

**Position of the Commission Services on the development of Partnership Agreement and programmes in the CZECH REPUBLIC for the period 2014-2020**

## Table of Contents

INTRODUCTION.....	3
1. MAIN CHALLENGES .....	4
2. PRIORITIES FOR FUNDING.....	9
2.1 Innovation friendly business environment .....	10
2.2 Developing infrastructure for growth and competitiveness .....	11
2.3 Human capital driven growth and improved labour market participation .....	12
2.4 Environment friendly and resource efficient economy .....	13
2.5 Modern and professional administration.....	14
3. SUCCESS FACTORS FOR EFFECTIVE DELIVERY .....	14
4. PRIORITIES FOR EUROPEAN TERRITORIAL COOPERATION .....	16
ANNEX .....	17
MAXIMISING SUCCESS - ARRANGEMENTS FOR EFFECTIVE PROGRAMMING AND DELIVERY .....	17
ASSESSMENT OF FUNDING NEEDS IN RELATION TO THEMATIC OBJECTIVES.....	19
FUNDING PRIORITY: INNOVATION FRIENDLY BUSINESS ENVIRONMENT.....	20
FUNDING PRIORITY: DEVELOPING INFRASTRUCTURE FOR GROWTH AND COMPETITIVENESS .....	25
FUNDING PRIORITY: HUMAN CAPITAL DRIVEN GROWTH AND IMPROVED LABOUR MARKET PARTICIPATION.....	26
FUNDING PRIORITY: ENVIRONMENT FRIENDLY AND RESOURCE EFFICIENT ECONOMY .....	30
FUNDING PRIORITY: MODERN AND PROFESSIONAL ADMINISTRATION .....	35
ADMINISTRATIVE ARRANGEMENTS.....	37

## INTRODUCTION

The European Union faces the daunting challenge of emerging from the crisis and putting economies back on a sustainable growth path. The exit strategy entails restoring sound public finances, growth-enhancing structural reforms and targeted investments for growth and jobs. For the latter, the CSF funds<sup>1</sup> can make an important contribution to sustainable growth, employment and competitiveness and increase the convergence of less developed Member States and regions with the rest of the Union.

To ensure that the CSF funds deliver long-lasting economic and social impacts, the Commission has proposed a new approach to the use of the funds in its proposal for the **2014-2020 Multiannual Financial Framework**<sup>2</sup>. Strong alignment with policy priorities of the Europe 2020 agenda, macroeconomic and ex-ante conditionality, thematic concentration and performance incentives are expected to result in more effective spending. It is an approach that underlines the need for strong prioritisation and results and away from a culture of entitlement. The CSF funds will thus provide an important source of public investment and serve as a catalyst for growth and jobs by leveraging physical and human capital investment while they serve as an effective means to support the implementation of the **Country Specific Recommendations (CSRs)** issued in the context of the European Semester. This approach is in line with the European Council's call of 29 June 2012 regarding the use of the Union's budget<sup>3</sup>.

CSF funds should aim at jointly fostering **competitiveness and convergence**, by setting the right country-specific investment priorities. A general **refocus of spending** towards research and innovation, support to SMEs, quality education and training, inclusive labour markets fostering quality employment and social cohesion, delivering the highest productivity gains, mainstreaming of climate change objectives and shifting to a resource-efficient low carbon economy is necessary. In order to do so, planning and implementation of CSF funds have to break through artificial bureaucratic boundaries in the next programming period and develop a strong **integrated approach** for mobilizing synergies and achieving optimal impact both within countries and across borders. The Europe 2020 objectives must be mainstreamed across the different CSF funds, each of them bringing their contribution to smart, sustainable and inclusive growth. Moreover, CSF funds have a key role to play in supporting financial instruments that can **leverage private investment** and thus multiply the effects of public finance. In short, we need a carefully targeted and results oriented use of CSF funds that maximises their combined impact.

The purpose of this position paper is to set out **the framework for** dialogue between the Commission services and Czech Republic on **the preparation of the Partnership Agreement and Programmes** which will start in autumn 2012. The paper sets out the key country specific challenges and presents the Commission Services' preliminary views

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<sup>1</sup>The EU funds covered by the Common Strategic Framework (CSF), i.e. the European Regional Development Fund (ERDF), the European Social Fund (ESF), the Cohesion Fund (CF), the European Agricultural Fund for Rural Development (EAFRD) and the European Maritime and Fisheries Fund (EMFF)

<sup>2</sup> COM (2011) 500 final, COM (2011) 398 final and COM (2012) 388 final.

<sup>3</sup> Conclusions of the European Council of 29<sup>th</sup> June 2012 (EUCO 76/12), [http://www.consilium.europa.eu/uedocs/cms\\_data/docs/pressdata/en/ec/131388.pdf](http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/ec/131388.pdf)

on the main funding priorities in the Czech Republic for growth enhancing public expenditure. It calls for optimizing the use of CSF funds by establishing a strong link to productivity and competitiveness enhancing reforms, leveraging private resources and boosting potential high growth sectors, while emphasizing the need to preserve solidarity within the Union and ensuring the sustainable use of natural resources for future generations. There is also a need to concentrate future EU spending on priority areas to maximise the results to be obtained, rather than spreading funding to thinly. EU funding should also be used to fund EU level priorities and to ensure that the Czech Republic can draw full benefits from its EU membership. Therefore the Commission services propose to group and limit EU funding to the key challenges outlined in this position paper. National public spending can not only be used to co-finance but also to finance investments which are complementary and linked to EU funded projects in particular at regional and local level.

The starting point of the Commission services' considerations are the assessment of the Czech Republic's progress towards its Europe 2020 targets in its Staff Working Document on the 2012 National Reform Programme and Convergence Programme<sup>4</sup>, underpinned by the CSRs addressed by the Council on 10 July 2012, and country-specific development challenges. The position paper takes account of the lessons learnt during the 2007-2013 programming period and the Commission's legislative proposals for 2014-2020.

In a context of fiscal discipline, this position paper encourages the Czech Republic and its regions to develop and implement medium-term strategies capable of facing the challenges ahead, notably globalisation, while helping preserve the European social model. Moreover, it provides for a flexible framework for the Czech Republic and its regions to react and refocus European, national and local resources on creating growth and employment so that fiscal sustainability and growth-friendly policies go hand-in-hand, also dealing with structural and institutional problems in the Czech Republic and its regions and across its national borders in its territorial and geographical context, including as per the EU Strategy for the Danube Region (EUSDR), in order to have maximum impact.

Finally it invites the Czech Republic and its regions to exploit to the maximum potential synergies between the CSF funds and with other sources of EU funding in a strategic and integrated approach. This includes strengthening cooperation with neighbouring countries and regions

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<sup>4</sup> Relevant documents are available on Europe2020 website: [http://ec.europa.eu/europe2020/making-it-happen/country-specific-recommendations/index\\_en.htm](http://ec.europa.eu/europe2020/making-it-happen/country-specific-recommendations/index_en.htm)

## **1. MAIN CHALLENGES**

The Czech economy emerged from the global financial crisis in the second half of 2009, having shed almost 200,000 jobs and 6 percentage points of value added between the pre-crisis peak in the third quarter of 2008 and the return to growth in the second quarter of 2009. Trade played a dominant role in buttressing the initial recovery, as real GDP growth picked up again in 2010 and 2011 but at a pace below the pre-crisis average and too slow to erase the losses suffered during the economic downturn. More recently, the economy has started to lose momentum once again on the back of both slowing activity in the Czech Republic's main trading partners and on-going consolidation of public finances.

The labour market response to the recovery came with a lag and has remained rather uncertain so far. The unemployment rate started to decline at the beginning of 2010 from a level close to 8 % and reached 6.48 % in the second quarter of 2012 (a relatively low value by both Czech domestic and EU standards). Nevertheless, the unemployment rate is expected to rise again in 2012 on the back of weaker economic activity.

On the basis of the 2012 Alert Mechanism Report for the prevention and correction of macro-economic imbalances, the Czech Republic was not identified as warranting further economic analysis in order to determine whether macro-economic imbalances exist or risk to emerge.

The key challenge for the Czech economy going forward is to mobilise factors facilitating the transition to growth based on innovation, higher value added, human capital and resource efficient economy. The essential ingredients for this transition include investments in a skilled and flexible labour force and competitive enterprises that can achieve and put forward the technological frontier.

Looking towards the future, factors such as the institutional and regulatory framework, the flexibility in the labour market, the quality and availability of infrastructure, energy policy and quality and efficiency in the education and research system will increasingly determine the feasibility of improving the competitive position of the Czech economy. In addition, the growth model envisaged cannot neglect environmental sustainability and social cohesion.

The 2012 National Reform Programme (NRP) submitted by the Czech authorities in April 2012 recognises these challenges and sets out priorities in the area of economic and budgetary policies and defines measures to enhance economic growth and employment in line with the EU 2020 objectives. Table 1 below details the progress made so far in achieving the EU 2020 objectives. Based on the challenges identified above, the 2012 Council Recommendation to the Czech Republic advises to take further action in order to ensure a sustainable consolidation of public finances and improve the quality of fiscal measures, take further measures to improve the sustainability of the pension system, address the issue of low employment of women with young children and the remaining weaknesses in the public employment service, and improve the quality of the education and research system and the quality of the public administration.

<b>Europe 2020 headline targets</b>	<b>Current situation</b>	<b>National 2020 target in the NRP</b>
3% of the EU's GDP to be invested on research and development	1.56% (2010) in total, 0.63% public	Public expenditure on science, research, development and innovation at 1% of GDP
20% greenhouse gas (GHG) emissions reduction compared to 1990	-7% (2020 projections compared to 2005) <sup>5</sup> -2% (2010 emissions compared to 2005) <sup>5</sup>	+9% (national non-binding target for non-ETS sectors compared to 2005)
20% of energy from renewables	9.35% (2010)	13%
20% increase in energy efficiency - reduction of energy consumption in MToe	531.943 kgoe / 1000 euros (2010)	To make a substantial contribution to the indicative target of 20% set at EU level; to take further steps to improve environmental quality
75% of the population aged 20-64 should be employed	70.9% (2011)	75% of the population aged 20-64 should be employed
Reducing early school leaving to less than 10%	4.9% (2011)	A maximum drop-out rate of 5.5%
At least 40% of 30-34 year old completing tertiary or equivalent education	23.8% (2011)	32%
Reducing the number of people in or at risk of poverty or exclusion by at least 20 million in the EU	15.3% of the total population (2011)	To keep the number of people in or at risk of poverty, material deprivation or living in a job-less household in 2020 at the same level like in 2008

Therefore the Czech Republic's most pressing challenges are related to **research and innovation system and competitiveness, education system, labour market, infrastructure development, resource efficiency and public administration**, which are interrelated.

#### ***Weak research and innovation system and competitiveness***

The current national research and innovation model is characterised by low public and private R&D funding, inefficiencies and misdirected incentives, insufficient quality of scientific and technological output, the lack of appropriate governance structures leading to weak linkages between science and industry.

The level of public R&D investment stood at 0.58% of GDP in 2010. Private expenditure on R&D is highly concentrated in a few multinational corporations and the level of private R&D performed by domestic companies (mainly SMEs) is still rather low. The low levels of investments in R&D are also reflected in poor scientific and technological performance.

The Czech R&I environment is also characterized by a relatively low number of top quality scientific researchers and internationally competitive scientific teams. Czech scientific teams are also insufficiently involved in international cooperation activities. This results in a limited sharing and circulation of knowledge and innovation. It also may lead to a brain drain of Czech talented students and researchers abroad.

<sup>5</sup> Based on existing measures. Commission report *Progress towards achieving the Kyoto Objectives (2012)*

Developing wider R&I cooperation, for instance within the Danube macro-region, could assist with addressing the problem of insufficient critical mass.

**The Czech innovation performance is below average within the EU** – the Czech Republic ranks 17<sup>th</sup> out of 27 Member States in the 2011 Innovation Union Scoreboard belonging to the moderate innovators. The weaknesses concern in particular the lack of creative outputs (patenting, trademark registrations or business and organisational models), badly coordinated research activities at the tertiary education level, and general lack of cooperation and coordination between the different government players in the area as well as between the public, private and academic spheres. There is insufficient awareness of R&I results and their potential utilisation both among the academic and business sphere. A developed model for transfer of technology between the research centres and SMEs is lacking. The business services sector in the Czech Republic, in particular services with a high added value, is underdeveloped. Furthermore, the promotion of innovation in areas of non-technical competences of enterprises, such as entrepreneurship, business creation, marketing, cluster management and co-operation is not sufficiently developed.

33.2% of the Czech population live in predominantly rural regions. However, the economic potential of rural areas, including the creation of conditions to enhance the competitiveness and diversification of these areas through the application of innovations, improved ICT and efficient use of resources, has not been fully unlocked.

#### ***Underdeveloped transport infrastructure***

The central geographical position of the Czech Republic in Europe and the export orientation of its economy, place a considerable importance in promoting a sustainable transport network. In order to respond to this challenge, it is essential to complete the backbone transport infrastructure and to connect the Czech regions to the TEN-T network. The state of the Czech transport infrastructure, in terms of both quality and functionality, needs substantial improvement. Organisational and budgetary problems led to delays in implementing both the TEN-T core and comprehensive networks and of some important cross border links necessary to lift significant bottlenecks for freight and passengers flows. Transport infrastructure is characterised by a number of remaining bottlenecks in the key network infrastructures. The Czech Republic has one of the denser transport networks in comparison to many EU Member States. Improving the accessibility to the backbone transport infrastructure will remain a key issue for supporting Czech regions to exploit their potential, synergies and complementarities in terms of economic development.

Finally, investments in sustainable urban transport should be given high priority. Urban transport has important implications both for economic activity and for the overall living environment of agglomerations.

#### ***Underperforming education system and underused labour market potential***

One of the main challenges relates to the inefficiency of the education system. The share of 30-34 year olds with tertiary attainment remains one of the lowest in the EU, despite significant progress in recent years, and the ranking of Czech tertiary education institutions in international quality surveys remains low. The performance of higher education and the quality evaluation system call for improvement. There is a mismatch between qualification training and the requirements of national and regional labour markets. The rate of adults' participation in further education is still low and the figures fall further with advancing employee age. The Czech Republic is under-performing with regards to participation in lifelong learning.

Shortcomings in quality and equity at the primary and lower-secondary level are on the rise. Although the rate of early school leaving is very low, there is a growing number of dropouts among children from low socio-economic backgrounds. They are also more exposed to an education deficit due to limited availability of pre-school facilities. Moreover, Roma children have a limited access to education and suffer from segregation once in the education system.

Even though the Czech labour market is in relatively good condition, the country still faces significant challenges such as the adequate use of the untapped human resources, in particular parents with young children, young and older workers, low-skilled, long-term unemployed and Roma.

The Czech labour market struggles with a significant level of inequality for women. Mothers with young children find difficult to join the labour market. Access to quality affordable childcare facilities remains limited and the enrolment in formal childcare is low (especially for children aged up to 3 years). This, together with the scarcity of flexible working arrangements negatively affects employability of women. Moreover, the gender pay gap is significant and no visible progress has been observed in this respect in the last years.

Other vulnerable groups also face obstacles on the labour market. Even though youth unemployment rate remains below the EU average, it has significantly risen in the recent years. Moreover, the negative trend of long-term unemployment is the most prominent among young people. The Czech population is rapidly ageing and the activity rate of oldest labour market participants is low.

Additionally, rural areas and the smallest municipalities are characterized by a lower share of working-age population. The countryside is threatened by migration due to lack of employment opportunities. In rural communities the level of economic activity is lower and the structure of economic activities remains less diversified.

The active labour market policies (ALMP) are under-funded, of a limited scope and inefficient. The lack of sufficient scope of individualised and targeted services provided by labour offices is observed along with a lack of consistent monitoring and assessment of ALMP programmes and tools. The activation of registered unemployed remains among the lowest among the EU countries.

Despite the stable and low level of poverty, poverty among children and elderly people (especially women) is on the rise. There are also shortcomings in social integration of vulnerable groups, in particular of people with disabilities and Roma, especially those living in deprived neighbourhoods.

### ***Inefficient use of resources***

There are major challenges as concerns the sustainable use of resources in the Czech Republic. The Czech Republic has one of the highest rates of greenhouse gas emissions intensity in the EU also due to the high energy intensity of economic activity and to the high carbon-dependence of the energy production. Despite steady improvement, energy intensity, which declined by 2.5 % on average between 1990 and 2008, remains significantly above the OECD and the EU averages. This is explained by structural features, including high share of energy intensive sectors, outdated power stations and heat supply units, road-based transport, and the large stock of relatively inefficient buildings.

Though air pollution has been steadily decreasing over the last two decades and the pace has decreased as of the beginning of the 2000s there are still important challenges in



decreasing the exposure pollution in the Czech Republic. The populations in the Central Bohemia and Moravia-Silesia regions are exposed to the highest pollution concentrations.

The current state of surface and groundwater quality is not satisfactory. Over 1/3 of the Czech Republic's territory is vulnerable to nitrates. Serious floods in the Czech Republic in the recent years confirmed the high risk of floods and the inadequate retention ability of the landscape. Soil erosion, mainly by water, remains a widespread problem in the country, so is the decline of soil organic matter, soil compaction and acidification of soils. As concerns waste management, the Czech Republic is heavily dependent on landfilling and only very small proportion of the waste is recycled and composted. These environmental threats undermine future economic growth in the vast part of the countryside and present a risk to public health.

An inventory of sites posing high environmental and public health risk includes over 4,000 sites across the Czech Republic. These sites often pose a barrier to economic development. Certain landscapes and biodiversity sites of high natural value, including NATURA 2000, face special threats. Biodiversity is threatened by activities in agriculture and forestry and intensive land use in general.

Limiting the economic costs linked to poor management of natural resources may boost competitiveness by improving conditions for economic growth and creating jobs.

In all these fields, Czech Republic can greatly benefit from, and contribute to, cooperation with other innovative leaders in the Danube Region and in a wider EU context through exchange of experience, networking and joint initiatives/actions.

### ***Inefficient public administration***

The institutional environment and public administration are considered key weaknesses of the Czech Republic. Mistrust in public administration, as revealed for example through the latest Corruption Perception Index of Transparency International which places the Czech Republic among the EU Member States with the lowest scores, negatively affects the country's competitiveness, growth, as well as delivery of the cohesion policy.

Political influence over civil servants is high, resulting in significant staff turnover and dubious outsourcing and negatively affecting the stability and effectiveness of public administration.

Irregularities in public procurement and sub-optimum functioning of the management and control systems of the public administration are the main sources of problems in the implementation of the Structural Funds in the Czech Republic.

Despite some progress achieved in the area of e-government and administrative burdens, the Czech Republic is under performing in improving the business environment. This particularly concerns the ease of start up and delays in payments. In fact the Czech Republic scores amongst the worst performing countries in the European Payment Index 2011. Further efforts are needed to accelerate the deployment of e-Government services and to reduce excessive regulation.

Furthermore, the low efficiency of the civil justice system and lengthy judicial proceedings as well as the absence of alternative forms of dispute resolution generate additional costs for businesses. As a consequence businesses are not able to take advantage of new business opportunities.

## **2. PRIORITIES FOR FUNDING**

The CSF funds will be one of the most important instruments to tackle the main development challenges for the Czech Republic and to implement the Europe 2020 strategy. Each Fund should give priority, when relevant, to policy areas addressed in the CSRs and in the NRP. For rural development and fisheries, priorities for funding will also contribute to the Common Agricultural and Common Fisheries Policies. To this end the intervention from the CSF funds needs to be concentrated on a limited number of priorities. Experience shows that thematic concentration allows for an increase in effectiveness of public interventions by reaching a critical mass with a real impact on the socio-economic situation of a country and its regions. Prioritisation is of particular importance in times of fiscal consolidation.

Five complementary and mutually reinforcing funding priorities are proposed hereunder in line with country-specific challenges<sup>6</sup>. They reflect the importance of funding needs and potential contribution to growth and jobs. There is no ranking in the presentation of funding priorities.

These are the priorities the Commission services would like to be co-financed in the Czech Republic for the next programming period 2014-20. Sufficient flexibility is built into the new programming architecture to respond to new challenges and unexpected events, which allow for reprogramming on justified grounds. Cooperation and coordination with neighbouring countries and regions would be important

### **2.1 Innovation friendly business environment**

#### ***Increasing the performance of R&I investment***

The Czech government should clarify how the target for public R&D (1% of GDP by 2020) will be attained, in terms of areas of research, of research centres/universities, allocation of funds and type of priority expenditure, quality performance, overall governance model and cooperation with the private sector, promotion of international cooperation, transfer of research results to SMEs, etc. The government should also encourage the private business sector to spend more on R&I activities and may introduce incentives to reach this objective. A more active involvement of the private business sector, in particular SMEs, in innovation is of key importance for enterprises that have to move up the value chain in order to remain competitive on the EU, as well as on the global market. A priority should therefore be given to the creation of an innovation-friendly business environment by better matching R&I support to business demand and by providing the necessary ancillary infrastructure.

A number of strategies in the area of innovation and competitiveness have been elaborated over recent years. It is advisable to use these strategies as a main input into a smart specialisation strategy (S3) for the Czech Republic. This strategy should prioritise those sectors including "key enabling technologies", clusters, niches, institutions and research activities which could contribute to an increased competitiveness of the Czech business sector. The strategy should also provide recommendations for a national governance model for R&I activities.

Given that a substantial amount of EU support has been allocated to the construction of new and the extension of existing research centres in the current programming period,

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<sup>6</sup> The thematic objectives in the proposed regulations and their link to the funding areas are outlined in the Annex.

CSF funds support available in the period 2014-2020 should be mainly used for the qualitative upgrading and extension of research equipment with the aim to ensure the availability of technological capacity in Czech research centres. Key research activities located in the Prague area could probably obtain CSF funds support.

The commercialisation of R&D results and knowledge of research centres and the transfer thereof to the business sector, in particular SMEs, agricultural, fisheries and aquaculture sectors, and improving the human research capacity in the Czech Republic including the achievement of the European Research Area (ERA)<sup>7</sup> and international cooperation, in particular within the Danube region, and mobility of research staff should be important elements of the development strategy.

### ***Enhancing business innovation and competitiveness***

SMEs are a main source of job creation and growth in the Czech Republic. Enhancing and strengthening the competitiveness and sustainability of SMEs, agricultural, fisheries and aquaculture sectors, should be a priority for CSF funds support. Investments should focus on measures leading to innovativeness, higher added value, energy efficiency and thus to expansion and internationalisation of business activities, production of innovative outputs and productivity increase. Investments should concentrate on fields where a competitive advantage and economic transformation may be achieved in line with smart specialisation. In particular, investment should be focused on emerging markets where technology is or will be readily available, e.g. smart grids; markets for advanced manufacturing technologies for clean production; key enabling technologies; bio based product markets; creative services and design; sustainable construction and eco-design.

The CSF funds 2014-2020 should assist SMEs in a number of areas such as advisory services regarding the application of innovation and green technologies, energy efficiency, skills requirements, access to new markets and marketing strategies, setting up of a business, cluster development, etc.; providing targeted information regarding the envisaged reduction in administrative burdens (e.g. e-government-tools); improving the overall business environment through the provision of specific infrastructure of high quality (e.g. incubators and technology parks, quality upgrading of business sites).

There is also a strong need for the availability of a range of financial instruments in support of the starting up of new and of the further development of existing enterprises with growth potential. There is currently a shortage of different forms of financial instruments, in particular risk capital and seed funds, available for SMEs on the Czech financial market. The Czech Republic should make a decisive move from mainly grant-based support for SMEs towards financial instruments.

Financial support should also aim at boosting the economic viability and market integration of small farms through adequate financing for investments to foster cost-efficiency. Such support should target beneficiaries not yet generating adequate levels of revenue and avoid deadweight effects for public intervention.

The potential of ICT for growth and competitiveness should be fully mobilised, in particular through promoting the development and use of e-commerce, and business-to-business (B2B) e-services, as well as the provision of e-government and e-procurement solutions and improved ICT and digital competence.

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<sup>7</sup> COM(2012) 392 final

## **2.2 Developing infrastructure for growth and competitiveness**

### ***Improving accessibility and sustainable modes of transport***

In transport, investments need to focus on increasing the Czech Republic's international accessibility as well as the necessary connectivity between the Prague area and the different regions thus enhancing their investment attractiveness, improving labour mobility and enhancing the diffusion of knowledge between growth poles and less developed areas. Financial priority should be given to the railway sector, and specifically on completing the TEN-T Core Railway Network. For road transport the first priority is to complete the system of motorways and expressways with due attention to improving accessibility of peripheral regions. Compared to 2007-2013 the balance in investment in various transport modes should change in favour of railways and of environmentally-friendly urban transport.

A Comprehensive Transport Sector Strategy, which should form the base for the identification of priorities and projects to be financed for the next programming period, is currently being developed in cooperation between the Czech authorities and the Commission services. Commission services have been actively involved in the on-going elaboration of a transport sector strategy for the period up to 2020 and beyond. This strategy, when finalised and formally adopted by the Czech Government, should form the main reference document for the selection of the transport operations in the Czech Republic during the 2014-2020 programming period.

## **2.3 Human capital driven growth and improved labour market participation**

The enhancement of labour market participation and increased growth based on improvement of human capital should remain the core concern for the Czech Republic. This calls for stepping up efforts to concentrate CSF funds' investments on employment and education thematic objectives in line with the CSRs and for increasing the relative share of CSF Funds investment in comparison with the programming period 2007-13.

### ***Reinforcing all levels of education to increase its quality, its contribution to social inclusion and its labour-market relevance***

The education offer needs to be better linked to the labour market through continuous analysis including forecasting. Furthermore, its funding needs to be linked more clearly to results; therefore, it is necessary to design and implement a transparent system of quality evaluation at different levels of education.

An integrated and improvement-oriented evaluation and assessment framework needs to be established in compulsory education to increase pupils' achievements in key competences. Targeted, individualised and early support to underperforming pupils should be ensured to all as from pre-school so as to increase chances for disadvantaged groups to succeed in the upcoming stages of education. The cooperation between vocational schools and enterprises has to improve along with practical training in enterprises. Guidance services in primary and secondary education as well as the education and training of teachers and trainers for the vocational training and education (VET) have to be developed. The school inspectorate and municipal governing bodies should be more involved in assisting schools to improve quality.

Encouraging strategic profiling of higher education should help foster its greater labour-market relevance. It is also necessary to promote innovation in higher education as well as to strengthen strategic cooperation with enterprises. Furthermore, equal access to higher education, e.g. for disadvantaged groups, should be facilitated. The development of lifelong learning should focus mainly on the support and quality of adult education

and implementation of the national system of qualifications as well as the EU tools for qualifications' recognition. Availability of relevant and career-guided lifelong learning and targeted training support for the unemployed, low-skilled and disadvantaged has to be reinforced.

### ***Integration of parents with young children in the labour market***

Since parents with young children face problems in their re-/integration in the labour market, the number and accessibility of affordable and quality childcare facilities should be increased through investments and provision of qualified staff. New forms of childcare services ought to be introduced and developed; however, the appropriate quality needs to be ensured having in mind also their educational role.

Gender equality principles and measures for efficient reconciling of work and private life along with flexible working arrangements need to be promoted. This entails fighting stereotypes such as viewing women with young children entering the labour market as the second earner and combating gender discrimination in hiring, promotion and remuneration. New patterns of employment and careers' development for men and women need to be further developed.

### ***Integration and employability of other vulnerable groups***

In order to increase the employability of all vulnerable groups, and thereby facilitate their integration, public employment services (PES) should be further reinforced. The quality and effectiveness of training, job search assistance and individual services ought to be increased. Job-efficient actions should be applied together with expanded activating and integrating measures to target intervention on vulnerable groups and shape it according to specific local needs and labour market challenges. The funding should be directly linked to results and based on a proper efficiency assessment of various ALMP programmes and providers.

In order to increase the employment rate of young people in particular, measures should be implemented with focus on adequate training, including traineeships and programmes involving youth in active labour market activities. Job guidance and vocational education responding to labour market requirements should also be developed. Entrepreneurship, together with start-ups developed by young entrepreneurs, should be supported and on-job training increased so as to assure faster and more successful transition from school to work. Moreover, employment diversification in the agricultural and aquaculture sectors should be fostered through support to the creation of new non-agricultural enterprises and jobs outside agriculture and aquaculture.

Demographic developments show that there is also a need to increase labour market participation of older people and their employability. Active and healthy ageing and long-term human resources policies in companies should be designed and implemented in order to increase effective retirement age.

Another important issue to be tackled is low employability and inactivity of workers with primary education, especially Roma.

The access to affordable, sustainable and high-quality services in particular social care and social assistance services is important to the integration of socially excluded groups and should be enhanced. The support for socially excluded vulnerable groups, such as Roma needs to be strengthened.

## **2.4 Environment friendly and resource efficient economy**

### *Environment protection and improved management of natural resources*

Resource efficiency improves competitiveness and creates new jobs while protecting natural resources. Therefore improved waste and water management is of high importance for the Czech Republic. The investments need to focus on the activities with the highest added value in meeting the EU requirements, notably in the solid waste sector. Similarly, energy and material recovery are important benefits of the investment in the waste management. This area of activity should create new business opportunities and thus jobs, including transnationally.

Resource efficiency should also be reinforced through promotion of sustainable land and water management, including preservation of natural resources (including Natura 2000 and high nature value areas), biodiversity, air quality protection and ensuring climate-change resilience by strengthening the adaptive capacity of ecosystem services.

### *Shift to an energy efficient, low carbon economy*

Supporting the shift to a low carbon economy is a cross-sector objective that must be pursued in all economic sectors and integrated in all relevant policies, in particular R&D, ICT, business development, transport environment, agriculture and forestry.

An effective transformation of the Czech economy would, most of all, require shifting the structure of the economy, significant energy efficiency improvements across all sectors, substantial shift towards renewable energy sources and technologies and by investing in low carbon electricity and smart grids.

## **2.5 Modern and professional administration**

### *Enhancing institutional capacity of public administration in order to improve its efficiency and effectiveness and to support business-friendly environment*

An innovative, efficient and transparent public administration will be essential to ensure that the above mentioned investment priorities can deliver results in terms of jobs and growth at both national and regional level. CSF funding should give due priority to measures reducing administrative burden, including lifting the heavy impact of tax administration on businesses, tackling corruption, improving access and efficiency of the judiciary and strengthening the implementation of the national smart administration strategy including the appropriate use of ICT tools. A systematic approach to the development of e-government should be pursued with a view to reducing the administrative burden to citizens and business.

Entry into force of the public servants law compliant with the European standards of public administration, ensuring transparent selection of professional civil servants and protecting their independence, is a key to address the administrative capacity shortcomings of the current programming period. Entry into force of the Public Servants Act has been a CSR made by the Commission since 2011.

## **3. SUCCESS FACTORS FOR EFFECTIVE DELIVERY**

Together with financial consolidation, **structural reforms** play a key role in enhancing the overall efficiency, thereby the growth potential of the Czech economy. They are also a **key condition** for the successful implementation of the CSF funds which can only have

an optimal impact if an appropriate policy, legal and administrative framework is in place.

Therefore the new Common Provisions Regulation will set out **ex-ante conditionalities** which are **preconditions relating to the effective and efficient use of EU funds** which should be fulfilled by the time a programme is approved. The Commission services will formally examine the information provided by the Czech Republic in the framework of its assessment of the Partnership Agreement and programmes.

Where ex-ante conditionalities are not fulfilled by the time of submitting the Partnership Agreement to the Commission, the Czech Republic will need to lay down a series of actions to be taken at national and regional level and a timetable for implementing them. All ex-ante conditionalities need to be fulfilled by the deadline agreed and at the latest within two years of the adoption of the Partnership Agreement or by 31 December 2016.

Based on experience from the current programming period and the CSRs the Commission services have identified a number of **ex-ante conditionalities critical for the successful implementation of the above funding priorities**. The Czech authorities need to take actions to fulfil the pre-conditions for successful spending in each of these areas before the start of the next programming period.

These include the need to:

- Develop a national or regional research and innovation strategy for smart specialisation, including an ICT chapter,
- Adopt a comprehensive national transport strategy,
- Take measures for ensuring the effective implementation of the Small Business Act,
- Ensure the effective implementation of EU environmental “acquis”,
- Have a strategy for reinforcing administrative efficiency including the adoption of a Public Servants Act corresponding to European standards,
- Have national/regional strategies for increasing quality of tertiary education,
- Prepare a Multiannual National Strategic Plan for aquaculture and develop national administrative capacity for data collection on the sector.

Administrative and institutional efficiency are key determinants of effective public investment. A number of improvements are necessary as a matter of urgency in order to improve administrative capacity for the implementation of the CSF funds, e.g. an adequate and transparent project selection system, a performing national audit authority, an adequate and operational e-governance tool, a thorough gap analysis of financing needs of SMEs to design appropriate support schemes. Lessons learnt from the current programming period should be fully taken into account. The institutional arrangements should allow the managing authorities to carry out their role as independently as possible i.e. to manage the implementation of the programme according to the strategies set up by other entity and approved in advance.

There is also a continuous need to strengthen the capacities of those institutions ensuring the effective application of EU legislation on the ground (environment, state aid and public procurement and Structural Funds financial management and control) and reviewing the national system regarding the provision of planning and building permits for infrastructure works. The full implementation of the national anti-corruption strategy is also of key importance for the use of CSF funds.

Retention of qualified staff is essential at all administrative levels. This will require a depoliticisation of public human resources policy and the adoption of a Public Servants Act including its effective implementation.

#### **4. PRIORITIES FOR EUROPEAN TERRITORIAL COOPERATION**

The Czech Republic should develop stronger coherence with programmes under the 'investment for growth and jobs' goal and other EU or national programmes in order to exploit synergies for interventions in different thematic areas. This would require a reflection on how these different types of programmes could be co-ordinated.

There is also a need for a more selective approach. The national and regional authorities have to be selective and focus only on a few challenges that are deemed crucial for the further development of the border areas and still can be co-financed in the framework of cross-border co-operation. As for the Czech border regions with Poland, Slovakia and Saxony there is still a need for a substantial infrastructure investment, e.g. removing bottlenecks in transport infrastructure. Another area of importance are those fields of activities with cross border spill-over effects, examples of which are flood management and biodiversity and ecosystems preservation.

A ranking of the identified challenges should be established. This also requires a concentration on a very limited number of priorities with the aim to have more strategic projects with a strong impact. The Commission services strongly encourage the adoption of a transparent system of flagship projects that could have a meaningful impact on the border areas.

The Czech Republic belongs to the Danube macro-region, calling for coordination and alignment between all operational programmes and the action plans under the EUSDR. Relevant thematic objectives and priorities for the Czech Republic that link with the EUSDR include improvement of mobility and intermodality, rail-road, air and adaptation to the climate change such as flood protection.

Effective solutions in many areas of development require a cooperative approach to challenges and opportunities that looks across the borders to share experiences. For the 2014-2020 period, there are several areas of particular relevance for cooperation across borders or in a transnational context, as well as for cooperation in the framework of the EUSDR in the Czech Republic.



## ANNEX

The annex contains the arrangements for effective programming and delivery, assessment of funding needs in relation to thematic objectives and assessment of specific aspects of administrative capacities.

### ARRANGEMENTS FOR EFFECTIVE PROGRAMMING AND DELIVERY

Experience from previous programming periods indicates several factors affecting effectiveness of investment, in particular the need for strategic orientation and concentration, the need to avoid fragmentation of investments, projects insufficiently embedded in national systems, weak response to the actual needs, and low European value added. For future investments in the areas listed below the Commission services expect specific justification regarding their usefulness for attaining the Europe 2020 objectives and respect of the following considerations:

- Support to sport infrastructure,
- Construction of new and extension of existing hospitals,
- Investment in local roads can be supported by the CSF funds only when they contribute to support physical, economic and social regeneration of deprived urban and rural communities and areas or where they provide necessary link to the motorway and expressway network (focus on new roads or major enhancements) or where they fill gaps in cross-border links,
- General education infrastructure (with the exception of targeted infrastructure required to achieve specific objectives identified in the position paper in relation to pre-primary, VET and LLL education),
- Investment in the cultural sector can be supported within the framework of integrated economic and/or tourism development plans,
- Commercial tourism facilities, such as hotels, leisure and spa facilities should be financed by private funds. Basic public tourism infrastructure, information, cross-border co-operation, small scale facilities, agri-tourism, etc, on the other hand, represent potentially justifiable uses for CSF funds in some areas, for example as a means of diversification and unlocking the economic potential of rural areas.

#### **(1.) *Structure of programmes***

The proposed 2014-20 legislation for the CSF funds offers additional flexibility to set up programmes in each Member State to best match their institutional set-up. Cooperation at all levels is key to achieving quality of spending. Annex I of the Commission's amended proposal for the Common Provisions Regulation<sup>8</sup> includes elements of the Common Strategic Framework and sets out different options for integrated approaches to programming, to achieve coordination and synergies during implementation, which the Czech Republic is encouraged to explore.

The most suitable architecture will have to be developed in partnership with stakeholders in the Czech Republic and in negotiations with the Commission services. It is crucial that

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<sup>8</sup> COM (2012) 496 final, 11.9.2012

the implementation structure to be put in place for the 2014-20 period is viable and able to manage the programmes in an effective and efficient manner. Any proposal for the future system of the management of the Structural Funds in the Czech Republic needs to be critically reviewed in view of the experience gained to date from the functioning and problems of the current system. A thorough assessment of the managing structures should be carried out before deciding on the individual operational programmes and managing authorities with the aim to ensure effectiveness and that the bodies assigned as the managing authorities have sufficient capacity for managing the programmes. "Sectoral" approach should be avoided.

In setting up the programmes, synergy should be sought not only between the five CSF funds but also with other EU instruments such as 'Erasmus for All', the Asylum and Migration Fund, Horizon 2020 and the Innovation Union, and the Programme for Social Change and Innovation, the LIFE programme, the Digital Agenda for Europe and the Connecting Europe Facility.

Integrated Territorial Investments (ITI) in cohesion policy allow for the implementation of parts of programmes in a cross-cutting manner and can provide flexibility below the programme level to implement integrated actions. Where this mechanism is selected, the Czech Republic should define for each ITI an appropriate governance structure and in particular designate a management body. Specific allocations should be defined in the programmes for the ITI.

The Partnership Agreement should set out the contribution from the CSF funds to the integrated approach for territorial development including, where appropriate, a planned and integrated approach to sustainable urban development.

## ***(2.) Coordination, complementarity and synergy***

**Coordination** between Operational Programmes in support of the objectives of the Partnership Agreement must be reinforced. A forum for discussion between the managing authorities of the different Operational Programmes and the Commission services on horizontal and strategic issues with regard to the Partnership Agreement should be set up. This is important in the 2014-20 programming period given that integrated approaches, involving different financial instruments, priorities and programmes, will have increasing importance. Annual Review Meetings can contribute to this coordination but it will not be a sufficient instrument.

Coordination of CSF funds implementation at the national level is of crucial importance for the delivery of the cohesion policy and should be strengthened and simplified. Experience with the existing coordination mechanisms should be used to review and strengthen the future coordination role. The capacity and experience of the current structures should be effectively used in building up the Coordination Authority for the 2014-20 period.

Given the structure and size of the towns and cities, the urban dimension should, in the Czech context, be better perceived in a broader sense, i.e. in terms of **urban agglomerations** as a functional area for socio-economic development or in terms of cities and their socio-economic hinterland, including urban-rural links. With regard to the preparation and implementation of integrated urban development plans, there still exists a shortage of administrative capacity and of operational experience. A first step should be to assist the main cities/towns to elaborate a (or upgrade an existing) **sustainable and integrated socio-economic strategy** for (a part of) their town or their urban

agglomeration, including their functional hinterland. The new ITI instrument may serve as a key instrument to implement sustainable urban strategies. In those cases where the strategy is focused on a part of a city with severe problems, the community-led local development (CLLD) instrument may be appropriate. Where appropriate, an integrated use of ERDF and ESF should be seen as a crucial element for ensuring the socio-economic development potential of (parts of) cities and towns. An appropriate governance model, including proper delegation of implementation responsibility and power, should be developed while ensuring sufficient administrative capacity and the availability of e-governance tools in towns and cities. Such a governance model should be embedded within the framework of a wider partnership, ensuring sufficient attention to an effective bottom-up approach.

CLLD offers an integrated bottom-up approach in response to complex territorial and local challenges through the involvement of local communities.

112 LEADER local action groups (LAGs) financed under the Rural Development Programme 2007-13 are already operating to enhance the competitiveness of the agricultural sector, diversify the economic activity and improve the basic services and living conditions in rural areas. This approach should be continued and where relevant, extended to aquaculture-based areas.

The possible use of **Joint Action Plans** should be exploited in an efficient and effective manner to focus them on the relevant operations, especially under ESF, in order to maximise the advantages of simplified cost options.

#### **ASSESSMENT OF FUNDING NEEDS IN RELATION TO THEMATIC OBJECTIVES**

The following sections present the Commission services' view on priorities for CSF funds for the Czech Republic. They have been developed on the basis of an in depth country analysis<sup>9</sup> and selected from the 11 thematic objectives, which stem from the Commission proposal for a Common Provisions Regulation<sup>10</sup> for CSF funds adopted by the Commission on 6 October 2011. These 11 thematic objectives translate the Europe 2020 strategy into operational objectives to be supported by the CSF funds.

The 11 thematic objectives are common for cohesion, rural development and the maritime and fisheries policies; they ensure that interventions under these policies are aligned towards the achievement of joint objectives, those of Europe 2020. They provide a menu of possible funding objectives for the whole of the EU. According to each Member State's specific situation a more focussed selection is then made in agreement with the national authorities. The challenges and funding areas for the Czech Republic correspond to the following thematic objectives:

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<sup>9</sup> Ref to 2012 SWD for the Czech Republic

<sup>10</sup> COM(2011)615 final/2; [http://ec.europa.eu/regional\\_policy/what/future/proposals\\_2014\\_2020\\_en.cfm#1](http://ec.europa.eu/regional_policy/what/future/proposals_2014_2020_en.cfm#1)

<b>Funding priorities</b>	<b>Related thematic objectives</b>
<i>Innovation-friendly business environment</i>	<i>Strengthening research, technological development and innovation;</i> <i>Enhancing access to, and use and quality of, information and communication technologies;</i> <i>Enhancing the competitiveness of small and medium-sized enterprises, the agricultural sector (for the EAFRD) and the fisheries and aquaculture sector (for the EMFF);</i>
<i>Developing infrastructure for growth and competitiveness</i>	<i>Promoting sustainable transport and removing bottlenecks in key network infrastructures;</i>
<i>Human capital driven growth and improved labour market participation</i>	<i>Promoting employment and supporting labour mobility;</i> <i>Promoting social inclusion and combating poverty;</i> <i>Investing in education, skills and lifelong learning;</i>
<i>Environment-friendly and resource-efficient economy</i>	<i>Supporting the shift towards a low-carbon economy in all sectors;</i> <i>Promoting climate change adaptation, risk prevention and management;</i> <i>Protecting the environment and promoting resource efficiency.</i>
<i>Modern and professional administration</i>	<i>Enhancing institutional capacity and an efficient public administration ;</i> <i>Enhancing access to, and use and quality of, information and communication technologies</i>

### **FUNDING PRIORITY: INNOVATION-FRIENDLY BUSINESS ENVIRONMENT**

The objectives of the funding priority '**Innovation-friendly business environment**' will be achieved primarily by thematic objectives 'Strengthening research, technological development and innovation', 'Enhancing the competitiveness of SMEs, the agricultural sector and the fisheries and aquaculture sector' and 'Enhancing access to, and use and quality of, information and communication technologies'.

**Thematic objective:** 'Strengthening research, technological development and innovation'

<b>Europe 2020 headline target</b>	<b>Current situation</b>	<b>National 2020 target in the NRP</b>
3 % of EU GDP for expenditure on research and development	Gross domestic expenditure on research and development (as % of GDP) 1.56 in 2010. Public expenditure on R&D represented 0.63 % in 2010	Public expenditure on science, research, development and innovation at 1 % of GDP

For this thematic objective the funding priority translates into the following priorities and specific objectives reflecting country specific challenges to be supported by the CSF funds:

1. Enhancing the quality of the research and innovation capacities to develop R&I of excellence and promoting centres of competence:

- A continuation of investments in the quality of RTD infrastructure with a priority regarding the qualitative upgrading and extension of research equipment. This should ensure the availability of state-of-the-art technological equipment in existing and newly built research centres of excellence under the 2007-13 Operational Programme R&D for Innovation. Furthermore, an extension of networking and cooperation among RTD centres/institutes and an increase in scientific staff in those centres is required.

2. Promoting business R&I investment, product and service development, commercialisation of research outputs, technology transfer, networking, cluster development and applied innovation through smart specialisation:

- The cooperation, commercialisation and transfer of research outcomes and knowledge between the scientific/academic world and business across all sectors. Strategic partnerships between the research sector and the business sphere should be established on commonly identified thematic fields. Further activities for popularising science and technologies, together with strengthening trust, awareness and cooperation between private and public R&I should be developed.
- The centres for technology transfer should stimulate and increase the number of applied RTD outputs and the commercialisation thereof. This will require a strategic partnership of all relevant partners in the field.
- RTD centres should develop a more outward-looking policy concept, in particular in terms of research activities and cooperation with SMEs. This will require further investments in complementary infrastructure around or close to these centres, e.g. spin-off facilities, incubator centres, scientific and cluster parks with adequate access facilities.
- To increase cross-border cooperation – or within the framework of the EUSDR between research centres – and to establish mechanisms to stimulate the transfer of knowledge and innovations towards enterprises located in cross-border zones.
- National authorities should take the necessary actions to explore possible synergies with the European Institute of Innovation and Technology (EIT) and its Knowledge Innovation Communities (KICs) with a view to increasing their country's innovation capacity through a closer integration with the Knowledge Triangle.

3. Supporting technological and applied research, advanced manufacturing capabilities and first production in Key Enabling Technologies (KET) and diffusion/transfer of general-purpose technologies:

- To concentrate on the 'Future and Emerging Technologies' with specific focus on KET in sectors with substantial growth potential identified in the research and innovation strategies for smart specialisation. Support for technology start-up companies active in a restricted number of KETs should allow for the exploitation of niches and revitalisation of local economies threatened by de-industrialisation (region-specific).

- To promote the practical application of R&I results in the agricultural, food production, aquaculture and fish processing sectors.
4. Targeted investments in the qualitative upgrading of higher education institutions' facilities, in order to improve the quality of education but also to strengthen research capacity in the areas concerned.

- Increasing the quantity of the skilled RTD workforce and providing incentives and a transparent career growth system to ensure that graduates stay in the Czech RTD sector after graduation, increasing the proportion of completed post-graduate studies, enhancing the internationalisation of research teams at universities and research organisations, as well as increasing the number of foreign researchers in the Czech Republic should all be seen as essential to increasing the share of RTD in the Czech economy.
- Focusing on international cooperation and mobility of graduate students and young researchers should become an important element of the RTD strategy. Actions counteracting the brain-drain of talented Czech students abroad and increasing the attractiveness of the Czech Republic for foreign students to provide a knowledge exchange and better integration of the Czech RTD system into international/European networks established under the EU Strategy for the Danube Region should be devised.
- Enhancing quality performance in the RTD area of Czech higher education institutions. This should relate in particular to the availability of qualified staff and of sufficient research facilities of good quality for educational purposes, especially in those areas of education with a link to the national and regional labour markets and the needs of the national and regional economies.

Assuring performance of investments by CSF funds under this thematic objective requires meeting the relevant ex-ante conditionalities. In addition the following general considerations would improve governance and delivery:

- An updated national innovation policy that meets the criteria of a research and innovation strategies for smart specialisation (S3) concept (also taking into account the regional dimension) should form the national framework for channelling investments into research, development and innovation, even beyond the scope of EU support within this thematic objective.
- An assessment of the impact of the R&I policy on a more balanced socio-economic development of the country.
- To install a mechanism for evaluating the research results of universities and public research centres as one of criteria for allocating public resources to tertiary education facilities.
- Partnership and clear ownership are essential elements on which an S3 should be built and implemented. Therefore, an overall coordination authority for R&I at the national level needs to be established.
- The activities to be supported under this thematic objective should be closely coordinated with the activities of the Czech Republic in the Horizon 2020 programme.

Actions under this thematic objective should be coordinated with interventions in the fields of competitiveness, low carbon economy, environment and resource efficiency and education, skill and lifelong learning.

**Thematic objective:** 'Enhancing access to, and use and quality of, information and communication technologies'

For this thematic objective the funding priority translates into the following priorities and specific objectives reflecting country specific challenges to be supported by the CSF funds:

1. Further development of digital services and competence and quality of information and communication technologies, particularly in the lesser developed areas to support their sustainability and competitiveness.
2. Better access to training, advice and services in the ICT field for SMEs, agricultural, fisheries and aquaculture sectors.
3. Implementation and monitoring of a national broadband roll out plan.

Actions under this thematic objective may contribute, if relevant, to related interventions in the fields of competitiveness, small and medium enterprises and public administration<sup>11</sup>.

**Thematic objective:** 'Enhancing the competitiveness of small and medium-sized enterprises, the agricultural sector (for the EAFRD) and the fisheries and aquaculture sector (for the EMFF)'

For this thematic objective the funding priority translates into the following priorities and specific objectives reflecting country specific challenges to be supported by the CSF funds:

- An increase in access to new technologies to support the application of innovations by SMEs. This will require the establishment of better cooperation between SMEs and the research sphere. This should also cover the promotion of social enterprises and the social economy in line with the EU social business initiative adopted in October 2011.
- The promotion of the application of eco-innovations and green technologies among SMEs, in particular through supporting development of clusters in green technologies; eliminating key hurdles to the deployment of eco-innovations; and raising awareness among companies about the adoption of eco-management and audit schemes (EMAS) or other recognised environmental management systems.
- The creation of a range of financial instruments, including risk and seed capital, to support the start-up of new enterprises and the development of existing enterprises with growth potential. This also applies to agricultural and aquaculture enterprises

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<sup>11</sup> Thematic objectives 3 and 11 according to the draft Regulation.

and SMEs active in rural areas. The Czech Republic should make a decisive move from grant-based support towards financial instruments for the support of SMEs.

- An improvement of the overall business environment for SMEs through the provision of specific infrastructure investments, e.g. incubators and technology parks, the modernisation and upgrading of existing industrial sites and the renovation of brownfield sites for economic after-use (JESSICA schemes).
- The development of business advisory services, in particular in the areas of business start-ups, technology transfer, access to new markets and energy efficiency. Furthermore, the promotion of innovation in areas of the non-technical competences of enterprises should be further developed, e.g. general entrepreneurship, business creation, legal structures, marketing and management principles, and cluster management and cooperation.
- In line with the strong export orientation of the Czech business sector, provision of support to the internationalisation of Czech enterprises through the development of new business models, including higher value chains and marketing organisation.
- An action plan to improve the competitiveness of the agriculture, aquaculture, food and forestry sectors by increasing the added-value of primary products through quality schemes, improvements in market organisations and better entrepreneurship practices, in order to develop more innovative and sustainable business models in rural areas. The application of innovations in these primary sectors, improved management and organisation systems in the supply chain is of key importance.
- Specific action to develop further the business services sector in the Czech Republic, in particular services with a high added-value. The research and innovation strategies for smart specialisation, to be elaborated as a priority, should provide evidence of the service sectors with the most potential and the type of measures to be developed.

Assuring performance of investments by CSF funds under this thematic objective requires meeting the relevant ex-ante conditionalities. In addition the following general considerations would improve governance and delivery:

- Carry out a thorough market gap analysis to determine the financing needs of SMEs and establish those areas of finance not sufficiently served by private investments where there is clear evidence of market failure. Design appropriate financial instruments for micro-enterprises and SMEs, taking into consideration the maturity of enterprises, their growth potential, sectoral specialisation and risk exposure.
- To ensure the correct application of EU and national State aid policy. To have established a national Central State Aid Registry.
- Develop a national Smart Specialisation Strategy (S3).

Actions under this thematic objective may contribute, if relevant, to related interventions in the fields of research and innovation, information and communication technologies, low carbon economy, environment and resource efficiency and employment and labour mobility<sup>12</sup>.

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<sup>12</sup> Thematic objectives 1,2,4,6,8 according to the draft Regulation.



## FUNDING PRIORITY: DEVELOPING INFRASTRUCTURE FOR GROWTH AND COMPETITIVENESS

The objectives of the funding priority "**Developing infrastructure for growth and competitiveness**" will be achieved primarily by thematic objective 'Promoting sustainable transport and removing bottlenecks in key network infrastructures'.

**Thematic objective:** 'Promoting sustainable transport and removing bottlenecks in key network infrastructures'

For this thematic objective the funding priority translates into the following priorities and specific objectives reflecting country specific challenges to be supported by the CSF funds:

1. Continuous support to the completion of the TEN-T network, in particular the Core Network, with high priority given to the rail network, including the connection of Prague national airport to the national railway system. This financing priority should also include investments to install ERTMS equipment on all TEN-T core network corridors.
2. Construction of those cross-border links with a high economic value, in terms of freight and passenger flows (link with Connecting Europe Facility – CEF).
3. Investments in sustainable urban transport in support of an integrated and sustainable mobility strategy for urban agglomerations.
4. The creation of a limited number of inter-operational logistic centres. The selection of these centres must be based on feasibility studies.

Assuring performance of investments by CSF funds under this thematic objective requires meeting the relevant ex-ante conditionalities. In addition the following general considerations would improve governance and delivery:

- The early finalisation of the long-term transport strategy, a joint initiative of the Czech authorities, Commission services and JASPERS, is crucial for setting medium-term priorities for financing.
- A medium to long-term financial planning, including a national maintenance plan should be drawn up to ensure the long-term operation and maintenance of the transport networks and the sustainability of cohesion policy investments. A minimum multi-annual budget should be made available for the implementation of this maintenance plan, which could include the introduction of a smart and sustainable charging scheme.
- Ensure synergies with activities financed under the CEF and explore possibilities for use of financial instruments to attract private funds for the construction of transport infrastructure, in order to alleviate the burden on public finances.

Actions under this thematic objective may contribute, if relevant, to related interventions in the field of environment and resource efficiency<sup>13</sup>.

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<sup>13</sup> Thematic objective 6 according to the draft Regulation.

**FUNDING PRIORITY: HUMAN CAPITAL DRIVEN GROWTH AND IMPROVED LABOUR  
MARKET PARTICIPATION**

The objectives of the funding priority **'Human capital driven growth and improved labour market participation'** will be achieved primarily by thematic objectives 'Promoting employment and supporting labour mobility', 'Promoting social inclusion and combating poverty' and 'Investing in education, skills and lifelong learning'.

<b>Thematic objective:</b> 'Promoting employment and supporting labour mobility'
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<b>Europe 2020 headline target</b>	<b>Current situation (2011)</b>	<b>National 2020 target in the NRP</b>
75 % of the 20-64-year-olds to be employed	70.9%	75 % of the 20-64-year-olds to be employed
<b>Country-specific Recommendation (no. 2):</b> Reconsider plans to allow an earlier exit from the labour market. Promote effective participation of younger workers in the envisaged funded scheme to improve adequacy of pensions.		
<b>Country-specific Recommendation (no. 3):</b> Take additional measures to significantly increase the availability of affordable and quality pre-school childcare.		
<b>Country-specific Recommendation (no. 4):</b> Strengthen public employment services by increasing the quality and effectiveness of training, job search assistance and individualised services, including outsourced services.		

For this thematic objective the funding priority translates into the following investment priorities/focus areas and specific objectives reflecting country specific challenges to be supported by the CSF funds:

1. Access to employment for job-seekers and inactive people including local employment initiatives and support for labour mobility
  - Increase labour market participation in particular of vulnerable groups such as women with young children, older workers, young people, low-skilled, long-term unemployed, Roma, persons with disabilities.
  - Ensure quicker and more successful transition from school to work through targeted ALMP and support to business start-ups for the young. Increase adequate on-job training (apprenticeships, traineeships), introducing practice- and profession-oriented training programmes. Develop job guidance in schools and support entrepreneurship of young people.
  - Ensure equal opportunities in the labour market and reconciliation between work and private life for men and women of all working ages. Increase provision of financially sustainable affordable quality childcare and long-term care services for elderly people in order to bring more women into the labour market. Address gender employment and pay gaps.
  - Promote flexible working arrangements. Increase adult participation in lifelong learning (especially of low-skilled and disadvantaged adults).
  - Develop and promote innovative and elderly-friendly forms of work organization to maintain older workers longer in employment. Implement adequate incentive

measures to prevent early retirement, raise the employment rate of older workers and promote active and healthy ageing together with long-term human resources policies in companies which will take into account the needs of older workers on the labour market.

2. Modernisation and strengthening of labour market institutions

- Increase the quality and effectiveness of public employment services. Focus on training, job search assistance and individualised services. Link funding of the programmes to their results.
- Apply job-efficient measures adequately tailored to the individual needs of job-seekers and responding to labour market challenges. Improve the job efficiency of ALMP with regard to vulnerable groups.
- Increase the efficiency and targeting of ALMP' interventions. Develop systematic efficiency assessment of PES actions and ALMP. Develop a system of continuing labour market forecasting.

3. Foster diversification of employment in the agricultural and aquaculture sectors

- Support creation of businesses and business support services outside agriculture in rural areas. Strategically orientate community-led local development to complement adaptation and innovation in agriculture and aquaculture.

Actions under this thematic objective may contribute, if relevant, to related interventions identified in the fields of research, innovation, competitiveness, small and medium enterprises, social inclusion, combating poverty and institutional and administrative capacity<sup>14</sup>.

**Thematic objective:** 'Promoting social inclusion and combating poverty'

Europe 2020 headline target	Current situation	National 2020 target in the NRP
At least 20 million people fewer in or at risk of poverty and social exclusion	15.3 % of the total population (2011)	To keep the number of people in or at-risk-of-poverty, material deprivation or living in a jobless household in 2020 at the same level as 2008

For this thematic objective the funding priority translates into the following investment priorities and specific objectives reflecting country specific challenges to be supported by the CSF funds:

1. Integration of marginalised communities such as the Roma

<sup>14</sup> Thematic objectives 1, 3, 9, 10 according to the draft Regulation.

- Support individualized services and counselling of labour offices and specific supportive measures for Roma applicants and increase offer of social fieldwork and health assistants in deprived localities.
  - Strengthen support for socially excluded localities with the aim of their subsequent elimination by means of systemic integration measures.
  - Eliminate segregation in education, promote quality early-childhood education. Support inclusive education to increase the number of Roma pupils in mainstream education. Ensure successful transitions from school to employment.
2. Enhancing access to affordable, sustainable and high-quality services, including health care and social services of general interest
- Support access to affordable, sustainable and high-quality social services and healthcare. Support prevention, including through targeted actions focused on particularly vulnerable groups, such as Roma, drugs and alcohol users/addicts (in particular among young people aged less than 18).
  - Further develop long-term care services and interlink social and health care.
  - Target early-childhood education and care services (by increasing offer and ensuring quality), including integrated approaches combining childcare, education, health and parental support, with a particular focus on the prevention of children's placement in institutional care.
  - Support the transition from institutional care to community-based care services for children, people with disabilities or mental disorders and the elderly.
3. Improve quality of life in and attractiveness of rural settlements
- Improve both small-scale infrastructure and access to local basic services in rural areas as pre-condition for their economic development and retaining population, through community-led local development (building on experience from LEADER).

Actions under this thematic objective may contribute, if relevant, to related interventions identified in the fields of employment and labour mobility, education, skill and lifelong learning.<sup>15</sup>

**Thematic objective: 'Investing in education, skills and lifelong learning'**

Europe 2020 headline target	Current situation (2011)	National 2020 target in the NRP
Reducing school drop-out rates below 10 %	4.9 %	A maximum drop-out rate of 5.5 %
At least 40 % of 30-34-year olds completing third level education	23.8 %	32 %

**Country-specific Recommendation (no. 6):** Adopt the necessary legislation to establish a

<sup>15</sup> Thematic objectives 8 and 10 according to the draft Regulation.

transparent and clearly defined system for quality evaluation of higher education and research institutions. Ensure that funding is sustainable and linked to the outcome of the quality assessment. Establish an improvement-oriented evaluation framework in compulsory education.

For this thematic objective the funding priority translates into the following investment priorities and specific objectives reflecting country specific challenges to be supported by the CSF funds:

1. Improving the quality, efficiency and openness of tertiary and equivalent education with a view to increasing participation and attainment levels
  - Promote the development of rigorous internal and external quality evaluations of higher education and research institutions.
  - Ensure equitable access to higher education of disadvantaged groups.
  - Increase the variety of study modes (part-time, distance and modular learning, continuing education for adult returners and others already in the labour market).
  - Provide high quality courses for adult learners with an adequate, result oriented methodology, as close as possible to the labour market needs.
  - Support quality development in higher education by means of increasing the quality of staff and teaching.
  - Promote innovation in higher education through more interactive learning environments and foster strategic cooperation between higher education institutions and enterprises.
  
2. Reducing early school-leaving and promoting equal access to good quality early-childhood, primary and secondary education
  - Establish an improvement-oriented evaluation framework in compulsory education to focus much more directly on the quality of learning and teaching and their relationship to student outcomes.
  - Improve the equity of the compulsory education by ensuring equal access to high quality early-childhood (increasing the offer is necessary), primary and lower-secondary education and providing support to weaker pupils.
  - Improve the quality of the compulsory education and the level of pupils' key competences, including reading, maths and sciences literacy, by implementing an improvement-oriented monitoring and assessment framework at the key levels: system, school, teachers and pupils.
  - Improve the labour market relevance of vocational education and training (VET) and the cooperation between vocational schools and enterprises. Improve career guidance services.
  - Ease the transition of young people from VET and general upper secondary to the labour market and introduce flexible pathways between different segments of education.
  - Improve pre- and in-service teacher training, building on strengths and talents of individual teachers.

The particular situation of rural areas should be considered when implementing actions under this specific objective.

Actions under this thematic objective may contribute, if relevant, to related interventions identified in the fields of research, innovation, competitiveness, small and medium enterprises, employment and labour mobility, social inclusion and combating poverty.<sup>16</sup>

**FUNDING PRIORITY: ENVIRONMENT-FRIENDLY AND RESOURCE-EFFICIENT ECONOMY**

The objectives of the funding priority '**Environment-friendly and resource-efficient economy**' will be achieved primarily by thematic objectives 'Supporting the shift towards a low-carbon economy in all sectors', 'Protecting the environment and promoting resource efficiency' and 'Promoting climate change adaptation and risk prevention and management'.

**Thematic objective: Supporting the shift towards a low-carbon economy in all sectors**

Europe 2020 headline target	Current situation	National 2020 target in the NRP
20% Reduction of greenhouse gas (GHG) emissions reduction compared to 1990	-7% (2020 projections compared to 2005) <sup>17</sup> -2% (2010 emissions compared to 2005) <sup>5</sup>	+9% (national non-binding target for non-ETS sectors compared to 2005)
20 % increase in energy efficiency	531 943 kgoe / 1000 euro (2010)	To make a substantial contribution to the indicative target of 20 % set at EU level; to take further steps to improve environmental quality
20 % of energy from renewables	9.35 % (2010)	13 %

For this thematic objective the funding priority translates into the following priorities and specific objectives reflecting country specific challenges to be supported by the CSF funds:

- The **energy efficiency of industry** (non-Emission Trading Scheme) should be increased by the modernisation, restructuring and saving measures introduced in the sector. This also applies to the power sector (reduction of energy losses by upgrading facilities for energy production, distribution and transformation). Substantial efficiency gains can also be achieved by improving the efficiency of local district heating plants, by increasing the efficiency of heat distribution networks, and by

<sup>16</sup> Thematic objectives 1, 3, 8, 9 according to the draft Regulation.

<sup>17</sup> Based on existing measures. Commission report *Progress towards achieving the Kyoto Objectives (2012)*

encouraging energy efficiency in the agricultural and aquaculture sectors, in particular through the deployment of low-carbon technologies and solutions. Appropriate agricultural and forestry management practices can help to reduce GHG emissions and increase carbon sequestration.

- Improvements in the energy performance of buildings (both new and existing) by increasing their energy efficiency and using renewable energy sources should focus on projects exceeding cost-optimal level (up to nearly-zero energy buildings) that could lead by example, starting with public buildings. Projects should focus on systemic renovation, encompassing building insulation together with efficiency improvements in heating, ventilation, controls and lighting.
- The development of integrated urban development plans. Such plans should be taking into account the Sustainable Energy Action Plans developed under the Covenant of Mayors Initiative.
- The city of Prague should develop a long-term integrated energy efficiency strategy aimed at reducing GHG emissions, while promoting low-carbon technologies and energy efficiency measures.
- Providing support for the supply and the use of renewable energy sources (RES) in electricity production, heating&cooling and transport, and the promotion of the bio-economy, including relevant renewable energy infrastructural and technological investments in line with the Czech National Renewable Energy Action Plan.
- Actions directed at the reduction of nitrous oxide and methane emissions from agriculture, promoting sustainable land management to enhance carbon sequestration in agriculture and forestry.
- Support for the further development of distribution networks for electricity at low voltage levels, including the roll out of smart electricity meters, would significantly contribute to increasing the energy efficiency of the Czech economy, as well as allowing a higher uptake of decentralised forms of renewable energy.

Assuring performance of investments by CSF funds under this thematic objective requires meeting the relevant ex-ante conditionalities. In addition the following general considerations would improve governance and delivery:

- Support towards a shift to a low-carbon economy is a cross-sectoral objective that must be pursued in all economic sectors and integrated in all relevant policies, in particular R&D, ICT, business development, transport environment, agriculture and forestry.
- Special attention should be paid to the **development and roll-out of new financial mechanisms** that address the problems of initial investment and behavioural bottlenecks, such as Energy Performance Contracting (in particular in the public buildings sector) and Financial Instruments (in the housing sector), leveraging EU funding with private finance.
- A proper monitoring system of the results in terms of energy saved/renewable energy generated should be put in place.

- The Czech Republic should enhance its framework conditions for the use of **renewable energy sources by avoiding retroactive changes to support systems**. Furthermore, the moratorium for connecting new (variable) RES implemented in 2010 needs to be fully removed<sup>18</sup>.
- Investments in both energy efficiency and RES should also be supported as collateral activities to the core activities in other investment areas within the Partnership Agreement (e.g. RTD projects focused on energy efficiency and renewable energy technologies, business support to companies producing energy efficiency and renewable energy production).

Actions under this thematic objective may contribute, if relevant, to related interventions in the fields of research and innovation, competitiveness, environment and resource efficiency and transport<sup>19</sup>.

**Thematic objective:** 'Promoting climate change adaptation and risk prevention and management

For this thematic objective the funding priority translates into the following priorities and specific objectives reflecting country specific challenges to be supported by the CSF funds:

- The implementation and monitoring of a **national strategy for climate change adaptation**.
- In terms of **flood management** the priority should be given to projects that are aimed at a natural slowing down of the run-off and an increase in the retention of water (for e.g. restoration of floodplains and wetlands) and the modernisation of the existing infrastructure. The maintenance of a good technical state of fishponds, used as retention lakes in water management to absorb extreme flood discharges, is necessary.
- Investments in water management could also include operations designed to build, extend or rebuild systems for the collection, discharge and treatment of rainfall and snow melt, which would mitigate the climate effects in urban areas.
- Actions to encourage **sustainable and efficient water and soil management** in agriculture, forestry and aquaculture.

Assuring performance of investments by CSF funds under this thematic objective requires meeting the relevant ex-ante conditionalities. In addition the following general considerations would improve governance and delivery:

- The actions supported under the Partnership Agreement should be designed to ensure coherence, complementarity and synergies as regards climate action supported by the CSF funds, as well as other national and EU instruments such as Horizon 2020 and

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<sup>18</sup> To enable this, the Czech Republic needs to urgently establish a plan for where network reinforcements are necessary to enable the uptake of additional renewable electricity. It also needs to adapt the regulatory, legislative and administrative framework to significantly speed up implementation of grid reinforcements (planning and construction).

<sup>19</sup> Thematic objectives 1, 3, 6, 7 according to the draft Regulation.



LIFE 2014-2020. Climate change proofing should be included in all relevant policies and programmes in a systematic manner.

- The investments in flood management should be carried out within the framework of the three national plans for the international river basins of the Odra, Labe and Danube rivers and the eight national river basin management plans. They also should prevent cross-border spill-over effects through cooperation across regions and neighbouring Member States by making use of the EU Strategy for the Danube Region and the International Commission for the Protection of the Danube River (ICPDR).

Actions under this thematic objective may contribute, if relevant, to related interventions in the field of environment and resource efficiency<sup>20</sup>.

<b>Thematic objective:</b> Protecting the environment and promoting resource efficiency
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For this thematic objective the funding priority translates into the following priorities and specific objectives reflecting country specific challenges to be supported by the CSF funds:

- Investments in solid **waste management**, in line with the waste management hierarchy. The investments should be compliant with the waste management plans and take into account 2020 waste targets.
- Investments in **actions to reduce air pollution** based on a national air pollution strategy. Particular attention should be paid to investments focusing on improved and greener public transport systems, incentive schemes for cleaner transport, and the promotion of alternative forms of transport and on reducing the emissions of district heating systems.
- Continuing investments in **waste water and drinking water infrastructure** on the basis of a **proper national needs analysis**.
- Increasing **efficiency in the use of water**, including by the agricultural sector and aquaculture, and improvement of water and soil quality, thereby contributing to soil protection.
- Support for the **regeneration of polluted and contaminated sites**. The regeneration of polluted sites or landscape degraded by human activity should be publicly funded only if the polluter liable for the contamination or deterioration of the site is unknown or cannot be made to bear the costs.
- **Protection and restoration of biodiversity and natural landscapes**, sustainable management of ecosystems in zones with a high nature value, as an integral part of rural development and aquaculture-related plans, and sustainable forest management.
- Improvement of resource efficiency and promotion of sustainable use of raw materials. Increased consumer awareness of fisheries and aquaculture-generated food produced from sustainable and environmentally friendly sources.

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<sup>20</sup> Thematic objective 6 according to the draft Regulation.

- Strengthen governance and capacity building of the relevant Czech authorities and other stakeholders

Assuring performance of investments by CSF funds under this thematic objective requires meeting the relevant ex-ante conditionalities. In addition the following general considerations would improve governance and delivery:

- The waste hierarchy of the Waste Framework Directive and 2020 waste targets should constitute the main criteria for prioritisation of future investments in this area. In addition to investments in infrastructure, regulatory mechanisms that provide for synergistic effects in the attainment of the above-mentioned targets, as well as adequate incentives, will have to be introduced into the Czech legal system.
- Regarding waste water treatment, a needs analysis by the Czech authorities is required to determine the exact number of municipalities above 2 thousand PE and to what extent further co-financing through ERDF/CF is required. The transition period for the Czech Republic in the urban waste water treatment Directive 91/271/EEC, expired in 2010.
- As regards future co-financing of both the drinking water and waste water infrastructures through ERDF/CF, it is essential that a national legal water framework, including an independent water regulator, be established before January 2014. If this is not the case, the principles of the 2007-13 'water agreement' must remain applicable in respect of all infrastructure investments in this area.
- A national "air pollution strategy" should be approved. This strategy should be aligned with the Integrated Air Quality Improvement programmes prepared for defined zones and agglomerations.
- The CSF Funds financing to NATURA 2000 should be consistent with the prioritised action framework (PAF).
- To ensure the efficient use of resources in this area in line with the "Roadmap to a Resource Efficient Europe".

Actions under this thematic objective may contribute, if relevant, to related interventions identified in the fields of climate change adaptation, competitiveness, small and medium enterprises and research and innovation<sup>21</sup>.

#### **FUNDING PRIORITY: MODERN AND PROFESSIONAL ADMINISTRATION**

The objectives of the funding priority '**Modern and professional administration**' will be achieved primarily by thematic objectives 'Enhancing institutional capacity and an efficient public administration' and 'Enhancing access to, and use and quality of, information and communication technologies'.

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<sup>21</sup> Thematic objectives 1, 3 and 5 according to the draft Regulation.

**Thematic objective:** 'Enhancing institutional capacity and an efficient public administration

**Country-specific Recommendation (no. 5):** Adopt and implement as a matter of urgency the Public Servants Act to promote the stability and effectiveness of public administration and avoid irregularities. Ensure adequate implementation of the new Public Procurement Act. Address the issue of anonymous shareholding. Ensure correct implementation of EU funds and step up the fight against corruption.

For this thematic objective the funding priority translates into the following priorities and specific objectives reflecting country specific challenges to be supported by the CSF funds:

1. Investment in institutional capacity and in the efficiency of public administrations and public services, with a view to reforms, better regulation and good governance:
  - Foster growth-friendly business environment.
  - Strengthen institutional and administrative capacity at all levels. Combat corruption. Introduce necessary reforms to ensure better legislation and good governance, synergies between policies and effective management of public policies, transparency, integrity and accountability in public administration and the spending of public funds. Develop and implement effective human resource strategies and policies in the field of public administration in order to increase the quality of public service delivery.
  - Modernise court organisation and develop human resource management, self-administration and transparency of the judiciary. Improve the efficiency and quality of civil justice procedures, including written procedures, small claims, insolvency procedures and enforcement of decisions, and promote the exchange of related best practices, advocate mediation and other alternative forms of dispute resolution.
  - Improve the efficiency of the tax administration by means of developing targeted tax collection strategies based risk assessment, using pre-filled tax forms and other improvements that decrease the time it takes to pay taxes and help fight tax evasion.

Assuring performance of investments by CSF funds under this thematic objective requires meeting the relevant ex-ante conditionalities. In addition the following general considerations would improve governance and delivery:

- Implement the national anti-corruption strategy in an efficient and effective manner. Where relevant, a link to the EU anti-corruption report, due in 2013, should be established.
- Prepare, adopt and implement the Public Servants Act compliant with the European standards of public administration, ensuring transparent selection of professional civil servants and protecting their independence.
- Implement the provisions of the Public Procurement Act, adopted in April 2011, in a correct and efficient manner.
- Transpose and correctly apply the Environmental Impact Assessment (EIA) Directive in the Czech legal system, in order to implement future infrastructure investments in

a manner which will not harm the environment and give the concerned population the possibility to express their views during a public consultation. Simplify the decision procedures on zoning and building permits, in order to avoid delays in the new programming period.

- Carry out a detailed process and human resources analysis for the entire CSF funds implementing structure, establishing the required staffing needs and identifying the bottlenecks for the 2014-20 programming period. Apply the rules on outsourcing of administrative tasks, complying with sound financial management principles.

**Thematic objective:** 'Enhancing access to, and use and quality of, information and communication technologies'

For this thematic objective the funding priority translates into the following priorities and specific objectives reflecting country specific challenges to be supported by the CSF funds:

1. Development and application of e-government services in line with the national smart administration strategy. Promote the development of a coherent e-architecture of the government to ensure that all available information is used across institutions.
2. The development of web-tools providing targeted information and facilitating regulatory procedures for SMEs, particularly in the area of public procurement, employment law, social security, taxation and standardisation. Further steps have to be taken in this area to meet the target set in the Europe 2020 strategy, namely a reduction of administrative burden by 30 % compared to 2005.

Assuring performance of investments by CSF funds under this thematic objective requires meeting the relevant ex-ante conditionalities. In addition the following general considerations would improve governance and delivery:

- To ensure synergies between activities supported from the CSF funds with the nationally funded actions within the SA strategy.

Actions under this thematic objective may contribute, if relevant, to related interventions identified in the field of information and communication technologies, competitiveness and small and medium enterprises.<sup>22</sup>

## **ADMINISTRATIVE ARRANGEMENTS**

### **General assessment of administrative capacities**

Diverse objectives of the assistance from the CSF funds relate to widely differentiated types of beneficiaries with various institutional, technical or financial capacities. The quality of the administrative capacity of the beneficiaries largely determines the quality of the preparation and implementation of projects and, eventually, the success of the policy.

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<sup>22</sup> Thematic objectives 2 and 3 according to the draft Regulation.

The Czech Authorities should therefore target the establishment of a management and control system which responds to the real needs of all beneficiaries. Appropriate tools for applicants and beneficiaries to guide them through the entire project cycle should be made available. The application/funding requirements should be limited to the essential elements needed for a proper project selection and implementation, and their complexity should be decreased. This should also prevent the need for excessive outsourcing of the preparation of project applications by the applicants and beneficiaries. As regards EAFRD, the paying agency should be encouraged to maximise the administrative synergies between the two pillars of the Common Agricultural Policy.

The role of civil society in acting as a partner and teaming up with government authorities should be strengthened.

The Czech Authorities should build on the positive measures on administrative capacity, building from the current period (jobs catalogue; harmonisation of remuneration/bonuses; staff selection rules) and integrate them into a **Public Servants Act**. This law should be in force at the start of the 2014-20 implementation process.

The Czech Authorities should also continue to actively implement the national **anti-corruption** strategy, in particular the measures directly or indirectly linked to the implementation of the CSF Funds. This process should be monitored closely and be evaluated at the appropriate moment in time.

Regarding rural development, the Czech Republic should ensure an effective and efficient control environment and be able to confirm in advance the operability of its control systems.

For the CSF funds, the Czech Republic is encouraged to reflect on how sound financial management principles could be further enhanced by the application of simplification, better coordination of funds and programmes, a reduction in administrative costs and burdens for the beneficiaries and, for cohesion policy, through the wider use of e-cohesion possibilities.

## **Project delivery**

**Simplification of the delivery system** should be achieved by a critical revision of the current programme structure, including all the bodies involved in its implementation. The CSF funds should be perceived as a targeted instrument to achieve the objectives of the Europe 2020 strategy in the Czech Republic. A simplification of the implementing structure should go in parallel with the simplification of the administrative procedures and funding requirements. The current Czech delivery system applied to Structural Funds, in particular the project selection method, is much too complex and too labour-intensive to allow an effective, efficient and smooth implementation of the Operational Programmes. The promotion of e-governance, in particular e-cohesion, could play a positive role in this respect.

It is therefore essential that the implementation structure to be put in place for the 2014-20 period is modified to make it more viable and transparent. Furthermore, political influence on the current management and control system is too strong and has to be reviewed. Simplification should include an increase in transparency of all stages of the project cycle, in particular project selection, public procurement and financial management and control. A proper formulation of transparent selection criteria with enhanced performance orientation is needed.

Past experience in the Czech Republic shows that an artificial integration of a range of different priorities and actions, falling under the responsibility of different national and/or regional bodies, into a specific programme, should be avoided as much as possible.

Special attention should be paid to improving the governance of the **cross-border programmes**. It is important that conditions for beneficiaries on both sides of the border (e.g. public procurement procedures, availability of advance payments) are coherent to the largest possible extent. Where it is not possible, it is necessary to foresee *ex-ante* intergovernmental procedures dealing with programme governance-related issues in order to facilitate the future implementation of these programmes.

Taking into account the negative experience of delays in the approval of major projects due to state aid issues and of irregularities related to public procurement in the current programming period, the role of the Competition Protection Office (UOHS) should be reviewed and made more transparent for the 2014-20 period. The implementation of the new law on public procurement, in force since April 2012, must be monitored closely, in particular in terms of impact on the use of CSF funds.

All funding should be in accordance with EU State aid rules and should be limited to the minimum necessary. Funding should address real market failures and distortions of competition should be limited to the minimum.

### **Administrative burden**

The project preparation and project development capacity of local and municipal authorities and bodies should be reinforced. This capacity should be particularly reinforced in the fields of urban development, regional territorial development, and project preparation.

Enhanced use of electronic systems within the **e-cohesion** principles (full electronic exchange between the beneficiaries and the authorities, the 'only once' encoding principle, enhanced use of electronic signature, sharing of documents of common interest within electronic storage systems, interoperability of the systems) should decrease the administrative burden for beneficiaries as well as reduce the administrative workload for the Authorities concerned.

Further measures to be explored by the Czech Authorities should include **streamlining the financial management** (optimising the use of *ex-ante/ex-post* payment models; shortening the period for payments to beneficiaries; simplified and harmonised eligibility rules across the funds, and enhanced use of simplified cost models). Simplified costs models could be realised by introducing standard unit costs, lump sums and flat rates.

Compared to the current period, the new SF electronic monitoring system should be comprehensive (covering all Managing Authorities), simplified (two levels instead of three) and should ensure full electronic data exchange between the beneficiaries and the Authorities responsible for the management and the control of programmes.

### **Partnership**

The **partnership principle** is applied in the Czech Republic in a rather formal way. The partners' involvement in a monitoring committee is too often seen as an 'obligation under the Regulation', without that their opinion is taken into account sufficiently. A more balanced composition of the programme monitoring committee should be ensured during the next programming period, and consideration should also be given as to how to

transform the committee into an active platform for discussion on all issues related to the effective and efficient implementation of a programme, including the examination of achieved values of output and result indicators and the evaluation findings. In this context, implementation arrangements such as the set-up of joint monitoring committees for the CSF funds and coordinated selection criteria should be explored

In the current programme period approximately 2 300 people are employed for the management and administration of the overall NSRF. The effective use of these human resources should be ensured. For the next programming period, it is proposed that an *ex-ante* human resources needs assessment be carried out to provide a general administrative capacity framework for the effective and efficient implementation of the Partnership Agreement.

### **Monitoring and evaluation**

Monitoring and evaluation system needs to be adjusted to the requirements of the new regulations (in particular performance framework and result orientation). Actions in this field should include:

- The expansion of the information system for ERDF and ESF and development of IT system for EAFRD enabling the electronic submission of aid applications;
- Necessary arrangements with National Statistics Office on better and quicker data collection for result-oriented management of the funds;
- More harmonised use of indicators allowing for comparability of data and performance between programmes.
- Improvement of the follow up system for recommendations from evaluation studies allowing for their effective implementation.