector was launched at the beginning of 2008 and involves greater participation of citizens in health care. A system of regulatory fees has been introduced, the aim being to reduce useless and redundant medical care. Every citizen insured in the public health system has to pay CZK 30 (approximately €1.2) per visit to a doctor, CZK 60 per day of stay in hospital, and CZK 90 per emergency service visit.

### **Issue: Financing**

The health sector in the Czech Republic is very vulnerable due to an extreme dependence on public funds. In 2006 over 87% of total expenditures in the health sector came from public funds – more specifically, 77% from public health insurance companies, 10.3% from public budgets at all national, regional and local levels, and only 11.7% (CZK 21 billion) spent directly by individual citizens for using health services. This share of public funds in health care spending is one of the highest among all OECD countries.

Overall expenditures on health services reached approximately 7% of the national GDP in 2000-2006, which is an average level among developed countries (OECD statistics). In nominal prices, this equals CZK 220 billion or approximately €9.5 billion (2007). Spending in the health care sector

The health sector in the Czech Republic is very vulnerable due to an extreme dependence on public funds

more or less coincides with GDP growth (7.1% spending growth in the health care sector and 6.5% economic growth in 2000-2006 in nominal prices).

Regarding the particular expenses of households for health care, pharmaceuticals largely prevail, with 56% go-

ing for both over-the-counter and prescription pharmaceuticals, followed by specific medical devices (e.g. glasses) and dental operations.

Looking at health care expenditures in more detail, the Czech Republic spends approximately 49% for medical care and 30% for pharmaceuticals, while the average proportion of these two parameters in OECD countries is 57% to 21%. This disproportion in favour of pharmaceuticals means, on the one hand, a practice of using modern imported drugs but, on the other, it demonstrates a lower wage level of doctors and other employees in comparison with the OECD average.

### **Issue: Hospital privatisation**

The ownership of hospitals in the Czech Republic is very complicated. The biggest hospitals are called "faculty hospitals" and are run by the Ministry of Health in cooperation with the Ministry of Education so that university students can be regularly educated at the medical faculties. There are 19 such hospitals under government control (excluding six specific hospitals run by the Ministry of Defence and the Ministry of Justice), which corresponds to 10% of all hospitals in the Czech Republic. The second and largest group (59%) comprises hospitals owned by regional authorities as a result of the administrative reform (1999-2001) in which self-governing regions were established and were handed over the competencies in the area of hospital management.

Now it is the legal status of hospitals that stimulates current debates on further reform of the health sector. Some regions which had inherited hospitals with poor and inefficient management and heavy debts, decided to privatise some of them or make them more efficient. While originally these regional hospitals functioned as subsidised organisations directly connected to the regional budget, many of them have been transformed into commercial institutions – into either joint stock or limited liability companies which, however, are still owned by regional authorities. In any case, such transformation is perceived as an initial step to further privatisation, which is welcomed by supporters as the only way to heal the whole sector but is criticised by political opponents as a risky operation that may decrease general access to health services.

The third group of hospitals is made up of private hospitals owned by various private bodies of churches.

## **Issue: Private health insurance funds**

Private health insurance funds are not well-developed in the Czech Republic. One of the reasons is the fact that it is mandatory for every citizen of the Czech Republic (and even for every foreigner who is economically active)

to be involved in the public health insurance scheme. Although there are several health care insurers on the market, the relevant law strictly regulates all additional activities of these insurers. The regulation thus excludes any tailored schemes for insurees and does not enable them to pay additional costs which are considered as above-standard health care.

Serious problems can be identified in matching the public and private insurance funds. Providers who are involved in the public insurance scheme are prevented from charging patients for some complementary services. This situation leads to quite a strict division of health care services funded from the public insurance scheme and those which are fully private and stand outside the public insurance scheme. It is necessary to add that the latter system represents only a negligible percentage of overall costs for health care in the Czech Republic.

The lower wage level in the health care sector in the Czech Republic has driven many doctors to leave for better-paid positions in Western Europe

## **Issue: Human resources**

Education both at medical faculties and vocational secondary and upper-secondary schools is by tradition of good quality. Czech medical faculties even attract many students from abroad and provide them with full medical education. The Czech Republic's entry into the European Union led to a certain brain drain of doctors. The lower wage level in the health care sector in the Czech Republic has driven many doctors to leave for better-paid positions in Western Europe (Germany, the UK). This gap has not yet been filled by workers from other countries (Slovakia, Bulgaria, Ukraine etc.), even though many doctors and nurses from these countries have been coming to work in the Czech Republic in recent years. According to some forecasts, the situation with human resources in health care might even worsen since every year the number of retiring doctors slightly exceeds that of graduates from medical faculties. Furthermore, in some areas of health care (e.g. dentists) the lack of money in public insurance funds has driven doctors to leave the public health care schemes and go into private practices.

## **Conclusion**

Health care is an area which has been influenced by the European Union only marginally. Also, it is not probable that the EU will be able to shape the

health care policy significantly. The use of health care when travelling and reimbursement of medical costs by a public health insurance company thus remains the most visible benefit from EU accession.

On the other hand, Czech health care providers benefit from the many foreigners who are attracted by the generally lower prices for various treatments – from plastic surgery and dentists to preventive care, e.g. spa resorts. The current boom of traditional spa resorts in Western Bohemia has been caused to a large extent by the influx of German citizens.

# Educational System

## Summary

The Czech educational system is going through important reforms at all levels in order to reflect modern trends in education and better prepare students for the challenges of the modern world.

Thus, schools are gaining more independence. They are allowed to develop their own educational plans, which require also more responsibility and commitment on the part of the school management and teachers.

Regarding the performance of Czech students, they rank among the average for developed countries but significantly lag behind in reading comprehension literacy.

Strengthening students' language competencies and ability to search for, interpret and understand information in context are the most important specific objectives of the ongoing school reform.

## Issue: State of reform of the education sector

Since the 2007/2008 academic year, a new (and to a certain extent revolutionary) reform for both primary and secondary schools has come into effect. This reform is based on more autonomy of individual schools, setting binding guidelines and aiming to enhance responsibility and diversity of schools. Every primary and secondary school in the Czech Republic has to elaborate its own school educational plan which is a framework programme defining the main focus and approach of the school. While the Ministry of Education, Youth and Sport sets the aims and competencies which students should achieve in a certain period, it is fully up to individual schools how to reach them. Schools can prepare a detailed study programme which may be fo-

cused more on some subjects; some competencies of students as well as the content of individual subjects may be strengthened.

This reform requires more activity on the part of schools but enables them to be more creative in applying non-traditional education methods. Last but not least, the school educational plan, which is a public document (accessible at the school building or on the school's website), can serve as a useful guideline for parents in selecting the best school for their children.

The main difference from the current situation lies in the definition of "key competencies" of students, i.e. especially with regard to solving the problems with use of language, mathematics and other subjects. The

Ministry of Education no longer prepares the whole educational content as it used to do in the past. This part of the reform can be characterised as pro-autonomous and decentralised in favour of primary and secondary schools.

The reform of tertiary education is a much more complicated process than that of primary and secondary education due to the existence of a strong lobby and different interests of stakeholders at this level. So far there is only one clear result – division of study into three categories, referred to as BA, MA and PhD studies. In the last 18 years much attention has been paid to better access of students to tertiary education, i.e. enabling more students to study at universities. This objective has been achieved to some extent (for more, see the subheading on student performance and outcomes below), but some shortcomings remain. One of the most revolutionary steps currently discussed in the framework of the White Paper on tertiary education reform is connected to tuition fees at public universities and some advantageous student loans. The second challenge which any reform in this area should focus on concerns the access of students to tertiary education according to the family status and education of parents. According to OECD statistics, the Czech Republic lags behind in this respect. Although there are no explicit obstacles for students from disadvantaged and lower income families, the statistics clearly show that the chance to study at university of a person whose parents do not have a university degree is four times less than that of a person coming from a more educated family.

### **Issue: External evaluation, inspection and quality of education**

Czech School Inspection is a central body of state administration responsible for inspecting schools from pre-school education, through primary and secondary schools till vocational and upper-vocational schools. CSI was established on 1 January 2008 according to the relevant provisions of 561/2004 Coll. (School Act). CSI evaluates schools on the basis of the following criteria:

- Equal opportunities to start education – publishing information accessible to all potential applicants, measures to fight any discrimination in the entrance process, legality of the entrance process.
- Reflecting educational needs of individuals – identification of needs and carrying out relevant education, support of students lagging behind, educational plans.
- School advisory on educational needs, change/modification of educational programmes.
- Apart from the above-mentioned criteria, CSI can evaluate schools on the basis of personal management, financial sustainability, prevention of socially pathological phenomena, content of educational plans and strategies.

Another reform step related to the secondary system of education concerns the school-leaving examination which is to be organised on a central level and guaranteed by the Ministry of Education. So far there have been no unified state school-leaving examinations, with each secondary school organising this process on its own according to certain guidelines. The Ministry of Education would like to introduce this system in 2010. This step is assessed by education experts as much more controversial than the existing system. Experts often argue that it will increase centralisation and further limit the freedom of schools in setting school education frameworks. An alternative to the ministerial approach seems to be a full privatisation of school-leaving examinations based on different tests with different level of difficulty which might correspond to different prestige of such examinations. Even today there are several secondary schools in the Czech Republic using "international baccalaureate" as a study programme which is tacitly accepted both by state authorities and Czech universities. Other tests used also by several universities as a generally accepted entrance test for university applicants are being developed by the Scio organisation, which has already gained a certain level of prestige among education institutions.

### **Issue: Teacher training and career**

In July 2007 the Czech government approved a Strategy of Lifelong Learning which constitutes a fundamental document for the other cross-sectional and individual concepts and policies in this area and outlines a comprehensive concept for lifelong learning. It is the first consistent document in the Czech Republic which promotes the permanent effort to learn during one's whole life in order to succeed on the labour market. One of the most crucial aspects of this strategy is the emphasis on teachers from two perspectives. The first one assumes that teachers are the leading motivation factor which will stimulate participants in whatever lifelong courses; the second one focuses on teachers as a target group and proposes lifelong courses just for teachers.

Despite the adoption of the above-mentioned strategy, there is no functioning and consistent system of lifelong education for teachers at all levels. Thus, all activity regarding participation in lifelong courses rests on the teachers themselves, respectively on school principals in coordination with the schools unions. Czech law no 563/2004 Coll. defines obligations for all pedagogical employees to further education. According to this law, teachers may participate in courses accredited by the Ministry or may opt for self-learning.

### **Issue: Governance and school management**

Act No. 111/1998 Coll., on universities, regulates the legal position of these institutions which aim to foster and promote scientific, educational,

## The Czech Republic spends less on education than the OECD countries on average

developmental and other inventive activities. The position of public universities is truly specific. The Act grants them wide powers regarding self-administration, educational and research programmes and economic issues. Public universities are established by law

and, currently, there are 23 universities in the Czech Republic. In addition to public universities, there are also private universities and state universities founded as organisational components of the State (e.g. military and police academies etc.).

In reality, public universities benefit from their large autonomy. Their management (dean, rector and boards) is elected by university employees (teaching professors) and, to a limited extent, by students (parts of the academic senate). On the other hand, public universities are more than 95% dependent on the national budget, in the competences of the Ministry of Education, Youth and Sport. This ambiguous but traditional position of universities as entities with high autonomy but no financial independence has recently led to discussions on better and more effective management of universities, e.g. establishment of a board of trustees nominated by different institutions including, for example, ministry, parliament and business sector. Due to the historical legacy of the university status, any radical reforms relating to modification of the governance structure and management of universities are unlikely to be approved in the near future.

Apart from the public universities, an important role is played by private universities as well. There are many schemes of university ownership, from beneficiary societies to private companies or branches of foreign universities. Their models of governance and management vary according to the university statute and ideas of the owners.

### Issue: Financing of education

According to Education at a Glance – OECD – 2005, the Czech Republic spends €2 653 per student (compared to €5 648 as the OECD average); €1 598 (compared to €4 056) at the primary level, €2 790 (compared to €5 379) at the secondary level, and €4 800 at the tertiary level including research expenditures (compared to €10 264).

Looking at public expenditures as a percentage of the country's GDP, the Czech Republic spends 4.4% of its GDP or less than the OECD average (6.1%). The situation is similar when comparing the expenses per student at different levels (primary, secondary, and tertiary), i.e. the Czech Republic spends less on education than the OECD countries on average. It should be added that the overall expenses calculated per student have been gradually increasing in recent years.

## **Issue: Equitable access to education**

According to several analyses, the educational system in the Czech Republic is very selective and favours some groups of pupils. This trend begins

even at the primary level, when many talented pupils continue their studies at eight-year grammar schools which select children at a very early stage of their education. Studying at this kind of schools motivates and determines students to further study at universities and gives them a certain implicit advantage in comparison with their peers attending other schools. This advantage comes from the fact that students from well-educated families (with at least one parent with a university degree) perform much better in university entrance examinations than students coming from less educated families and vocational secondary schools.

One of the most important reasons for inequitable access among social groups to universities is a permanent higher demand to study at more attractive universities as well as to study some popular subjects (law, economics, and languages). Although the possibilities to study at universities have significantly increased in the last ten years and universities admit much more applicants than before, the situation in terms of equitable access to tertiary education is still far from perfect.

Czech students do not perform poorly compared to their peers from other countries

## **Issue: Student performance and outcomes**

In the Czech Republic a significant majority of young people (89%) reach secondary education (compared to 70% in the OECD countries) but in terms of tertiary education, the Czech population is lagging behind the OECD average (12% versus 20% of the overall population).

According to latest survey conducted by PISA (Programme for International Student Assessment) in 2006, Czech students do not perform poorly compared to their peers from other countries. In mathematical literacy and application of science for problem-solving, Czech 15-year-old students perform very well over the average for OECD countries. But they lag behind in reading performance. That is why language competencies, including reading comprehension, seeking correct information and interpretation of data, have become the most emphasised and recommended competencies in the creation of school educational plans (for more, see subheading on reform of the education sector above).

## **Conclusion**

The leverage of the European Union on education policy is based on the exchange of students, teaching staff, ideas and information together with setting some standards in order to evaluate university quality. Such

a policy can be assessed as realistic and well-focused. At the same time, these activities showing effectiveness and efficiency in creating positive aspects of European integration are worth further strengthening. The OMC approach in the area of education is limited at present to the Education and Training 2010 programme which defines its priorities quite vaguely and does not provide consistent monitoring of individual actions on national levels.

Nevertheless, the whole Bologna process based on inter-governmental cooperation with the aim to build up the European Higher Education Area is generally assessed positively in the Czech Republic. This already ten-year-long process must be emphasised as a useful tool to increase quality in education, improve accessibility and set international standards for comparison.

# Justice and Home Affairs

## Summary

The Czech Republic still suffers from some deficiencies in justice connected with lower effectiveness and efficiency of the whole judicial system and enforcement of law, which negatively influence the trust of citizens in democratic institutions as well as democracy in general.

The European Union has invested lots of funds, especially before the accession of the country to the EU (PHARE programme), in the judicial system with the general objective to make it more effective. Some partial improvements can be seen (use of modern technologies, transfer of administrative burden from judges to assistants and upper judicial officers) but many reforms still need to be done, including development of modern both civil and criminal procedures, a new civil code etc.

## Issue: Internal security situation (crime rate, organised crime, terrorism risk and corruption)

The Ministry of Interior regularly publishes reports on crime rates in the country based on the findings of different units of the Czech police and other bodies. In 2006 the Czech police registered in total 336 446 crimes; compared to 2005, there was a decrease by 2.2% (-7 614 crimes). This means that since 2004 the overall number of detected crimes has been decreasing and the number of crimes in 2006 was a record low since 1993. In terms of long-term development of crime, the most dynamic growth occurred in the years between 1990 and 1993; the trend of slower increase in crime continued until 1999 and has been gradually decreasing since then.

The number of solved criminal offences slightly decreased in 2006 by 1.2% (-1 586 crimes); in total, 133 695 crimes were solved. The percentage of solved crimes was 39.7% (+0.4%). The capital Prague, with 27% of all crimes, has the highest share in total crime. As regards the most significant fluctuations in crime development, the number of economic crimes, crimes against property, and violent and sexually motivated crimes decreased. With respect to crimes against property, the number of burglaries (burglaries of the holiday homes of private persons, shops, flats and family houses) and common thefts (thefts from cars, and thefts of cars and bicycles) declined. As regards violent and sexually motivated crimes, the number of crimes of intentional injuries to health, rapes, robberies and robberies of financial institutions fell.

The overall number of detected crimes has been decreasing and the number of crimes in 2006 was a record low since 1993

On 1 January 2007, Act No. 135/2006 Coll., amending some acts concerning domestic violence, came into effect. This new legal regulation extends the powers of the police who are permitted to banish a person who commits domestic violence from his/her house/apartment for a period of ten

days, regardless of the consent of the endangered person.

One of the crucial tasks of the Czech police is to reduce car thefts. The measures which have already been implemented in this respect consist in strengthening checks before a car is officially registered, checks on car wreckage management and on the use of spare parts as well as the issue of insurance fraud. However, it appears that it is impossible to radically decrease the number of car thefts and thefts from cars without good prevention, including use of municipal camera systems and international cooperation to monitor organised crime.

Among the priorities of the Ministry of Interior is combating organised crime. A National Strategy for Combating Trafficking in Human Beings (from 2005 to 2007) was approved by government resolution back in July 2005. The strategy contains a plan of tasks relating to legislation, education, prevention, research, and the protection of victims. The government has adopted another strategic document, the National Plan against Commercial Exploitation of Children, which aims at making state administration more effective, protecting children from being exploited, creating a friendly environment for child victims and witnesses within criminal proceedings etc.

Under Act No. 136/2006 Coll., amending some acts relating to travel documents, as of 1 September 2006 travel documents are being issued with machine-readable data and furnished with a data medium containing biometric data – the first biometric data being the digitalised face of the holder. According to the government plan, as from 1 May 2008 travel documents should be furnished with a second biometric data, a fingerprint, but this process has been delayed and has not yet come into effect.

The National Plan of Managing the Protection of the National Border of the Czech Republic is to ensure the development and transformation of the system of national border protection, and effective utilisation of existing capacities with regard to the abolishment of checks at the internal border within the following periods. The plan includes two phases: 1st phase – until full integration into Schengen cooperation; and 2nd phase – after checks at the internal border are abolished.

Despite the peaceful situation, the Czech Republic is continuously preparing for the possibility of a confrontation with terrorism. The National Action Plan on Combating Terrorism is a summary of results and newly proposed measures which concern mainly foreign policy, military, logistics, legislative, organisation and analytical areas. The following steps

are considered as main priorities of the Czech Republic in combating terrorism:

- To improve communication and cooperation between entities involved in combating terrorism;
- To enhance conditions for executing the activities of security forces;
- To carry out activities relating to the protection of the population;
- To prevent the establishment of closed immigrant communities and the radicalisation of their members.

In the last two years, another big project has been launched with the aim to modernise police offices at the lowest units, i.e. to equip them with modern technology and generally improve the working environment.

### **Issue: External border management and Schengen agreement implementation**

The Czech Republic does not have any serious problems with implementation of the Schengen agreement and application of the Schengen Information System. The reason is obvious – no external borders, with the exception of international airports in the country.

### **Issue: Functioning and reform of the justice system**

Justice and well-functioning courts are crucial priorities for the government reform of the judiciary system. Czech judges have had to learn how to apply the *acquis communautaire*, particularly EU regulations with a direct effect and ability to pose preliminary questions to the European Court of Justice. Even though the judiciary has not failed in application of EU law, “traditional” shortcomings still exist. They are related to efficiency, effectiveness and quality of judicial decisions, self-governance of judges and complementary staff at the courts.

The length of judicial proceedings is the most visible aspect often criticised in the Czech Republic: criminal proceedings take on average 242 days (first-instance court), but civil proceedings take 444 days. The judiciary also suffers from enormous growth of cases in some areas (by 40% between 2001 and 2006), insufficient number of judge assistants and other auxiliary staff and ineffective use of information technologies. The current reform focuses only on the latter point, trying to digitalise all cases and record the proceedings, including interrogation of witnesses, e-management of justice, etc. Besides, the reform strives to empower human resources, especially upper judicial officers who are responsible for less complicated cases and set the permanent teams consisting of a judge, upper judicial officers and assistants.

The necessity to approve a new Civil Code arises from the many changes which have occurred in society in the last twenty years. Moreover,

the current Civil Code is based on socialist perceptions – some parts (e.g. inheritance law) are regulated insufficiently and do not thus reflect the current requirements and needs both of citizens and corporations. Even though the Civil Code from 1964 has been supplemented many times, it is now ten years since the government made a decision on the drafting of a completely new Civil Code which should comprise both the traditional content of civil law and the commercial code, which is currently applied for legal bodies and entrepreneurs and functions as *lex specialis* with regard to the Civil Code.

### **Issue: Issues of cooperation on EU level (justice, police)**

The Czech police continue to implement tasks arising from membership in the EU and the Schengen security area and to broaden their involvement in international police activities, including information systems, since the Czech Republic joined the Schengen system in December 2007.

### **Conclusion**

Justice and home affairs is an area which is being harmonised on the EU level due to several reasons. Abolishment of internal borders, migration inside the EU, and threats of organised crime and terrorism are challenges which cannot be solved individually on the national level. Cooperation in justice, criminal law and civil law are areas which have been recently enhanced and in which further harmonisation is also expected. All steps should be based on mutual trust between the authorities of individual EU member states, i.e. recognition of judgments, extradition of convicted or sentenced persons, exchange of information, databases etc.

# Migration

## Summary

The situation of the Czech Republic has changed after accession to the European Union. While in the nineties the country was considered to be only a transit point for many migrants from the East, since EU accession it has become a final destination. Although foreign workers are not perceived as a threat by the majority of the population and no relevant conflicts have been reported, the integration of foreigners into society is lagging behind the EU average (e.g. access to labour market, reunification of families, possibility to gain citizenship or involvement in political life).

The Czech Republic does not have serious brain-drain problems due to the traditional reluctance of Czechs to move for a job, with the exception of some professions (highly educated researchers, doctors and nurses). On the contrary – the Czech Republic has launched a programme for recruitment of migrants, with the aim to attract more skilled workers.

## Issue: Demographic trends

The Czech Republic, as other countries of Central and Eastern Europe, suffers from negative demographic trends. The birth rate does not exceed 1.3 children per woman despite the current baby boom which has been caused by a strong generation from the seventies deciding to settle down and have a family. According to demographic analyses, in 2050 the population of the Czech Republic will decrease by one million (from 10.3 million in 2008). The natural decay of the population is currently balanced out by the influx of migrants.

The second problem related to lower birth rates is the ageing population. The older generation (people aged 60-plus) has already outnumbered the younger generation (aged under 18) and this trend is expected to continue. Higher life expectancy will have a serious impact on the sustainability of social services, the health care

and welfare system in general. Reforms in the pension system cannot be postponed even though such steps may be unpopular and hard to be defended in the political debate.

The only factor preventing the decline of the population in the Czech Republic is immigration.

The Czech Republic has become a target country for migrants since its accession to the European Union

### **Issue: Immigration – outgoing migration and return rate**

The Czech Republic has become a target country for migrants since its accession to the European Union.

According to the Integration Policy Index (Migration Policy Group, March 2008), the Czech Republic is lagging behind the EU average in integration of foreigners into society. With the exception of the possibility to gain a residence permit in the country, the Czech Republic has failed in all other criteria, i.e. access to labour market, reunification of families, possibility to gain citizenship or involvement in political life. The worst scoring has been indicated in protection against discrimination, which seems to be a serious problem in Czech society. The current state is criticised by the Ukrainians who constitute the biggest non-EU minority in the Czech Republic. According to some estimates, out of 70 000 Ukrainians economically active in the Czech Republic, approximately half live in the country illegally.

The current migration policy has been influenced by the negative demographic trends as well as by the boom of the Czech economy connected with a growing demand for professions which are less attractive for the Czechs. All these factors have been shaping the Czech migration policy and the Czech labour market since at least 2001. As in every other country, the crucial factor determining both legal and illegal migration and employment is the rules for entering the country and permission to sojourn. All available Czech statistics show a permanent growth in the number of foreigners living in the country. The Czech Republic thus has become a target country and final destination for many migrants, both short-term and long-term. According to the Czech Statistical Office, whilst in 1990 there were 35 198 foreigners officially registered as living in the country, in 2008 their number was 406 655. In 2007 alone, as many as 70 000 workers from abroad came and found a job in the Czech Republic. When compared with the overall number of inhabitants and with regard to the current trend, the Czech Republic has been ranked among the top five OECD countries in terms of ratio between migrants and citizens.

The main reasons why foreigners want to stay in the Czech Republic are usually the economic situation and intention to work. As for the number of employed foreigners, it exceeded 250 000 in May 2008, out of which 105 000 persons were granted permission to work and 145 000 persons came from another EU member state (i.e. no need to apply for a work permit). Analysing foreigners according to nationality, Slovaks occupy the first place in terms of employed foreigners (101 000 persons), followed by Ukrainians (62 000) and Poles (23 000).

As for the geographic regions of migration, EU citizens prevail, followed by citizens from Eastern Europe (Ukraine, Russia, and Belarus) and then workers from Asia. The number of employed foreigners cannot be the only criterion when analysing migration trends in the Czech Republic. Many

foreigners especially from Asia (particularly Vietnam due to the traditional close political ties and development aid between the two countries from the former Soviet bloc) have the status of entrepreneurs doing business especially in retailing. In the context of a steep decrease in unemployment, the first signals of a labour force shortage in some regions and professions began appearing in 2006 and especially in 2007. Since then, the business sector has been lobbying for easier access of foreigners to the Czech labour market and, generally, for simplification of rules for employment of foreign workers.

### **Issue: Illegal immigration and asylum policy**

In 2007, the Ministry of Interior granted asylum to 191 persons, but the number of requests for international protection has been decreasing. While in 2006 the number of requests for asylum exceeded 3 000 (3 016), in 2007 there were just 1 878 requests, a record low in the last twelve years. Out of them 51 requests were submitted by underage persons not accompanied by a parent or jurisdictional inspector. As for home country of asylum-seekers, Ukraine heads the ranking of countries with 293 requests, followed by Turkey (213), Mongolia (160), Belarus (130) and Russia (99). Of the African countries, the highest number of asylum-seekers came from Nigeria.

The reasons for the lower number of asylum-seekers in 2007 may be different: non-existent external border of the Czech Republic, application of the Dublin procedure, relative stability of the region (end of wars in the Western Balkans). It is possible that due to the stricter provisions in immigration and asylum policies, many potential asylum-seekers prefer staying in the country illegally instead of submitting international protection requests.

A state integration programme for asylum-seekers was launched in 1996, making the Czech Republic the first country from the post-communist bloc to introduce such a programme. Currently, this programme consists of three parts: firstly, it supports housing; secondly, Czech language classes; and thirdly, it assists job-seeking.

### **Issue: Directive on return of illegal immigrants**

The directive on return of illegal immigrants is quite a new measure of the common immigration policy whose aim is to unify different approaches towards immigrants in the EU member states. Following its adoption in June 2008, many protesters have appeared in the EU criticising its excessive severity. The most disputable provisions of this directive concern the length of detention of a person with illegal sojourn in a country which can last up to 18 months, then prohibition to enter a country provided that a foreigner has been expatriated, and possibility to detain even persons below 15 years of age who are not accompanied by their parents. In the

Czech Republic these provisions have been criticised especially by non-governmental organisations dealing with migration issues, and human rights organisations.

### **Issue: Regulated immigration (e.g. blue/green card). Pilot project – Selection of qualified foreign workers**

In 2003 the Czech government launched a programme aimed at attracting qualified workers from abroad. Eligible applicants must be either highly qualified (university degree) or qualified (secondary school degree). Once involved in the programme, applicants can gain Czech citizenship within a shorter term of time (one and a half years, compared with the standard term of five years). Applicants involved in this programme can benefit from other advantages, i.e. family members are also granted permanent sojourn, they can use special services for job-seeking provided that they have lost their job etc.

At the moment, this programme is open to citizens of Belarus, Bosnia and Herzegovina, Montenegro, Croatia, India, Canada, Kazakhstan, Macedonia, Moldova, Russia, Serbia, and Ukraine. Furthermore, all foreign students from all over the world who have graduated from Czech universities from 1995 onwards as well as graduates from Czech secondary schools can be automatically included into this programme.

Another project, which is different from the above-mentioned one, is a special return programme. This is a specific form of migration based on the Czech roots of selected communities. People whose ancestors emigrated to a particular country (Kazakhstan, Ukraine, Romania) from the Czech Republic (Czechoslovakia) have a right to be treated differently from other immigrants.

Apart from the official programmes guaranteed by the government and individual ministries, non-governmental organisations are the most active in dealing with the migration issue and in helping migrants with integration into Czech society. NGOs ensure many educational, free-time and other complementary activities, create social networks and provide migrants in need with some specific services. The NGO sector plays a crucial and leading role in advisory, especially in legal, issues which are indispensable for migrants to live in accordance with the whole legal system, i.e. without permanent anxiety about being expatriated from the country. Last but not least, NGOs also organise some volunteer programmes focused on migrants or provide them with temporary housing.

### **Issue: Emigration**

The Czechs are not used to moving for a job either inside the country or abroad. Therefore, emigration of Czechs is quite low and mainly temporary (student sojourn for a year). According to some estimates, the overall number of Czechs working abroad does not exceed 50 000 people. It is

clear that the application of transition periods for free movement of persons in some neighbouring countries (Germany, Austria) has not been based on real analysis of the situation but determined by the political demand of voters.

## **Conclusion**

In connection with its EU accession, the Czech Republic has become a target country for many immigrants. Work with immigrants and their integration into society is one of the most important tasks and challenges for the Czech government and other organisations dealing with this issue. It is positive that so far there have been no significant problems with migrants on the part of the majority of the population, which perceives them as important and useful for the national economy. On the other hand, from the perspective of migrants themselves some problem issues have been raised, including access to labour market, reunification of families, possibility to gain citizenship or involvement in political life. The Czech Republic should responsively react to this situation and establish transparent and clear regulations. It should envisage also continuation of issuing green and blue cards for selected foreign citizens even though some coordination is expected to take place on the EU level too.

# R Research and Innovation

## Summary

Since the accession of the Czech Republic to the EU, overall investments in the R&D sector have been increasing although they are still below the EU average.

The Czech Republic suffers from many deficiencies in the R&D sector, including ineffective cooperation between the academic (research) and business sectors, lower involvement of Czech research teams in international projects (e.g. the 6th Framework Programme) and, generally, decreasing appeal of R&D to young people.

EU-level framework programmes are useful tools to stimulate research activities in the European Union and enable cooperation and exchange of ideas among different centres in the EU so as to make the whole European economy more competitive. The research and development sector is one of the areas in which EU budget funds are worth spending.

## State of Affairs in the Sector

In the Czech Republic as well as in the European Union there are many concepts and strategies devoted to research and development (e.g. Action Plan for Europe – EU, More Research for Europe – EU, Economic Growth Strategy – Czech Republic, National Innovation Policy – Czech Republic, Research and Development National Policy etc.). More and more attention is being paid to the possibility of combining public and private sources to finance the R&D sector.

While developed countries (old EU member states, the USA, Japan) invest 2% to 3% of their GDP in the R&D sector, the Czech Republic is still lagging behind this average. Despite the permanent annual growth of investment in this area (4.7% in the 2000-2006 period), this figure more or less corresponds to the average annual growth of the whole Czech economy. In 2006,

overall expenditure on research and development equalled 1.55% of GDP, which makes the Czech Republic eleventh in the EU and second among the new EU member states in this respect (the EU-27 average is 1.84%). It is positive that the main driver stimulating investments in the R&D area has been the private sector.

The structure of expenditure on research and development does not differ very much from the EU average. The contribution of the private

sector has been gradually increasing (54% in 2005, 57% in 2006, and 63% in 2007), and this trend is likely to remain stable in the coming years too. Public expenditures oscillate between 35 and 40%, but foreign sources are much less represented (3% in the Czech Republic, compared to an average 8.5% in the EU). This figure demonstrates certain shortages of involvement of Czech research and development in the EU and international networks, especially in the European Research Area established in 2000 with the aim to stimulate research activities in Europe and strengthen cooperation between various partners.

## **Problems to address in the Czech Republic**

### **• Selection of preferential topics of R&D**

One of the problems defined in the Czech development strategies devoted to the R&D area is the selection of preferential topics for support. The Czech Republic as a smaller country has to focus its limited sources on carefully selected centres in order to enhance their capacity. So far the Czech Republic has inconsistently supported almost all scientific themes (more than 5 500 individual projects are conducted every year).

The Czech government has set eight priorities with the intention to concentrate public resources in the following key research areas:

- Sustainable development
- Molecular biology
- Energy sources
- Substance research
- Competitive machinery
- Information society
- Security research
- Socio-scientific research

### **• Low impact of Czech scientists**

Another problem indicated in the Czech R&D sector is the low impact of Czech scientists. In the 2002-2006 period, the relative impact factor reached only 0.75%, compared to 1.07% in the EU-15 and 1.41% in the USA. Thus, one of the major weaknesses of the Czech R&D sector is a limited capacity to promote its results and to achieve internationally recognised results. On the other hand, there are some centres of excellence which produce highly above-standards results (e.g. chemistry, physics, and veterinary medicine). Yet although they achieve internationally recognised outcomes, even these centres often suffer from poor material and technical equipment and a brain drain of young researchers who choose to work abroad. Although a certain level of migration of young researchers is common for other countries too, the Czech research environment is not attractive enough to attract foreign researchers because of the lower wages in comparison with Western Europe and the USA.

The Czech Republic is among the group of “moderate innovators”

- **Innovation, patents**

Another factor demonstrating the poor innovative environment in the Czech Republic is the low number of patents and patent applications from Czech authors.

According to some European comparative methodology, the Czech Republic is among the average countries in terms of innovation potential. The country has reached 0.36 (2007) in the European Innovation Scoreboard (Summary Innovation Index), the EU average being 0.45 – which means 13th place among the EU-27 and the same level as Norway.

The Czech Republic is among the group of “moderate innovators” with an overall innovation performance that is below the EU average but above the level of the “catching-up countries”. The other EU “moderate innovator” countries with similar levels of performance are Estonia, Slovenia, Italy, Cyprus and Spain. The Czech Republic’s innovation performance has improved over the last five years and its performance would converge with the EU average in about 10 years if current trends continue.

The Czech Republic has a relatively strong performance in the Applications dimension, and has high levels on indicators of sales of new-to-market products, sales of new-to-firm products and employment in medium-tech/high-tech manufacturing. It has relative weaknesses in the Innovation Drivers and the Intellectual Property dimensions. The Czech Republic has above average efficiency in transforming innovation inputs into Application outputs, but is below average in the efficiency of transforming such inputs into Intellectual Property outputs (source: [www.proinno-europe.eu](http://www.proinno-europe.eu)).

### **Issue: Cooperation between research and application sectors**

While the research sector in the Czech Republic is represented especially by the public research institutions and universities, the commercial sphere dominates in the application sector. This is generally a natural division of interests, but cooperation has never been smooth. Certain distrust between these two sectors and legislative barriers are the most visible obstacles. Moreover, academic research centres are often insufficiently equipped with modern technologies and do not produce outputs which could be potentially used in business.

### **Issue: Human resources**

One of the insufficiencies mentioned in several strategies on research and development concerns human resources. Czech researchers are not sufficiently involved in the international scientific network and the number of qualified researchers has not yet reached the EU average, not to mention

the unsuitable age structure of researchers (lack of young people aged 35 to 45) and low proportion of women. The reasons for that can be found in the nineties, when many researchers left this sector to go into business. They are also related to the lower percentage of population with a university degree and lesser attraction for students to choose technical and natural sciences.

Lower motivation of young people to embark on a professional career in the research sector can be due to the lack of financial incentives. While the average monthly wage of a university professor reached CZK 55 000 in 2007 (approximately €2 200), an ordinary research fellow's salary oscillates around the national average (CZK 22 000 or €880).

### **Issue: International cooperation**

Analysing the 6th Framework Programme in the EU, one finds that Czech teams participate in 830 out of 8 861 registered projects. The Czech Republic is 16th in the EU-27 when measuring the involvement of Czech research centres in the projects of the 6th FP, but the average allocation for Czech partners is significantly lower than in the EU-15.

The Research and Development Operational Programme which has been approved by the European Commission as the last of all Czech OPs (Oct 2008) strives to clearly define the main objectives and priorities in the R&D field. The first objective of this programme is to develop centres of excellence – the best Czech research centres; the second is to follow the eight defined research priorities; the third one relates to transfer of technologies and general stimulation of cooperation between research and application areas; the fourth objectives is to popularise research and science among the broader public and make the sector more attractive to young people.

### **Issue: Institutional background**

Czech Law no 341/2005 Coll. on Public Research Institutions has come up with a new legal form for organisations dealing with research and development. Until the end of 2005, an outdated form of "contribution organisation" fully dependent on public finances prevailed in the R&D area.

The law defines the Public Research Institution as a legal entity whose main subject of interest is research, including securing infrastructure of research. The general objective of the Public Research Institution is to guarantee research support especially from public funds in accordance with provisions on public support. The founder of a Public Research Institution can be the Czech Republic or a self-governing territorial body. There are several rules which any Public Research Institution must follow – for example, publishing regularly an annual report and using the ending v.v.i.

The second crucial norm in the R&D area is Law no 130/2002 Coll. on support of research and development from public funds. This law regulates the extent of public support to public research institutions, competition in this field, and evaluation of research strategies, projects and outputs.

In the Czech Republic there are two institutions coordinating all activities in the R&D sector. The Ministry of Education, Youth and Sport prepares different concepts and legislative proposals for the government, communication with universities, conducting research and development and coordination of international activities. The second body is the Council of Government for Research and Development, which functions as the main advisory institution and has the responsibility for involvement of R&D in the state budget as well as for the joint information system in research and development.

## **Conclusion**

Although the R&D area has attracted lots of attention in recent years and investments in this sector have been gradually increasing in proportion to the gross domestic product, much energy and money are still needed to utilise the potential of Czech scientists. There are still many shortcomings, especially regarding cooperation between public and private research, the impact of Czech scientists' activities or the low numbers of patents and innovations in general. On the other hand, certain progress in some aspects has admittedly been made, e.g. institutional background characterised by the Public Research Institution or permanent effort to reform and invest in this sector. As for EU leverage, the framework programmes of the EU represent a substantive opportunity for many Czech research institutions which can easily get involved in prestigious European networks. Unfortunately, the extent of involvement of Czech research institutes is still lagging behind expectations.

# Agriculture and Rural Development

## Summary

Czech agriculture and farmers seem to be the biggest beneficiaries of the country's accession to the EU. While before 2003 the whole agricultural sector showed deficits in the final balance sheet, EU funds (both direct payment via CAP and funds for rural development) have significantly improved the accounts of most farmers and the whole agriculture has generated profits. Despite the relatively long transition period (2004-2013) in which Czech farmers do not get full direct payments as their counterparts from old EU member states, the Czech government is providing additional support for local farmers in order to avoid discrimination on the market. Czech farmers thus receive 80-100% of direct payments.

As for rural development, the funds devoted to this area have been successfully spent in the shortened programming period 2004-2006. The absorption capacity for various investments in rural infrastructure, community life and sustainability of landscape seems to be sufficient.

## Issue: Socio-demographic trends in rural areas (including income disparity, etc.)

Communes and towns in the countryside are characterised by a lower proportion of working-age population. Furthermore, the smaller the commune, the lower the proportion of working-age population. Even though the negative demographic trend of depopulation of the countryside has generally stopped since 2001, this is primarily due to the massive development of housing in the big city suburbs which does not have the typical parameters of countryside housing. In other parts farther from bigger cities, this depopulation tendency continues due to lack of quality services, worse access to health care and educational facilities, lack of public transport connections and, last but not least, insufficient technical infrastructure in the countryside.

Employment in services is 26% lower than in towns, and 10% lower than the EU average. The number of

inhabitants employed or active in the agricultural sector is gradually declining and coming closer to the EU average (3.8% in the Czech Republic versus 3% in the EU).

Agricultural land comprises approximately 54% of the total area of the Czech Republic. While the overall extent of agricultural land is decreasing in favour of other use of land (construction projects), grassland is generally widening at the expense of arable land.

As for type of ownership of land, most of the land is private, owned both by physical and legal persons, but it is the fragmentation of land that constitutes a serious problem for the development of agriculture. The real owners often rent the land to entrepreneurs (farmers, companies) conducting economic activities in agriculture.

The structure of farms and companies conducting economic activities in agriculture significantly differs from the situation in the EU. Farms with more than 50 hectares of land represent 92.2% of the total area of agricultural land. The average size of a farm is 71 hectares (in 2004), with a stable trend. The second feature typical of agriculture in the Czech Republic is an area of individual field (meadow). The latter has been enlarged from 0.23 hectares (in 1948) to a current 20 hectares, especially due to the communist policy of collective and intensive agricultural production. Such a policy has obviously led to higher extent of erosion of land as well as pollution of water and lowering of biodiversity in the countryside.

As regards forestry, the situation differs as the Czech government holds approximately half of all woods (through the state company Lesy CR), followed by communes and towns and private owners.

The 1998-2002 period was characterised by a high increase of ecological farms (environment-friendly, eco-farms) both in nominal terms and as a percentage of agricultural land. Thus in 2007, a total of 963 eco-farms were registered in the Czech Republic, with 281 500 hectares or more than 6.5% of the overall agricultural land. A modern trend of bio-products is followed by 152 Czech companies which sell products in accordance with bio farming. Still, it is necessary to add that the Czech Republic is not self-sufficient, especially in the field of animal products (dairy products, meat) and depends on import.

### **Issue: Economic significance of agriculture and rural areas**

All objectives of the different strategies in the Czech Republic (e.g. Programme of Countryside Development) emphasise not only productive activities in agriculture but especially stabilisation of the population in the countryside. Insufficiencies are distinctive for instance in agrotourism, and generally in agricultural and tourist activities. Moreover, the tourism infrastructure in the countryside does not correspond to European standards, especially when it comes to accommodation and information facilities.

Another problem which has been identified in the countryside is the structure of economic activities of farmers. Only 18.8% of farmers carry out whatever additional activity. Among the reasons for that are

the lack of start-up capital and the relatively high risk in starting an additional business.

Even though the technical infrastructure and facilities in communes and smaller towns have been continuously increasing, the level of particular facilities is still significantly lagging behind the average in the country. Access to water through a public water-pipe reached 80% (in 2004) (but only 63.7% in communes with up to 199 inhabitants); a sewer system equipped with a sewage plant is in place in only 26.1% of all communes and towns (but only in 7.7% of communes with up to 199 inhabitants).

### **Issue: Effectiveness of EU funds and subsidies**

The poor economic situation in the countryside has led to further cooperation among individual communes, setting up of various partnerships, and establishment of Local Action Groups. Even before EU accession, it was obvious that creating partnerships with neighbours is the only possibility for many smaller communes and villages to gain any funds from the EU Regional Policy. Therefore, the SAPARD programme has encouraged the elaboration of more than 200 local development strategies with the aim to consistently identify priorities common for a particular micro-region.

This preparatory phase has been assessed as useful and beneficial. In the shortened programming period (2004-2006) it was the Countryside Development and Multifunctional Agriculture Operational Programme that (at least from a quantitative point of view as well as in terms of absorption capacity) ranked among the most successful operational programmes.

The Development of Countryside Programme is a strategic document used for all planning and implementation of actions. This document defines four main axes for the 2007-2013 period.

- Axis 1 – Enhancing competitiveness of agriculture and forestry (22.4% of overall allocation) – focus on modernisation of producers in agriculture, corrections of bordering fields, joint infrastructure etc.

- Axis 2 – Improving environment and landscape (55.2%) – focus on biodiversity, protection and further development of territories with a high natural value, support of farming in mountain areas, sustainability of grasslands, environmentally friendly processes.

- Axis 3 – Quality of life in countryside and diversification of countryside economy (16.3%) – focused on tourism, support of new jobs, arrangement of public space, community life.

- Axis 4 – Leader – Stimulation of development in countryside through partnership – local action groups

Assessing the current state of absorption capacity in the Countryside Development Programme, only partial data for 2007-2008 are available. By May 2008, a total of 1 794 project applications were approved under Axis 1 and 1 019 projects under Axis 3. The highest absorption capacity has been identified in Axis 1, with overall approved allocations exceeding CZK

Due to the non-typical structure of Czech agricultural producers (large farms prevail), the Czech government did not welcome the proposal to limit direct subsidies just for large farms and simultaneously support smaller farms

4.5 billion (approximately €180 million), compared to the planned CZK 3.2 billion (€128 million).

### **Issue: Crop production in 2006 and 2007**

The situation in crop production varies depending on the weather conditions. Taking 2004 as the reference year, production of all main crops shows a certain decrease (cereals: 8 784 000 tonnes in 2004, 6 386 000 tonnes in 2006, and 7 153 000 tonnes in 2007;

potatoes: 862 000 tonnes in 2004, 692 000 tonnes in 2006, and 821 000 tonnes in 2007), with the exception of rape seed (935 000 tonnes in 2004, 880 000 tonnes in 2006, and 1 032 000 tonnes in 2007). As regards income per hectare, the situation remains stable and any variables are caused mainly by weather conditions rather than any intended development or decrease of production.

### **Issue: Livestock in 2006 and 2007**

The number of livestock has remained more or less the same since the country's EU accession (cattle: 1 397 000 in 2004, 1 391 000 in 2006, and 1 402 000 in 2007) or has slightly increased (sheep: 140 000 in 2004, 169 000 in 2006, and 184 000 in 2007; poultry: 25 372 000 in 2004, 24 592 000 in 2006, and 27 317 000 in 2007). The only exception is pig breeding, which has decreased by almost 15% (from 2 877 000 in 2004 to 2 830 000 in 2006 and 2 433 000 in 2007).

Concerning production of meat, it has slightly declined in all categories (beef, pork, chicken). By contrast, production of milk has increased by approximately three percentage points since 2004 (from 2 602 million litres in 2004 to 2 684 million litres in 2007).

### **Czech government position on CAP reform and the Czech presidency**

Due to the non-typical structure of Czech agricultural producers (large farms prevail), the Czech government did not welcome the proposal to limit direct subsidies just for large farms and simultaneously support smaller farms. The Czech government claims that nobody should be punished for their success or extent. During its Presidency in the first half of 2009 the Czech Republic is ready to defend more liberal opinions on agricultural policy, which means (according to the Czech Minister of Agriculture) less emphasis on direct payment and at least sustaining the level of countryside development and its infrastructure.

According to the government, the country is well prepared for implementation of cross-compliance measures which are to enter into force as from January 2009. The measures of cross-compliance will stimulate farmers to keep environmental standards, including environmental protection and animal welfare, otherwise the direct payments will be reduced.

## Conclusion

When evaluating the current state of agriculture, one of the most important facts is the tradition of agricultural production in all the regions of the Czech Republic, including regions with worse climate conditions. Thanks to relatively high support for agriculture in a previous period (the 1970s and 1980s), fundamental infrastructure has been built up which is still in use.

Traditional agricultural production and close social links in the countryside have created a rich cultural heritage and a well-developed and coherent society with a number of free-time activities. Due to depopulation of the countryside and migration of younger and more educated population to bigger cities, these traditions are fading out, and the renaissance of the countryside depends usually on activities and volunteering of several enlightened people.

The weakest aspect and most visible obstacle to further development of the Czech countryside is the lack of jobs and its diversity. Transformation of the economy in the Czech Republic has led to closing down of many non-promising sectors and local factories and has contributed to migration of people to more attractive localities in the bigger cities.

Looking at the productive agricultural sector purely from the perspective of financial balance, since EU accession the whole agricultural sector has achieved financial surpluses, with growing trends. Nonetheless, the economic situation in agriculture is still influenced by the low coordination of farmers in relation to processors, which results in worsened negotiated prices on the market. While both processors and retailers are well organised, farmers (especially smaller private farms) suffer from lower integration. The prevailing trend to farm rented land prevents farmers from obtaining bank loans to modernise technologies and enhance innovative practices.

The countryside in the Czech Republic faces many challenges; on the other hand, one can identify many opportunities as well. Using its rich cultural heritage to develop tourism (agro-tourism) is the most important one of them. Besides, more focus on bio-technologies and generally care for the landscape and its biodiversity corresponds to the growing demand of consumers for bio-products on the market. It would be useful for the whole Czech agriculture sector to focus the Common Agricultural Policy on these priorities. Such an approach would connect the environmental aspect of agriculture (care for landscape, mountain areas) with requirements for more healthy agricultural products (bio-quality).

# Regional Development

## Summary

EU Regional Policy based on the EU funds represents the most visible influence of the European Union on ordinary affairs in the Czech Republic. Preparations for this policy started already in the pre-accession period when the NUTS 2 Regions were defined and the first strategic documents were elaborated.

The most successful OPs for the 2004-2006 period are the Joint Regional OP, Countryside Development OP and Infrastructure OP, while programmes focusing on enterprising and human resources development are significantly behind.

Regarding the EU Cohesion and Regional Policy, the principle of concentration should not be applied, as it is more efficient and effective to concentrate on several projects rather than to support many smaller projects generating on average lower impact on society.

Public-private partnership has been broadly discussed in the Czech Republic, but it is still not utilised very much.

## Issue: Trends in social and economic development of the country's regions

The Czech Republic is characterised by a fragmented structure of settlements, with a historically given high number of municipalities (6 248 as of 31 December 2006). The GDP per capita in Prague (in purchasing power standards) represents 147% of the EU-27 average, while the value for the whole Czech Republic is 82.2% (2007). Other NUTS 2 regions thus reach only 60% to 70% of the EU level.

The rate of registered unemployment in Prague (1.8% in September 2006) is approximately one third of the national rate (5.3%) and almost one fifth of that in regions with the highest unemployment rate (Moravia-Silesia, North-West). The comparative advantage of Prague in the area of tertiary education, research and development capacity is remarkable.

The development which occurred in the different regions

of the Czech Republic was closely connected with the different dynamics of the economy, quality of human resources, environment and geography.

Regional differences in economic development stem from various causes and are connected with the transformation process in the Czech economy

in the early nineties; in Moravia-Silesia and the North-West regions there was a significant decline in production and employment in heavy industries; in the North-East region there was a decline of the textile and electro-technical industries; in Central Moravia and the South-East region there was a marked loss of workforce in agriculture.

Due to insufficient educational level, entrepreneurial tradition and poor local government management, many people left the countryside regions for bigger cities where there were more job opportunities. Although in recent years the trend to leave the countryside for cities has faded out, this is caused especially by the development of sub-urban settlements situated close to bigger cities (satellites).

From the point of view of the environment, the situation is generally worse in larger cities and traditional industrial agglomerations (North-West, Moravia-Silesia) and Prague. Compared to the situation at the beginning of the nineties, there has been significant development in the quality of environment, above all in reduction of air pollution (with the exception of dust particles) and water treatment.

One of the most important strategic documents in the Czech Republic, the National Strategic Reference Framework, defines the following division of Czech regions:

- *Regions undergoing rapid development* – the Capital City of Prague;
- *Regions undergoing development* – South-West and Central Bohemia;
- *Regions having low growth dynamics* – South-East and North-East;
- *Regions lagging behind* – Central Moravia;
- *Regions on the decline* – Moravia-Silesia and the North-West.

The above-mentioned division of regions was drafted at the turn of 2005-2006, and many new opportunities have appeared since then. Especially the Moravia-Silesia region is gradually recovering as a result of massive foreign investments particularly in machinery and the electro-technical industry, which have been traditionally well developed in this region. Moreover, in 2009 a new modern motorway will open and connect this region with the rest of the country's motorway network.

Even more pronounced disparities can be identified on the level of regions, and especially on the level of micro-regions where there are substantial differences in economic performance. They are related to the availability and territorial coverage primarily of the peripheral regions, including the availability of public services, as well as to higher unemployment rates. The worse living standards in such micro-regions cause stagnation and, consequently, weakening of the local communities (e.g. citizens' participation in public affairs, development of cultural and social activities etc.) and a general undermining of these communities' sustainable development. The micro-regions thus suffer from significant changes in their demographic structure, loss of population groups with good prospects that are indispensable to the regions' development – educated people of working age.

## **Issue: Decentralisation and sub-national governance**

Decentralisation of public administration has long been subject to political fights and intensive public debates. Although the Czech Constitution presumes the existence of self-governing elected regional bodies, the latter were not implemented until Law no 347/1997 Coll. on establishment of territorial self-governing bodies came into effect on 1 January 2000. The first elected assemblies started working a year later.

Regions thus create a link between central government and local self-administration at the municipal level. The role as well as importance of regions is rising since they have responsibility for many areas, including hospitals, secondary school infrastructure, roads of regional and communal importance and areas, and therefore the trust of citizens in this part of public administration is rising as well.

For the purposes of the EU Cohesion and Regional Policy, it is important to divide the whole territory of the country into the NUTS (La Nomenclature de Unités Territoriale Statistique) levels. Thus, the Czech Republic corresponds to NUTS 1 level and territorial self-governing bodies represent the NUTS 3 level. Due to European Commission requirements during EU accession negotiations, the Czech Republic had to create "Cohesion Regions" which are comparable and measurable on the EU level for the sake of Regional Policy. Now there is a certain overlap in the territorial limitation since some of the self-governing regions correspond to NUTS 2 as well as NUTS 3 levels while one particular NUTS 2 region consists of three NUTS 3 regions.

It is important to mention from the perspective of EU Regional Policy that not all the cohesion regions in the Czech Republic are treated under the same regime. Prague as the wealthiest region is ranked under Objective 2 – Regional Competitiveness, and not under Objective 1 – Convergence, as all other cohesion regions.

Comparing the system of operational programmes determined for activities at the regional levels in the shortened programming period 2004-2006 with the current programming period 2007-2013, one has to note the much higher competencies of regional authorities in the current period. In the previous programming period the Joint Regional Operational Programme was approved, defining the same priorities and measures for all regions in the country. This approach authorised the Ministry of Regional Development to manage the whole process of implementation of this programme but was fiercely criticised by regional politicians. They asked for more power in setting development priorities and managing funds.

Therefore a decentralised approach for the 2007-2013 period has been adopted and seven regional operational programmes prepared (excluding Prague, which has specific programmes).

## **Issue: Ability to absorb SF on local and regional level, and administrative capacity**

For the 2004-2006 period, seven operational programmes were approved. The ability to absorb and manage the planned amount varies from one operational programme to another. The most successful OPs are the Joint Regional OP, Countryside Development OP and Infrastructure OP, while the programmes focusing on entrepreneurship and human resources development lag significantly behind.

At first glance, one can argue that there is a serious problem in absorbing especially the funds allocated for soft projects, i.e. human resources development, respectively support for entrepreneurship, since these activities account for the biggest delay in overall absorption of funds while the hard investment projects focused on transport, environment and countryside development perform much better. But other data clearly show that there is quite large space and demand for public support for educational activities, especially connected with business (for both above-mentioned measures commercial subjects may apply). Of course, the legitimate question remains as to what extent it is moral to support the private sphere from public funds regardless of any violation of competition on the market. Many studies argue that there is a better way of supporting business in the country, e.g. friendlier administration, clear tax environment, and good regulation instead of direct support to selected businessmen.

The second conclusion concerns the employment agencies which were the final beneficiaries of several measures but failed to absorb the allocated funds to improve their services. It is necessary to note that this is the fault not only of employment agencies but especially of the state authorities responsible for preparation of the relevant programming documents. Excessive focus on development of employment agencies collided with the preparedness of these authorities to come up with meaningful projects. Another question is how much space the Czech authorities had for manoeuvring during the negotiations with the European Commission on individual OPs.

Assessing the management capabilities of individual managing authorities of operational programmes, it is clear that the Ministry of Social Affairs accounts for the biggest delay in reporting and preparation of documents for final certification. It is not easy to find the reasons for this situation. The first one concerns the priority settings and planned allocations for individual measures which have not fully reflected the capability of final beneficiaries to absorb the funds; the second reason relates to quantity of projects. Projects focusing on education generally referred to as soft projects usually have smaller budgets than infrastructural and investment projects. Therefore the number of soft projects which have to be accepted, evaluated, contracted and monitored by designated bodies significantly exceeds the above-mentioned hard projects.

Having in mind the complexity of EU Cohesion and Regional Policy, the principle of concentration should not be forgotten. This principle says, inter alia, that it is more efficient and effective to concentrate on a couple of projects rather than to support many smaller projects generating on average lower impact on society. Although the European Cohesion Policy should be complementary to the national regional policies which simply have to take into account all aspects of regional development and economic and social cohesion, this study recommends narrowing down the number of priorities supported by the EU funds. The main arguments are the biggest and more visible impact of selected larger projects and decreasing the enormous administrative burden for management of smaller projects.

The above-mentioned argument might be supported by the situation in the Joint Regional OP. Most of the measures under this OP have been financed from the ERDF but there is one specific measure – Enhancing Social Integration in the Regions – which was fully financed from the ESF. While funds for some measures devoted to various infrastructures (schools, roads etc.) have been already absorbed (or approaching 100%), the social integration programme in terms of certified expenditures has not exceeded 50% of the planned allocations. Some studies have found a different cause. Many municipalities are found to be quite reluctant or not motivated enough to use funds for the support of socially marginalised groups (often Roma minority) when the majority of a commune’s citizens prefer other needed investments, for example in education, sport or public facilities.

### **Issue: Ability to establish public-private partnerships**

Public-private partnerships have been broadly discussed in the Czech Republic but are still not utilised very much. The first debates took place in 2000 and were connected with the building of an approximately 90-km-long motorway. Since this particular project failed to be implemented through the PPP model, certain mistrust appeared and to some extent exists even today. Other steps have been taken as well.

PPP Centrum (a joint stock company) was formed on 1 July 2004 by government decree. PPP Centrum’s only shareholder is the Ministry of Finance of the Czech Republic. PPP Centrum was established to speed up preparation of the legal environment and methodological procedures in relation to PPP in the Czech Republic. Its mission is to apply the best practice knowledge in governance and preparation of PPP projects. At present PPP Centrum acts as a knowledge centre for implementation of PPP projects. According to its mission, PPP Centrum will assist only the public sector (including central and regional authorities). It will be financed by the Ministry of Finance and public sector sponsors.

PPP Centrum aims at successfully implementing PPP projects in the Czech Republic; helping and setting the best practice in developing, procuring and appraisal of PPP projects; promoting discussion and an exchange of information and knowledge obtained in realisation of PPP; serving the

public sector in preparation of PPP process and ensuring transparency and ethical standards in PPP.

According to some studies, some problems must be clarified before matching the EU Structural Funds with PPP. Firstly, it is a question of eligible costs – i.e. whether eligible costs can be covered by the private entity during project implementation; then invoices enclosed in the application for payment; and the public entity is to pay its liabilities during the programming period in the form of service fees. Secondly, it is a matter of ownership. Can infrastructure be owned by a private applicant during the operational phase provided that the project purpose does not change over the period of sustainability of the project? Since these fundamental questions have not been resolved yet, PPP projects have not been used in the framework of the EU Cohesion Policy.

PPP Centrum was established to speed up preparation of the legal environment and methodological procedures in relation to PPP in the Czech Republic

Nonetheless, other studies recommend continuing the preparation of projects potentially co-financed from the EU SF and PPP. However, the structure for such initiatives is rather complicated and thus the implementation of PPP projects needs to focus especially on transport infrastructure, environment, brown fields and, moreover, such projects should be large-scale projects in terms of volume. According to the communication of the European Parliament and the Council on PPP, Community law is neutral as regards whether public authorities choose to provide an economic activity themselves or to entrust it to a third party. If public authorities decide, however, to involve third parties in conducting an activity, Community law on public procurement and concessions may come into play.

Apart from using PPP for projects financed from the EU SF, some other activities are planned as well. However, almost all of them are in the preparatory phase (building motorways, renovation of hospitals, justice palace, state prison, sport centre) with the exception of smaller projects providing specific municipal facilities in the capital of Prague.

## Conclusion

In the shortened programming period it has been confirmed that even though the rules of the European Union for EU funds defined in the relevant regulations (e.g. regulations of the Council and EU Parliament No. 1080/2006 and 1083/2006) are quite strict, the Czech rules on using EU funds often contained many further requirements which meant more time-consuming administration for both applicants and beneficiaries. This has been often criticised as the biggest weakness of the whole EU Regional Policy implemented in the Czech Republic.

Lots of attention has been also paid to PPP projects and potential use of EU funds for such projects. Since several deficiencies have been identified, current PPP projects in the country do not assume co-financing from EU sources. The stance of the European Commission on PPP investments seems to be neutral and that is why it is not probable that those doubts will be clarified on the basis of bilateral negotiations between the Czech authorities and the European Commission soon.

# Level of Absorption of EU Funds and Their Impact

## Summary

Despite some initial problems, the shortened programming period 2004-2006 has shown quite good absorption capacity and ability to prepare projects for EU funds. According to preliminary estimations, by the end of 2008 the Czech Republic will be capable of spending around 90% of its overall allocation for 2006-2008.

The Joint Regional Operational Programme has been assessed as the most successful in terms of effectiveness. Second is the Countryside Development OP, which has been managed by the Ministry of Agriculture and has already spent over 90% of the overall allocation.

The Human Resources Development OP may be considered as a failure or as an example of poor effectiveness in using EU funds in the Czech Republic.

## Issue: Effectiveness of the public administration in managing SF

When measuring the absorption capacity of EU funds in the Czech Republic from a quantitative point of view, it should be emphasised that the situation differs from one programme to another. It is encouraging that in general, the Joint Regional Operational Programme has been assessed as the most successful one in terms of effectiveness. This means that there is a huge demand for regional projects under the seven regional operational programmes managed directly by the regional authorities in the current programming period. The operational programme which can be assessed as the second most successful one is the Countryside Development OP, which has been managed by the Ministry of Agriculture

and has already absorbed over 90% of the total allocated funds.

On the other hand, one can see that the Human Resources Development OP may be considered as a failure or as an example of poor effectiveness in using EU funds in the Czech Republic. One of the reasons for that is probably the insufficient absorption capacity of the final beneficiaries defined in individual programme measures. For instance, an enormous amount of funds were allocated for different training programmes in the framework of employment policy, including modernisation of services and support for labour offices. Nonetheless, it is just regional labour offices that have not come up with new and innovative programmes for unemployed

persons. Another problem may lie in numerous smaller projects with a limited impact but very high administrative costs.

From a qualitative point of view, it is beyond the limits of this study to assess the outcomes and impacts of all EU-funded projects. It must be noted that the first shortened programming period has been unofficially defined by several specific objectives. Firstly, to spend all the funds or at least as much as possible so that the Czech Republic would remain a net benefactor vis-à-vis the EU budget; secondly, to set the principle for management of EU funds so that the European Commission would not cut any costs; and thirdly, to generally learn the whole process from the programme and project preparation till ex-post evaluation, i.e. to acquire experience which would be useful for the 2007-2013 period.

The experience from the 2004-2006 period has clearly shown the difficulties in preparing meaningful soft projects that have some added value and bring something new. Even though support for education, research and innovation is indispensable for creating a modern and competitive society, SF-funded programmes are not being managed in a sufficiently effective and efficient way.

### **Issue: EU leverage, mismanagement and corruption practices**

According to a survey carried out in the framework of the Save Public Assets Project (EUROPEUM, 2006), respondents (who consisted both of successful and unsuccessful applicants) identified three major obstacles to a better absorption capacity.

- Red tape versus effectiveness and efficiency. Respondents identified red tape and excessive paperwork as the most flagrant shortcoming in the whole system (91.33%). According to them, this was the major obstacle – especially for financially weaker and less experienced applicants. On the other hand, the fairness of the whole system was much less criticised from the point of view of corruption.

- Pre-financing. Respondents complained that in many cases in the previous programming period (2004-2006) pre-financing from public sources was not available, noting that its absence was a main deterrent to applying for project funding under the EU Regional and Cohesion Policy. In the current programming period 2007-2013 more pre-financing instruments have been adopted.

- Informal channels between administrators and consultants. The study revealed some informal channels between consultants looking for new clients, and willingness of administrators to help potential applicants. Administrators employed in the implementing bodies or responsible for the particular grant scheme have a preferential list of companies/advisors, which could lead to discrimination and increases the risks of corruption.

## **Issue: Capacity to generate and manage projects**

The Ministry of Regional Development is the managing body of the Community Support Framework ensuring coordination of all support from EU funds in the Czech Republic in 2004-2006. Its regular monthly reports on progress in absorbing EU Structural Funds are the best source of information about the situation with EU Cohesion Policy in the Czech Republic. Observing the N+2 principle, all projects must be completed and certified by the end of 2008. The relevant figures show that the situation with absorption capacity is the following.

Excluding the Cohesion Fund, the overall allocation from EU Structural Funds was planned to reach €1 671 455 000. On 31 August 2008 the National Fund certified €1 187 177 000 (71%), which means that the Czech Republic has to report to the European Commission €484 278 000 (29%) by 30 June 2009 (in December 2008 European Commission prolonged the time for final certification of costs by six months) in order to use the whole planned amount. It is unlikely that this will be achieved but, on the other hand, important progress has been recorded in the past couple of months. For instance, the overall amount prepared until 31 August 2008 to be certified made up €1 319 193 600, which represents 78.9% of the overall allocation. One may expect increased activity on the part of the relevant authorities in speeding up the process in the remaining months of 2009. According to estimates and thanks to the above mentioned step of the European Commission, the Czech Republic will spend 90% to 99% of its overall allocation for 2006-2008.

## **Issue: Bridging finances**

The question of pre-financing of EU-funded projects has been broadly discussed in the shortened programming period. Since there is no explicit rule in the EC regulations on EU structural funds prohibiting provision of pre-finance instruments, it is fully up to national regulators. In the Czech Republic, in the previous programming period 2006-2008, the pre-financing rules differed for the different operational programmes and EU funds. While there were no pre-financing instruments for projects funded by the ERDF, there were quite generous advance payments for those implementing projects funded by the ESF. This disproportion has been often criticised by the final beneficiaries – but on the other hand, it makes sense because there are many non-profit organisations which have been entitled to submit projects on education, training and social affairs. Such non-profit organisations are usually unlikely to be granted bank loans to cover costs in advance. Conversely, commercial entities and municipalities generally have better access to bank loans as they can provide more collateral.

It must be emphasised that all major banks on the Czech market have come up with special programmes for municipalities and other public bodies which need funds to pre-finance their projects.

## **Issue: Exchange rate losses**

Lots of attention has recently been paid to strengthening the Czech Crown against the Euro as well as all other major international currencies. This issue is relevant also to absorption of EU Structural Funds. In the period from May 2004 to July 2008, the Czech Crown strengthened by 27%, which has had a radical impact on planned allocations for individual operational plans. While at the time the programming documents were approved the exchange rate was about €1 = CZK 32, the reporting exchange rate in August 2008 was €1 = CZK 23.9. Although it is early to exactly calculate the exchange rate losses for the whole programming periods, the current loss based on all certified expenditures reached CZK 4.7 billion, i.e. 10% of all planned expenditures.

## **Issue: Problems of sewage plants and rented water supply infrastructure**

During the shortened programming period 2004-2006, a specific problem appeared and provoked intensive debate not only in the Czech Republic but also bilaterally with the European Commission. The problem concerns selected environmental projects potentially supported under ERDF (OP Environment) and the Cohesion Fund too. In its accession treaty, the Czech Republic has committed itself to building sewage plants in all towns with a population of more than 2,000. Since such investments require enormous funds and the relevant towns usually cannot afford to invest in these projects from their own resources only, everyone relies on additional resources from the EU Structural Funds and Cohesion Fund.

The situation has been further complicated by the privatisation of the water supply infrastructure, i.e. pipelines, sewer systems, sewage plants. Even though most towns and communes have not fully privatised the infrastructure itself, most have privatised the relevant services, i.e. their water supply and sewer system are now in the hands of private operators. The contracts have been concluded for up to 30 years and this fact has become the crucial point of all disputes between the Czech authorities and the European Commission. The EC has refused to approve some projects under the EU Cohesion Fund on the grounds that such public support could be considered illegal according to the EU rules, i.e. unlawful aid according to Article 88 of the Treaty Establishing the European Community and Council Regulation No. 659/1999. After intensive political debates at the highest level, a certain compromise has been reached, whereby modernisation of water supply infrastructure cannot be supported in towns where the latter has been leased for more than 15 years. Therefore it is now quite clear that the Czech Republic will not comply with its commitment to build sewage plants in all towns with a population of more 2 000 on time and faces the threat of lawsuits by the European Commission.

## Conclusion

Although some specific problems have certainly appeared, including pre-financing and an excessive administrative burden for applicants and beneficiaries, many individuals and entities in the Czech Republic have got used to this practice and are much better prepared for the current programming period. Preparation of programming documents for the 2007-2013 period was delayed due to different reasons, but now all documents have been approved by the European Commission and many projects have already been selected. The experience from the 2004-2006 period has clearly shown the difficulties in preparing meaningful soft projects that have some added value and bring innovation. Even though support for education, research and innovation is indispensable for creating a modern and competitive society, SF-funded programmes are not being managed in a sufficiently effective and efficient way.

Having in mind the principle of concentration, this study recommends narrowing down the number of priorities supported by EU funds. The main arguments concern maximising the impact and visibility of selected larger projects and decreasing the enormous administrative burden of management of smaller projects.

# C

## Conclusions and Recommendations

Policy Area	Need for EU Leverage	Existing Types of EU Leverage	Recommendations for Problem-Solving on National Level	Recommendations for Problem-Solving on EU Level
Political Development and Governance	Yes	<p><b>Oversight and management of EU funds</b></p> <ul style="list-style-type: none"> <li>Active, hard, significant, effective</li> </ul> <p><b>Infringement procedures</b></p> <ul style="list-style-type: none"> <li>Active, hard, significant, effective</li> </ul>		<ul style="list-style-type: none"> <li>Ensure harmonisation in accountability of public administration, good governance, public procurement, conflict of interests, lobbying (e.g. set common standards)</li> </ul>
Economic Development	Yes	<p><b>Lisbon process</b></p> <ul style="list-style-type: none"> <li>Active, soft, limited, non-effective</li> </ul> <p><b>Common market rules</b></p> <ul style="list-style-type: none"> <li>Active, hard, significant, effective</li> </ul> <p><b>Euro Area Accession</b></p> <ul style="list-style-type: none"> <li>Passive, significant, non-effective</li> </ul>	<ul style="list-style-type: none"> <li>Lobby at the EU level for keeping the common market principles and remove all remaining administrative barriers to the four freedoms</li> </ul>	<ul style="list-style-type: none"> <li>Strengthen the country-of-origin principle in free movement of services</li> <li>Watch the application of EU rules in EU member states; use the infringement procedure for any discrimination against subjects from other EU member states</li> </ul>

Welfare System and Social Inclusion	No	<p><b>OMC</b></p> <ul style="list-style-type: none"> <li>■ Active, soft, limited, non-effective</li> </ul> <p><b>Lisbon Strategy</b></p> <ul style="list-style-type: none"> <li>■ Active, soft, limited, non-effective</li> </ul>	<ul style="list-style-type: none"> <li>■ Reform the pension system to make the whole system sustainable in the long term (e.g. raise the retirement age to 65 years, provide pro-employment incentives for people aged 55 to 65)</li> <li>■ Introduce the flexicurity principle into Czech legislation</li> </ul>	<ul style="list-style-type: none"> <li>■ Develop a sanction mechanism in order to make the OMC work</li> </ul>
Health System	No	<p><b>EU Regulations for public health services</b></p> <ul style="list-style-type: none"> <li>■ Active, hard, significant, effective</li> </ul>	<ul style="list-style-type: none"> <li>■ Continue the current reforms in the health sector</li> <li>■ Focus on patients' rights (client approach)</li> </ul>	
Educational System	Yes	<p><b>OMC in education</b></p> <ul style="list-style-type: none"> <li>■ Active, soft, limited, non-effective</li> </ul> <p><b>Bologna and Copenhagen processes</b></p> <ul style="list-style-type: none"> <li>■ Active, soft, significant, effective</li> </ul> <p><b>Horizontal EU programmes</b></p> <ul style="list-style-type: none"> <li>■ Active, soft, limited, effective</li> </ul> <p><b>EU Structural Funds and especially the Social Fund</b></p> <ul style="list-style-type: none"> <li>■ Active, hard, still limited, non-effective</li> </ul>	<ul style="list-style-type: none"> <li>■ Strengthen the exchange of students, teaching staff, ideas and information</li> <li>■ Stimulate access to tertiary education through promotion of tertiary education (as part of national policy)</li> </ul>	<ul style="list-style-type: none"> <li>■ Increase the funds for the Erasmus, Leonardo and other programmes aiming at exchange of people and ideas</li> <li>■ Further develop the Bologna process, the recognition of qualification</li> <li>■ Develop EHEA with emphasis on lifelong education</li> </ul>

Justice and Home Affairs	Yes	<p><b>Police and judicial cooperation in criminal matters</b></p> <ul style="list-style-type: none"> <li>Active, soft, significant, effective</li> </ul> <p><b>Schengen membership</b></p> <ul style="list-style-type: none"> <li>Active, significant, effective EU leverage</li> </ul>	<ul style="list-style-type: none"> <li>Continue the reform of the judiciary, use of modern technologies</li> <li>Adopt new civil and criminal codes and procedures</li> </ul>	<ul style="list-style-type: none"> <li>Enhance justice cooperation, recognition of judgments, cooperation in criminal affairs, exchange of information, databases</li> </ul>
Migration	Yes	<p><b>EU policy on immigration and asylum – potential common policy</b></p> <ul style="list-style-type: none"> <li>Active, hard EU leverage in progress</li> </ul>	<ul style="list-style-type: none"> <li>Ensure more friendly environment for foreigners, pro-integration incentives</li> </ul>	<ul style="list-style-type: none"> <li>Ensure more cooperation in blue/green card programme, continuation in visa and asylum policies</li> </ul>
Research and Innovation	Yes	<p><b>OMC</b></p> <ul style="list-style-type: none"> <li>Active, soft, limited, non-effective</li> </ul> <p><b>Lisbon Strategy</b></p> <ul style="list-style-type: none"> <li>Active, soft, limited, non-effective</li> </ul>	<ul style="list-style-type: none"> <li>Provide incentives for cooperation between business and academic researchers</li> </ul>	<ul style="list-style-type: none"> <li>Continue the framework research programmes</li> <li>Provide support for short-term and mid-term internships in research institutions in the EU</li> </ul>
Agriculture and Rural Development	Yes	<p><b>Quality and health safety products requirements</b></p> <ul style="list-style-type: none"> <li>Active, hard EU leverage, significant, effective</li> </ul> <p><b>EU subsidies and funds</b></p> <ul style="list-style-type: none"> <li>Active, hard EU leverage, significant, non-effective</li> </ul>	<ul style="list-style-type: none"> <li>Put more emphasis on sustainability of landscape, environment-friendly farming, bio-production</li> </ul>	<ul style="list-style-type: none"> <li>Reform of CAP: support environment-friendly farms (eco-farms, bio-production, mountain agriculture) and provide more funds for non-productive rural development</li> </ul>

Regional Development	Yes	<p><b>Structural Funds (especially the European Regional Development Fund, the European Social Fund and the Cohesion Fund)</b></p> <ul style="list-style-type: none"> <li>■ Active, hard, significant, potentially effective EU leverage</li> </ul> <p><b>EU competition rules (procurement and concession regulations and state aid)</b></p> <ul style="list-style-type: none"> <li>■ Active, hard, significant, effective</li> </ul>	<ul style="list-style-type: none"> <li>■ Improve the implementation system, i.e. better administration, simplification of rules</li> </ul>	<ul style="list-style-type: none"> <li>■ Apply the concentration principle – preference of bigger projects</li> <li>■ Reform of EU Regional Policy: provide more support for infrastructure projects (environment, transport) as well as interregional cooperation at the expense of ESF projects</li> <li>■ Support soft projects as part of RD and students’ and teachers’ exchange</li> </ul>
Level of Absorption of EU Funds and Their Impact	n/a	<p><b>Funds blockage</b></p> <ul style="list-style-type: none"> <li>■ Active, hard, significant, effective</li> </ul> <p><b>EU monitoring system on the Structural Funds (based on the quarterly reports submitted by all member states)</b></p> <ul style="list-style-type: none"> <li>■ Active, soft, significant, potentially effective</li> </ul>	<ul style="list-style-type: none"> <li>■ Promote EU funds, training for administrative managers</li> <li>■ Limit excessive administration as much as possible</li> </ul>	

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## Statistical data

**Table: GDP in PPS (EU-27 – 100%)**

2002	2003	2004	2005	2006	2007	2008
70.6	73.6	75.3	76.4	78.1	81.5 (f)	82.4 (f)

**Source:** Eurostat

**Table: Growth rate of real GDP per inhabitant, %**

2002	2003	2004	2005	2006	2007	2008
2.1	3.6	4.4	6.0	6.4	5.9 (f)	4.4 (f)

**Source:** Eurostat

**Table: Economic growth in the Czech Republic, EU-27 and EU-15**

	2003	2004	2005	2006	2007	2008
EU (27 countries)	0.9	2.1	1.5	2.7	2.5	1.7 (f)
EU (15 countries)	0.6	1.7	1.2	2.3	2.2	1.4 (f)
Czech Republic		3.6	4.4	6.0	6.4	5.9 (f)

**Source:** Eurostat

**Table: Average yearly indexes of consumer prices in the 2002-2007 period**

2002	2003	2004	2005	2006	2007
1.8	0.1	2.8	1.9	2.5	2.8

**Source:** Eurostat

**Table: Structure of the economy**

Sectors according to gross value added At current basic prices and current exchange rates (% of all branches)	
Agriculture, hunting and fishing	2.6% (2006)
Industry, including energy	32% (2006) – comp. to 29.5% in 2003
Construction	6.2% (2006)
Trade, transport and communication	25.3% (2006)
Business activities and financial services	16.6% (2006)
Other services	17.3% (2006)

**Table: Unemployment rate in the EU and Czech Republic**

	2002	2003	2004	2005	2006	2007
EU-27	8.9	9.0	9.0	8.9	8.2	7.1
CZ	7.3	7.8	8.3	7.9	7.2	5.3

**Source:** Eurostat

**Table: Foreign Direct Investments in the Czech Republic (1999-2008 in EUR)**

1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
5.9 bln	5.4 bln	6.3 bln	9.0 bln	1.8 bln	4.0 bln	9.3 bln	4.3 bln	6.6. bln	3.5 bln

**Table: NUTS 2 and NUTS 3 levels  
in the Czech Republic**

NUTS 2 LEVEL	NUTS 3 LEVEL
Praha (Prague)	The Capital Praha
Střední Čechy (Central Bohemia)	Středočeský
Jihozápad (South-West)	Jihočeský, Plzeňský
Severozápad (North-West)	Karlovarský, Ústecký
Severovýchod (North-East)	Liberecký, Pardubický, Královehradecký
Jihovýchod (South-East)	Jihomoravský, Vysočina
Střední Morava (Central Moravia)	Olomoucký, Zlínský
Moravskoslezsko (Moravia-Silesia)	Moravskoslezský

**Table: Allocations versus certified expenditures  
2004–2006 (31 August 2008) in EUR**

Name of OP (SPD)	Allocation	Certified expenditures	Percentage
Joint Regional OP (ERDF)	407 055.10	358 020.2	88.0%
Joint Regional OP (ESF)	47 277.50	27 565.9	58.3%
Human Resources Development OP	318 819.30	151 011.0	47.4%
Industry and Enterprising OP	260 852.10	147 552.0	56.6%
Infrastructure OP	246 360.40	201 242.6	81.7%
Countryside Development OP (EAGGF)	169 790.30	143 048.7	84.3%
Countryside Development (FIFG)	4 111.10	3 762.6	91.5%
Praha SPD 2	71 295.40	46 738.23	65.6%
Praha SPD 3	58 793.36	36 879.27	62.7%

**Table: Measures with lowest use of EU Structural Funds as percentage of planned allocation (prepared to be certified versus allocated)**

OP (SPD)	Name of measure	Percentage
Industry and Enterprise OP	Advisors registry + Czech Trade + Clusters	19.5
Human Resources Dev. OP	Modernisation of Employment Services	23.0
Praha SPD 3	Active Employment Policy Development	24.5
Infrastructure OP	Support for the Introduction of Alternative Fuels	26.4
Infrastructure OP	Study and Research Projects Addressing the Problems Connected with the Improvement of the Environment in Terms of Transport	38.7

**Table: Measures with highest excess of demand**

OP (SPD)	Name of measure
Joint Regional OP	Infrastructure Development in the Czech Republic
Infrastructure OP	Recovery of Environmental Functions of the Landscape
Infrastructure OP	Water Management Infrastructure Improvement
Human Resources Dev. OP	Enhancing Adaptability of employers and Employees on Economic and Technological Changes, Support of Competitiveness
Praha SPD 3	Life-Long Education Development

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**Other publications of the OSI European Policies Initiative:**

- *Not Your Grandfather's Eastern Bloc  
The EU New Member States as Agenda Setters in the Enlarged European Union*
  - *Economic and Political Challenges of Acceding to the Euro area in the post-Lehman Brothers' World*
- available at: <http://eupi.eu>
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**“The Unfinished Business of the Fifth Enlargement Countries”** publication is comprised of ten national reports and a comparative analysis. The national reports describe and analyze the post accession state of affairs in the ten new member states (NMS) from CEE. The comparative analysis identifies that five years (or two and a half, in the case of Bulgaria and Romania) following accession, the ten central and eastern European states of the fifth enlargement continue to deal with the “unfinished business” from their transition agenda in the context of EU membership and the global economic and financial crises. The biggest challenges in the post accession period concern the political systems, which are characterized by fragmentation of existing political parties and temptation to employ populism and nationalism. The fragmented political parties with short-term political lives are unable to commit to long-term and consistent reforms in the policy spheres that are of crucial importance for the citizens (health, education, social protection etc.) thus leaving those structural reforms largely incomplete. This lack of progress further increases the mistrust in the political establishments thus diminishing the already low citizens’ trust in the institutions of representative democracy, which might cause already fragile political systems to become increasingly vulnerable.