

BTI 2012 | Czech Republic Country Report

Status Index	1-10	9.61	# 1 of 128	
Political Transformation	1-10	9.65	# 2 of 128	➔
Economic Transformation	1-10	9.57	# 1 of 128	➔
Management Index	1-10	6.57	# 19 of 128	

scale: 1 (lowest) to 10 (highest) score rank trend

This report is part of the Bertelsmann Stiftung’s Transformation Index (BTI) 2012. The BTI is a global assessment of transition processes in which the state of democracy and market economy as well as the quality of political management in 128 transformation and developing countries are evaluated.

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Please cite as follows: Bertelsmann Stiftung, BTI 2012 – Czech Republic Country Report. Gütersloh: Bertelsmann Stiftung, 2012.

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Key Indicators

Population	mn.	10.5	HDI	0.865	GDP p.c.	\$	25283
Pop. growth ¹	% p.a.	0.4	HDI rank of 187	27	Gini Index		-
Life expectancy	years	77	UN Education Index	0.924	Poverty ³	%	<2
Urban population	%	73.5	Gender inequality ²	0.136	Aid per capita	\$	-

Sources: The World Bank, World Development Indicators 2011 | UNDP, Human Development Report 2011. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$2 a day.

Executive Summary

In the last two years, the political situation in the Czech Republic was marked by a polarized political environment, which resulted in the fall of Topolánek government in March 2009. This was a result of both continuous struggle between the center-right government and the opposition, and of growing policy disagreements in the weak government coalition. The two major cleavages of intra- and inter-party competition that led to the vote of no confidence for the Topolánek government stemmed from (1) pension and health care reforms and proposed ways to combat the aftermath of the global financial and economic crisis, and (2) attitudes toward further integration with the European Union.

These political developments have been accompanied by growing citizen disenchantment with political parties and government performance resulting in the decline of support for the major political parties in the 2010 elections. The parties with the biggest electoral losses were the Christian Democratic Union – Czechoslovak People’s Party (KDU-CSL), which for the first time since 1990 did not gain mandates in the lower chamber of the parliament, and the Civic Democratic Party (ODS). The parties that benefited most from the disenchantment, as well as from the use of new forms of political mobilization such as social media, were Tradice Odpovědnost Prosperita 09 (Tradition, Responsibility, Prosperity, TOP09), and to a lesser degree the Public Affairs (Věci Veřejné, VV), which together gained over 27.5% of the vote and 32.5% of seats.

With regard to EU membership, the Czech Republic’s presidency of the Council of the European Union in the first half of 2009 was seen to be a very important occasion for consolidating the country’s standing in Europe after the long-term struggle between an extremely vocal euroskeptic president (Václav Klaus), and a progressively pro-European government (Topolánek). After the ruling of the Czech Constitutional Court in December 2008, and the results of the European elections, in which several new euroskeptic and “Euro-optimist” political

groupings did not win a single mandate, it is safe to state that the conflict about the depth of European integration has lost salience.

In 2009 the economic crisis led to a record level of debt. The budget deficit reached 5.93% of GDP. The Topolánek government's attempts at reforming the health, pensions, law enforcement and legal systems have been constrained by its status as a Minimum Winning Coalition government. The subsequent fall of the government and the limited mandate of the Fischer caretaker government resulted in a further delay of key reforms.

A radical worsening of public finances in a short- and mid-term time period has forced the government to adopt a fiscal consolidation package that aims to temporarily stall some mandatory expenditures and increase tax revenues. This package was adopted by the parliament with several amendments that demonstrate the degree to which decisions on the economic development of the country have become subject to politicking. Budgetary policy was affected by the global economic crisis and it was not possible to find the consensus needed to implement the necessary reforms. Compared with the previous period, the budget deficit continues to grow and the likelihood of meeting European Monetary Union (EMU) criteria appears to be diminishing. In this respect, the Czech government prudently decided to postpone membership of the eurozone until after 2015.

As for the Nečas government, after seven months in office it is difficult to assess its success in policy implementation, however, it appears that the political inexperience and ideological fluidity of some coalition partners will present key obstacles in this area.

Although anti-corruption measures were a high priority of all recent governments and one of the main issues in the 2010 parliamentary elections, successive governments have not yet dealt effectively the influence of organized crime within the state administration, the police, and among political elites. In the light of the most recent corruption scandal at the State Environmental Fund, the anti-corruption measures have to be tied to reforms in party financing.

Today the Czech Republic is fully integrated into international structures. The government sees Czech membership of NATO as a cornerstone of the country's external security. One of the government's main priorities in internal security has been the fight against all forms of extremism. There has been a small growth in support for right-wing extremists within Czech society that may be partly a result of extremists changing their tactics.

History and Characteristics of Transformation

The transformation of Czechoslovakia forms part of the political changes in Central and Eastern Europe between 1988 and 1989. The fall of the Iron Curtain caught the relatively economically stable, but politically very rigid communist regime off guard. The culmination of the political upheavals that followed was a brutal police intervention against a peaceful student

demonstration on 17 November 1989 in Prague. Students and artists brought news of the events to the whole country and overcame the regime's monopoly of the media. In the days that followed, there was a general strike where more than half a million of people protested against police intervention and the communist regime in Prague. By using force against students, the communist regime lost its remaining public support. Generally speaking, the regime was never broadly supported, but was tolerated by the masses. Most Czech citizens abhorred the state's use of violence against students.

Representatives of the opposition movement, students and artists formed the revolutionary Civic Forum, which became a partner of the existing government in negotiations after the Communist Party government renounced its monopoly on power on 28 November 1989. One of the most important immediate results was the reconstruction of (a truly representative) parliament and the co-opting of members of the Civic Forum to the National and Federal Assemblies. The parliament elected dissident Václav Havel as president, and the leader of the Prague Spring (1968), Alexander Dubcek, as the speaker of the Federal Assembly.

The transformation of the Czech Republic since 1990 has included major political and economic changes, as well as a redefinition of the country as a nation-state. In this period, two major actors shaped the country. Firstly, the former dissident and well-known representative of the opposition movement Charter 77, Václav Havel (who was president of the Czechoslovak Federative Republic 1990 – 1992 and the Czech Republic 1993 – 2003). Secondly, the economist Václav Klaus, who became one of the leading figures of the Civic Forum and later chairman of ODS, holding the offices of prime minister, speaker of the parliament, and is currently president (since 2003). These two figures represent strong and in some respects opposing streams within Czech politics. They often clashed in public for ideological and personal reasons. These differences significantly shaped the nature of Czech politics, resulting in a highly polarized system interlaced with ideological and personal animosities that in many respects pose a major obstacle to effective governance.

Despite these difficulties, the Czech party system quickly stabilized during the 1990s. The new, politically inexperienced elites and socialist reformers from the Prague Spring period managed the initial phase of the political transformation process. However, in the mid-1990s there was a shift away from a system characterized by “political amateurs” to one dominated by professional politicians. This was evident in the evolution of political recruitment patterns, which became increasingly similar to those in liberal multiparty democracies. However, the debate over the depth of the European integration process established a new political dividing line among parties, and led to a re-fragmentation of the right wing of the political spectrum. In the 2010 regional elections, the KDU-CSL regained their dynamics.

Since the beginning of the transformation process, the country has striven for inclusion in international organizations such as the IMF, which the Czech Republic joined in 1993. Membership of the IMF and World Bank offered the guaranteed credit necessary for economic and social reforms in a process that exhibited four main phases. The first phase (1990 – 1993) was characterized by a considerable decline in key economic indicators such as GDP. The next

phase (1994 – 1996) was characterized by considerable economic growth, and followed by a third phase characterized by recession (1997 – 1999). Since 2000, a new phase of economic growth has been observed. However, the trend in economic indicators does not suggest that Czech reforms have been an unqualified success. Furthermore, the world economic crisis of late 2008 has had a big impact on the Czech Republic, and the effects of a slowdown in the global economy became more evident during 2009, albeit with a tendency towards recovery in 2010.

The reform of public administration has not yet been completed. The new organization of regional self-governments has been implemented since the beginning of the new millennium. On the other hand, the Act on Civil Service has not yet been enacted, and the central level of public administration suffers from many shortcomings. The considerable level of corruption is endangering further economic and social progress in the country.

The Czech Republic's key goal of "a return to Europe" and integration into European structures has been achieved. In March 1999, the Czech Republic became a member of NATO and in May 2004 it became a member of the European Union. Rapid progress has been made in (re) establishing democracy and the rule of law. While the citizens' relationship with the democratic system is relatively good, the level of satisfaction with the political performance of the country is rather low. In the course of the period under review, the percentage of satisfied citizens in public opinion polls oscillated at around 15%. Dissatisfaction stems primarily from those who still sympathize with the Communist Party, the elderly and socially and economically disadvantaged groups. Moreover, a large portion of the population believe that members of the former communist regime effectively exchanged their political capital for economic power. Such suspicions have some truth as many experts and middle cadres of the communist hierarchy now hold prominent positions in business.

The BTI combines text analysis and numerical assessments. The score for each question is provided below its respective title. The scale ranges from 10 (best) to 1 (worst).

Transformation Status

I. Political Transformation

1 | Stateness

The Czech Republic has no major problems related to the integrity of the state. There are no separatist movements or territorial enclaves.

Question
Score

Monopoly on the
use of force
10

The Czech Republic is a largely homogeneous society. The government's relationship toward minorities, especially the Roma, has steadily improved over time, but with mixed results, especially in social and educational fields.

State identity
10

The goal of completing the new Act on State Citizenship of the Czech Republic, which will better reflect the country's membership in the European Union, was not achieved because of downfall of the government in 2009 and the limited mandate of the interim government. The Czech Republic was for a long time a country characterized by emigration and transition. Since the 1990s, and especially in the wake of its EU membership, the country has experienced increasingly high levels of immigration. In the period under review and following the EU accession, the country attempted to establish a system of green cards for migrants from some non-EU countries. The largest immigrant groups are Ukrainians, Slovaks and Vietnamese.

The Czech Republic is one of the most secularized countries in Europe. Religious dogmas have no influence on politics or law. The government acknowledges the historic and irreplaceable position of the country's churches and religious societies as traditional social institutions. However, the church has not been separated from the state and in fact, religious societies are funded from the state budget. The restitution of church property, in particular the property of the Catholic Church, and the ratification of a treaty with the Vatican remain unresolved. One long-term issue dealt with at different levels of the judiciary in the last 10 years was the ownership of St. Vitus's cathedral. The dispute over the cathedral was concluded on 24 May 2010 by the agreement between Cardinal Dominik Duka and President Klaus. Both

No interference of
religious dogmas
10

parties agreed not to continue the ongoing litigations and established a council responsible for coordination of the use and administration of the cathedral. The government that has been in office from July 2010 has declared its commitment to concluding the question of a settlement between the state and the country's churches and religious societies as soon as possible.

The state has a differentiated administrative structure throughout the country, making it possible to extract and allocate state resources on a broad basis. There are 14 administrative divisions – 13 regions and the capital city Prague. The budgetary allocation of taxes, tax autonomy and decentralization enabled the regional governments to fulfill their functions and take care of basic infrastructure.

Basic
administration
10

2 | Political Participation

There are no important restraints on free and fair elections. In the period under study, four regular elections were held. There was an attempt to have early elections in the Czech Republic in October 2009, but it failed. Elections to the chamber of deputies of the parliament of the Czech Republic (Poslanecká Sněmovna) took place in May 2010. Elections to the Senate (one third of the seats), local council elections and elections to Prague City Council were held in autumn 2010. The second European Parliament elections took place in June 2009. Electoral turnout in the parliamentary elections was slightly lower (62.6%) than in the previous elections in 2006 (64.5%). However, for the first time, social media played a crucial role in political mobilization, in particular among young people.

Free and fair
elections
10

In the Senate elections, turnout remained largely constant between 2008 and 2010 (i.e., in 2008 turnout was 44.6% in the first round and 24.6% in the second as compared to 39.5% in the first round and 29.8% in the second round in the 2008). Participation in local elections oscillated between 41.8% for city/district councils and 48.5% for municipal, market-town and town councils. For the European Parliament the turnout (28.2%) remains almost the same as in the first European elections in 2004 (28.3%).

All these elections were conducted in a transparent, impartial and correct manner. In the local councils elections there were complaints about attempt to buy votes among socially disadvantaged groups including the homeless and Roma people. The elections were repeated following adjudications in some municipalities. The appeal to the Constitutional Court concerning the deliberate re-division of electoral districts in the city of Prague in favor big political parties is still pending.

All citizens over 18 years of age can participate in national elections. There are certain barriers to the participation of citizens living abroad at election time. Unlike in the national elections, there is only a limited registration period and the number

of registration points (embassies abroad) is increasingly limited. Embassies are also polling stations, which may mean a lot of travelling, or in the case of countries outside Europe, travel abroad to vote. There is no possibility of casting a postal vote.

The democratically elected parliament and government of the Czech Republic have effective power to govern, and are not constrained by any non-democratic veto powers.

Effective power to govern
10

Freedom of association and assembly is unrestricted within the Czech Republic, are guaranteed by the constitution and regulated by several legal acts.

Association / assembly rights
10

Freedom of speech is guaranteed by law in the Czech Republic, and there is currently an influential independent media. A dual system (i.e., a combination of private and public media) has been successfully put into place. However, there are some recurrent topics for discussion regarding the media – the level of freedom and the ethical boundaries of reporting (limitations on the depiction of violence etc.). Despite numerous signs of disapproval and critiques from one part of the government and some leading political actors, there has never been an attempt to limit the independence of the media. The crucial regression in this respect, which severely undermined the constitutional right to inform and be informed, is the “Muzzle Law”. This act introduced a ban on publishing or broadcasting any account taken from police wiretapping, in print, internet, TV, or radio. According to the law, it is forbidden to make public the fact that the police wiretapped an important politician who lobbied for a businessman under suspicious circumstances. The amendment was adopted in 2009 by the chamber of deputies by a clear majority and without further discussion, setting severe punishments for journalists including fines or even imprisonment.

Freedom of expression
10

The national Coordination Group was established by the government to oversee the process of digitalization. Digitalization has led to the growing pluralism among television broadcasters, competition among whom is re-shaping the media landscape in the country. As of April 2010, there are six private television broadcasting providers with broadcasting licenses for the territory of the entire country and approximately 50 private regional broadcasting companies. Another important media issue is the Council for Radio and Television Broadcasting, an administrative authority that executes government policy in radio and television broadcasting and retransmission. It also supervises, maintains and further develops the range of programming on offer. Various members of the council, who are nominated by parliamentary political parties, regularly come under scrutiny for attempting to exercise political pressure on Czech television.

3 | Rule of Law

In the Czech Republic collusion between democratic institutions has not been a serious problem. At the beginning of the period under study, tension grew between the president and the fragile center-right coalition government. This situation has affected the legislative process, because the government struggles to find support for its reforms in the (lower) chamber of the deputies, and in some cases has had to rely on an ad hoc coalition. The partisan struggles within the chamber of deputies during early 2010 led to the blocking of various necessary legal amendments. In the period under review, several deputies left their parties and parliamentary party groups and became independent, voting ad hoc for or against government's legislative proposals or against the government in the no confidence vote in March 2009.

Separation of
powers
10

Given that the powers of the president are insufficiently clear in the Czech Constitution, Václav Klaus's interpretation of the constitutional division of responsibilities between the president and the government has sometimes pushed the constitution to its limits – for example, in his decisions during the approval of the 2009 EU Lisbon agreement.

The judiciary is free from unconstitutional interventions by other state institutions. The long waiting period prior to the hearing of court cases remains problematic. In fact, more than half of all cases heard at a regional court involve a wait of at least two years.

Independent
judiciary
9

In the Czech Republic, the judiciary is formed by a triumvirate of courts: The Constitutional Court, which deals with cases of constitutional importance; the Supreme Court, which is the court of highest appeal in most legal cases; and the Supreme Administrative Court, which deals with administrative law cases as well as political cases involving electoral disputes or the prohibition of political parties. Judges sitting in each of these three courts are appointed by the president and approved by the Senate. The tenures of judges differ. Whereas the judges sitting in the Constitutional Court are appointed for 10 years, judges sitting in the Supreme Court and Supreme Administrative Court hold office for an unlimited period. Generally speaking, the process of appointing judges is transparent and adequately covered by the public media.

However, the judiciary is not free from political intervention and corruption. According to a report released by the Czech counter-intelligence service, organized criminals have a high number of contacts amongst the country's judiciary. There was also much criticism of the "judicial mafia" in the Czech Republic. The critique was connected for example with judicial interference in a case involving former Deputy Prime Minister Jiří Čunek. As a reaction to this criticism, the Supreme

Court vice president was removed from his post in September 2010 and the Supreme State Attorney was, after a long political struggle, replaced in January 2011.

A Conflict of Interest Act (2006) is now in place, and there are now sanctions against abuse of power. Unfortunately, there are loopholes within this legislation.

Corruption appears from media reports to be pervasive, as exemplified in the high-profile corruption case against the law faculty of the West Bohemian University in 2009. The “Plzeň Affair” erupted after the head of the accreditation commission at the ministry of education pointed out serious irregularities in the way masters of arts and doctoral titles were awarded at the faculty. The case involved a number of high-profile politicians, lawyers, police officers, judges, employees of the faculty and their children, who gained their degrees after relatively short periods of study, and whose theses were sometimes insufficiently substantiated. In several cases it appeared that the doctoral studies were completed within a month. This case led to the dismissal of the dean of the faculty and the launch of an extensive review.

The police are also investigating the head of the Supreme Audit Office for bad financial management and misuse of office.

Civil liberties are respected in principle, and their observance is supervised by the Constitutional Court, the Supreme Administrative Court, and the Office of the Ombudsman (Public Defender of Rights). In association with the EU accession process, the Czech Republic strengthened the protection of all legal persons against (illegal) interference by public administrative bodies, including new administrative rules that improve citizens’ rights vis-à-vis the state. In April 2008 the parliament passed the Anti-Discrimination Act (Act Number 198/2009 Coll.) on equal treatment and on the legal means of protection against discrimination. On 17 June 2009, the chamber of deputies overturned the Presidential veto and approved this act, which became effective on 1 September 2009. The Anti-Discrimination Act stipulates inadmissible grounds for discrimination between people (e.g., sex, age, nationality, etc.).

Progress in women’s civil rights has been made on the issue of domestic violence, where the crime is now more likely to be reported and prosecuted under new legislation. Despite these advances the general implementation of laws that offer effective protection from and prevention of domestic violence remains underdeveloped.

With regard to the initiation of civil-rights-based legal actions, the number of complaints lodged by Czech citizens at the European Court of Human Rights (ECHR) between 2008 and 2009 decreased slightly. There were 2,117 submissions in 2008, and 2,074 in 2009. Even if only a small number of the applications were declared admissible, the relatively high number of cases reveals that Czech citizens

Prosecution of
office abuse
8

Civil rights
10

are becoming increasingly aware of and confident in embarking on legal courses of action to protect their civil rights.

The Office of the Public Defender of Rights (ombudsman) continues to serve as a vital civil-rights protection institution. In 2009, the office registered 7,321 complaints – an increase of about 4% in comparison to 2008. Of the complaints received, 53% were within the ombudsman's mandate and 47% outside his mandate. The structure of complaints received by legal area has not changed significantly during the period under study. Complaints in the area of social security are the most numerous in the long run, and primarily concern pensions and social welfare benefits. The second most numerous were complaints related to construction and regional development and the third group are complaints related to the army, police and prison system. The data available for 2010 confirm this tendency. The public defender of rights delivers quarterly reports and annual reports on his activities to the chamber of deputies.

In order to strengthen the agenda of human rights and national minorities, the Topolánek government (2006 – 2009) established the Office for Human Rights and National Minorities, led by a government minister. However, the current government, established in July 2010, has abolished this position. The portfolio was divided among different government offices, as it was prior to 2006.

4 | Stability of Democratic Institutions

Czech democratic institutions at all levels are in principle effective in performing their functions. However, some frictions exist between institutions. The scope for effective public policy-making is restricted by disagreements between the president and government, by the government's inability to articulate decisive positions due to its slender majority in the lower chamber, and by disagreements in the governing coalition (after the 2010 elections). In a cabinet re-shuffle in late January 2009, four ministers were replaced chiefly on the basis that they had failed to communicate the government policy within their portfolios to citizens.

The strong, partisan disputes between 2006 and 2009 had an adverse impact on some key state institutions and ultimately led to the fall of Prime Minister Topolánek's government on 24 March 2009, although the caretaker government of Jan Fischer stabilized the situation. However, the limited mandate of the government, which is based on an agreement among the major political parties, resulted in acting ministers who were not authorized to deal with a number of pressing issues. After the global economic crisis, the government focused on the adoption of key economic measures and the implementation of deep budgetary cuts.

Performance of
democratic
institutions
10

However, due to the limited mandate of the government, ministers had no power to adopt key economic measures.

The results of the 2010 parliamentary elections enabled the formation of a strong majority government for the first time in 14 years. The Nečas government consists of three right-wing parties – ODS, TOP 09 and VV. They have 59% of seats in the chamber.

The Czech judiciary is free from unconstitutional interventions by other state institutions. The Constitutional Court rules on constitutional complaints against decisions that have gone into legal effect or other interventions by a public authority that interfere in constitutionally guaranteed rights and freedoms.

Another rupture exists between the right-wing government established after the 2010 elections and the regional governments, which are mostly in hands of the Czech Social Democratic Party (CSSD). Following the October 2008 regional elections, the CSSD currently control 13 out of 14 regional governments, the exception being Prague which remains controlled by coalition of ODS and CSSD. Disputes over allocation of funds for various public services are intensifying due to fiscal restrictions imposed by central government.

Most citizens support democratic institutions and there are no important groups seeking to change the Czech political system. In January 2009, the president experienced a decline in support, having for a long period recorded higher levels of popular trust than all other political institutions in monthly opinion polls. Trust in the office of president ranges in the period under study from 64% to 74%, in local municipal government from 54% to 64%. As in many other European countries, Czech citizens express least trust in the parliament (upper and lower chambers) where only about one in five of those interviewed currently exhibit some trust in these representative institutions. In spite of this, all relevant actors accept all democratic institutions as legitimate. Interest groups and civic organizations have the opportunity to express their opinion and make comments on bills when they are under preparation. The government's legislative rules define which entities are considered to be legitimate "commenting actors" during a consultation period. Trade unions and employer associations have the opportunity to make comments on bills dealing with social and economic issues during tripartite meetings with government in the Council for Economic and Social Accord. The consultation process has become more open thanks to the electronic publication of legislative norms and regulations.

The present government coalition enforced the passing of a set of austerity laws in the chamber of deputies by the end of 2010 under an emergency regime that gave the opposition parties no opportunity to comment. The Constitutional Court declared this decision unconstitutional in March 2011.

Commitment to
democratic
institutions

10

5 | Political and Social Integration

A law on political parties and movements regulates the formation and registration of political entities. In December 2010, 178 political parties and political movements were registered, of which 144 parties and movements were active, 18 have been abolished and 16 have been suspended. The most controversial case in the period under review was a government petition that proposed banning the Workers' Party (Dělnická Strana). The Supreme Administrative Court accepted this request, and on 17 February 2010 the court dissolved the Workers' Party. The government successfully argued that the party posed a threat to the democratic order of the country not only because of its xenophobic, jingoistic, populist and homophobic opinions, but also because of its links with extreme right-wing organizations, and its Nazi-inspired program and symbols. Moreover, it further argued that the leaders of the party incite racism and other types of hatred, and that the party aimed to change Czech democratic order.

Party system
9

The Czech party system can be evaluated as almost consolidated. However, the results of the 2010 elections demonstrate that the degree of fragmentation has increased (0.68 in 2006 and 0.78 in 2010), as has the effective number of parties (3.17 in 2006 and 4.54 in 2010). Currently, five parties are represented in the Czech parliament, two of them are new – TOP 09 and VV. TOP 09 was officially founded with the support of mayors in November 2009 and belongs to the youngest conservative right-wingers on the Czech political landscape. TOP 09 emerged as a result of internal tensions in the ODS and other governing parties, when these parties' leading politicians resigned and established a new political subject. VV calls itself a party of direct democracy; it was founded in 2001 and was initially active at local level. The party is unpredictable in many areas and has a rather populist character.

The Green Party was in parliament and government from 2006 to 2010, but lost its position after the 2010 elections. The party is still not rooted in the political landscape and has suffered from persistent tensions within the party and its leadership. The position of the two biggest parties, ODS and CSSD, has weakened during the period under study. In the 2006 elections they obtained a combined total of 77.5% seats, but in the 2010 elections only 54.5% of the seats. The two new parties in the chamber received together 32.5% of seats.

There is an ongoing discussion about the establishment of gender-based electoral quotas on ballots to increase the number of women in Czech politics. In 2009, the government initiated the procedure to draft such a bill, which would change the electoral law and provide incentives as well as sanctions for political parties that fail

to meet the quotas (the quotas proposed are 30%). However, the law was not ready before the May 2010 elections.

There is a full spectrum of interest groups in the Czech Republic, ranging from social movements and community organizations to unions and professional organizations. Accession to the European Union provided Czech national interest groups with (a) opportunities to work in a multilevel system of governance, and (b) costs vis-à-vis the policy goals that can be addressed primarily at the national level. Czech interest organizations have become increasingly involved in European-interest representation structures through membership of European umbrella organizations. Moreover, the new policy-making regime of EU membership has resulted in the emergence of new civil society actors such as NGOs dealing with equal opportunities. Some of these CSOs now attempt to bypass the national level of government and to pursue their policy goals at European level. In practical terms this means that policies such as structural funding present an important opportunity for interest groups to cooperate fruitfully with local and regional political representations.

The most influential interest groups are business-interest associations and trade unions that also have considerable competences regarding labor relations and economic policy. During the global economic crisis the economic interest associations became important partners for the government to seek solutions that would ensure economic prosperity and societal cohesion.

In December 2010, interest groups and trade unions organized the largest public protest since 1990 against government plans to cut the public sector workforce and wages. In the end of 2010, medical doctors started a series of protests that culminated in over 4,000 doctors terminating their contracts with hospitals and threatening to emigrate, should the government not significantly increase their wages and improve working conditions. This would result in some hospitals, in particular smaller institutions, having to close down for lack of qualified personnel. In February 2010, a tentative agreement was reached to prevent the imminent departure of medical staff.

In the Czech Republic there is a clear disparity between the stable and high degree of general support for democracy and satisfaction with the democratic system (around 45%) and the low level of satisfaction with the institutions of representative democracy. People associate democracy with freedom, participation and socioeconomic security. Citizens who show the most dissatisfaction with the current political and economic situation in the Czech Republic have the least confidence in political institutions.

According to public opinion polls, in the course of the period under review the percentage of citizens satisfied with the political situation in the country ranged

Interest groups
10

Approval of
democracy
9

from 8% to 14%, and the percentage who were dissatisfied from 58% to 66%. It is not only the performance of government and parliament that underpins such low satisfaction ratings, it is also a lack of information about public policy-making and ineffective communication between the government and citizens. More than half of the citizens share the opinion that they cannot influence the government at all.

After 20 years of democratic transformation, the Czech Republic is still in a phase of building social cohesion, social empathy and solidarity among social groups as well as between generations. Levels of trust in other persons are lower than the average level of interpersonal trust in the European Union, according to surveys. The social function of the community and neighborhood has not yet been fully restored. At present, around 100,000 autonomous, self-organized groups, associations and organizations are registered in the Czech Republic. However, approximately 15% to 20% of civic organizations are inactive. The number of organizations in individual regions of the Czech Republic varies; there are “more” and “less” active regions. The difference between these regions is based on structural, cultural, historical and institutional factors. Higher education, the stability of settlement, and continuous historical and cultural development positively influence the level of civic participation and trust among the citizens. In “passive” regions, the state becomes an alternative, rather than a frame within which civil society performs its vital role. In regions with an advanced network of civic organizations, citizens rely less upon the state.

Social capital
8

II. Economic Transformation

6 | Level of Socioeconomic Development

The Czech Republic is one of the most prosperous post-communist states of Central and Eastern Europe. Apart from a considerably high level of unemployment, there are no other significant economic barriers nor are any significant parts of the population excluded from society due to poverty and inequality. The country is characterized by high human development, a low poverty rate and low inequalities compared to other post-communist countries. However, there are still income inequalities, especially at the regional level and between the capital and the rest of the country. Other persistent differences in income are between men and women: Women receive on average only 85% of the salary of men with the same education and position.

Unemployment has started to increase once more as the economic recession bites, and there was no improvement during the period under review. Gender and regional

Question
Score

Socioeconomic
barriers
10

differences in unemployment persist. Long-term unemployment remains a serious problem and constitutes almost half of the unemployed labor force. With the exception of the Roma population, there is no social exclusion due to poverty, education, ethnicity or sex.

Economic indicators		2007	2008	2009	2010
GDP	\$ mn.	174214.9	216084.5	190204.3	192032.1
GDP growth	%	6.1	2.5	-4.1	2.3
Inflation (CPI)	%	2.9	6.4	1.0	1.4
Unemployment	%	5.3	4.4	6.7	-
Foreign direct investment	% of GDP	6.1	3.0	1.5	3.5
Export growth	%	15.0	6.0	-10.8	18.0
Import growth	%	14.3	4.7	-10.6	18.0
Current account balance	\$ mn.	-7940.1	-4773.6	-4848.9	-5992.3
Public debt	% of GDP	29.0	30.0	35.4	39.6
External debt	\$ mn.	-	-	-	-
Total debt service	\$ mn.	-	-	-	-
Cash surplus or deficit	% of GDP	-1.6	-1.5	-6.1	-
Tax revenue	% of GDP	15.2	14.8	13.5	-
Government consumption	% of GDP	20.3	20.4	22.0	21.8
Public expnd. on edu.	% of GDP	4.2	-	-	-
Public expnd. on health	% of GDP	6.8	7.1	7.6	-
R&D expenditure	% of GDP	1.54	1.47	-	-
Military expenditure	% of GDP	1.6	1.4	1.4	-

Sources: The World Bank, World Development Indicators 2011 | International Monetary Fund (IMF), World Economic Outlook 2011 | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database 2011.

7 | Organization of the Market and Competition

The Czech Republic has a rather complex legal framework regulating market-based competition. However, problems surfaced during the period under review. There are still long procedures and high costs associated with setting up a business in Czech Republic. Foreign investors often express complaints regarding the effective enforcement of law and a lack of transparency in decision-making by state agencies. In order to simplify and speed up the process of business registrations, the government adopted a resolution to reduce administration costs for entrepreneurs by 2010. In July 2009, the Act on eGovernment came into force. This act regulates the electronic transactions of select public administration authorities and legal entities and establishes a secure data-exchange system and authorized conversion of documents.

Market-based
competition
10

With regard to FDI, the Czech Republic still remains an attractive location for foreign investors. However, the period of peak FDI fell in the years 1999 – 2005. The current period of crisis is not favorable for foreign investors; some foreign companies have left the country (e.g., Hitachi in Northern Bohemia in 2009) or substantially reduced the number of Czech employees. New measures were adopted to create a more “business friendly” environment for foreign investors.

The black economy doesn't pose an especially large problem in the Czech Republic, but nevertheless it persists in domains such as the illegal employment of cheap foreign workers from non-EU countries. Proposed revisions to the penal code propose much higher sentences for employers caught using undocumented foreign labor. The new government (2010) has adopted additional measures in this field.

Competition policy rules and institutions correspond to standards applied in the European Union. As of 1 September 2009, an amendment to the Competition Act entered into force, strengthening the supervisory and investigative powers of the Office for the Protection of Competition. In 2009 this office received 368 complaints. One of the biggest cases in this period resulted in a fine of CZK 17,283 million for a mining company named Sokolovská uhelná in January 2010 for making restricted export prohibition agreements which were intended to distort competition and which might have led to distortion of competition in the brown coal market, brown energetic coal and brown sized coal in the Czech Republic.

Anti-monopoly
policy
10

The Czech economy is strongly export oriented and the liberalization of foreign trade is essential for economic success. Since 1995 the Czech Republic has been a member of the OECD and WTO. The position of the country within the WTO changed after it joined the European Union. It continues to be a member, but in

Liberalization of
foreign trade
10

accordance with principles of common trade policy of European Union it ceased to negotiate and perform independently.

The banking system is stable and consolidated; the sector was almost unaffected by the financial crisis. The Czech National Bank (CNB) is the central bank and the supervisor of the Czech financial market. The conduct of financial market supervision involves a range of activities encompassing licensing and approval proceedings, fulfillment of information duties, on-site and off-site supervision, and international cooperation. The CNB is an independent institution and this independence has proven to be a key precondition for the successful implementation of monetary policy and hence for a sustainable non-inflationary economy. There are many banking institutions in addition to the CNB. In the period under study the number of banks increased from 37 to 41 and none of them was under conservatorship. Foreign-owned banks dominate the domestic market: Out of a total of 41 banks, only two are state-owned banks and six are Czech-controlled banks.

There are some weaknesses in the banking services sector. Upon the recommendations of the World Bank, the state places more emphasis on consumer protection within financial markets.

The Office for the Protection of Competition regularly monitors the activities of banks operating in the Czech Republic.

8 | Currency and Price Stability

The annual inflation rate has remained below 3% in the long term, with the exception of 2008, when it increased dramatically to 6.4%. In 2009 the inflation rate was 1% and in 2010 it was around 2%. According to the current inflation forecast by the CNB and the ministry of finance, the inflation rate for 2011 should remain below 3%.

In recent years the Czech koruna has been stable; there were no considerable changes during the economic crisis. The annual average for daily nominal exchange rates of the CZK to the euro was 26.4 (2009) and 25.3 (2010) CZK to one euro.

The “Assessment of the Fulfillment of the Maastricht Convergence Criteria and the Degree of Economic Alignment of the Czech Republic with the Euro Area” was jointly prepared by the ministry of finance and the CNB and approved by the government on 21 December 2009. It stated that it is very improbable that under current conditions the Czech Republic will be able to meet all Maastricht convergence criteria in the medium-term. In 2010, the Czech government decided to move the target year for joining the eurozone and neither to fix the deadline for the adoption of the euro nor to start the preparation. According to the CNB and the

Banking system
10

Anti-inflation /
forex policy
10

government, an independent monetary policy is an advantage in the current global financial crisis.

The global financial crisis and subsequent recession were reflected in the Czech economy by a marked slowdown in economic growth in 2008 and a drop in GDP in 2009. General government expenditures in 2009 maintained their growth dynamics. The final consumption of the government actually increased in comparison with the previous period, despite certain austerity measures in force from early 2009 onwards. In September 2009, the parliament adopted Janota's economic package (named after the minister of finance), which slightly reduces the deficit of the state budget. It was a provisional measure adopted by the interim government with a limited mandate.

In 2010, the Czech economy seems very likely to have emerged from recession, although great uncertainties remain regarding the intensity of the economic recovery. The new government elected in 2010 has declared itself the "government of budgetary responsibility" and one of its main tasks is the reform of public finances with the aim of stopping rising public debt and setting the parameters of budget policy so that balanced state budgets can be achieved by 2016. In line with this task, the 2011 budget envisaged a lot of curtailments, such as a reduction of public sector salaries or cuts in the budgets of particular ministries.

9 | Private Property

Within the Czech Republic private property rights are respected and government authorities regulate the acquisition, use, and sale of property. There has been a noticeable positive development in the procedures required to start a business. Since 2009, "Project Czech Point" has made it simpler to register a company, providing multiple registration-related documents at one place. As a result, three procedures were merged into one and the number of days required to start up a business was reduced by two. In 2010 the property registration process was eased with an ongoing reorganization effort at the property registry, combined with computerization.

Property rights are sometimes limited by overriding rights of constitutionally defined public interests, for instance by highway construction. However, it is a very complicated procedure to define something as public interest, and the government is trying to simplify this procedure.

Private enterprises form the backbone of the national economy, but some large state companies remain. The privatization of state companies proceeds consistently with market principles. However, the most salient privatization projects discussed during the last two years – Prague Airport, the Czech Energy Company (ČEZ) and most

Macrostability

9

Property rights

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Private enterprise

10

recently Czech Post – have to date not occurred. The current government will push through the privatization of state-owned companies that were not transformed into joint-stock companies with strong state involvement, such as Brewery Budvar or Lesy CR (Woods of the Czech Republic). In times of a reduction of public budget deficits, the state is trying to get rid of property that is not indispensable, but it will not continue with the privatization of companies that have state involvement of strategic significance.

10 | Welfare Regime

The state's system of social support is regulated by law. No sectors or social groups are excluded from the welfare system. Citizens have a right to benefits if they and their household members permanently reside in the Czech Republic, or if they are EU citizens. For non-EU foreign nationals there is a special regulation. In the last two years the Czech social system has undergone some important changes. At the start of 2009 there were significant changes with regard to sick pay benefits. In general, the current government's policy is to reduce the state's budget deficit through targeted initiatives that reduce social welfare payments and encourages Czech citizens to take increased responsibility for their own health and welfare provision. The reforms of social benefits include a cut in the reimbursement ratio for sickness insurance, a tightening of the conditions for unemployment support and a limit on the maternity grant, which will be paid for the first child only and only in families with an income less than 2.4 times the defined minimum subsistence level.

The principal aim of the government's pension reform proposals is to make the Czech pension system viable over the long term, to move from a pay-as-you-go to a multi-pillar system (i.e., to a mandatory and a voluntary scheme) and to gradually increase the retirement age, thereby cutting costs. To develop a long-term, financially sustainable pension system, an expert advisory group of the ministry of finance and the ministry of labor and social affairs was established. However, none of its recommendation had been adopted by the end of the period under review because of a lack of political consensus.

The Czech health care system ensures a wide range of choice for both providers and consumers of health care, and provides a good level of service. The Czech Republic has the second highest life expectancy among the post-communist countries after Slovenia. The health care reform introduced in 2006 was finalized in the period under review by introducing charges for pharmacy prescriptions, visits to doctors, and overnight treatment in a hospital. Due to a lack of political support, the government was unable to define the scope of care paid for by public health insurance on the basis of medical criteria, the level of health problems and within the scope of public health insurance. The financial problems of the health care

Social safety nets

10

system have resulted in lower salaries for physicians. This led to extensive protests that may endanger health care services.

Czech law guarantees equality of access to work, education and social services. The implementation of EU directives has underpinned these guarantees. A legal and institutional system for the prevention of sex discrimination has also been implemented. After an initial failure, the chamber of deputies overturned the veto of the president on 17 June 2009 and approved the Anti-discrimination Act. It became effective on 1 September 2009.

Equal opportunity
9

Support systems which aim to help marginalized groups to overcome their initial handicap have not always been sufficient. This is primarily a problem for the Roma minority with regard to education. More than half of all Roma children are educated in special schools dedicated to pupils with learning difficulties. This educational streaming means that many Roma children have poor chances to progress to higher education, and hence secure good work opportunities.

Members of the Roma community are currently among the most vulnerable groups within the labor market. Their situation is aggravated by overt and covert forms of xenophobia and ethnic discrimination. The Inter-ministerial Commission for Roma Community Affairs assists on a systematic basis in the integration of the Roma community into society and several NGOs are involved in programs reducing the poverty and social exclusion faced by the Roma.

Cases of discrimination in the labor market against women, the elderly or graduates are covered by media or registered in the Ombudsman's office.

11 | Economic Performance

Macroeconomic development during the period under review was influenced by the economic crisis. The crisis did not start in the Czech Republic, but had a large impact on Czech exports. There was a general decline in industrial production, decline of GDP and GDP per capita in 2009, and a sharp increase in unemployment, which, however, remained under the EU average. The consequences of recession are still seen in the labor market. The unemployment rate apparently peaked in 2010, and it should moderately decrease in this year and the next.

Output strength
9

The inflow of foreign investment has more than halved in 2009 compared with 2008 and during this period there was only a slow recovery because the Czech economy is strongly dependent on upturns in neighboring countries – chiefly Germany.

The economic output of the Czech Republic is still recovering. The estimated real GDP grew by 2.5% in 2010, with the main contribution to that growth probably

coming from gross capital formation related to replenishing inventories and, to a lesser degree, household consumption. Under the influence of fiscal consolidation measures, a moderate slowdown in economic growth to 2.2% is expected for 2011.

The Czech Republic was not as indebted as Hungary or Latvia. The banking sector was relatively consolidated before the crisis began, as the main source of Czech banks' income was fees, rather than loans. In December 2010, the Czech government discussed and adopted an analysis entitled "Assessment of the Fulfillment of the Maastricht Convergence Criteria and the Degree of Economic Alignment of the Czech Republic with the Euro Area – 2010.". Based on this analysis and in line with the Czech Republic's Updated Euro-Area Accession Strategy (August 2007), the government agreed with the recommendation of the Czech ministry of finance and the CNB not to set a target date for eurozone entry for the time being and not to attempt to enter ERM II during 2011.

12 | Sustainability

More than 20 years after the post-communist transition process began, the Czech Republic is still battling a legacy of environmental pollution. The environmental issue has become increasingly important with globalization, which has led to an increased emphasis on the interconnection between the environment, economy and social conditions. The obligation to implement the requirements of European law has become the cornerstone of the Czech Republic's environmental policy. Clear tasks and time schedules that were officially agreed upon for the EU accession have made environmental protection and sustainable development an important part of the government's agenda. However, the overview provided by the "State Environmental Policy of the Czech Republic Report" offers a rather unsatisfactory picture. In most areas, the Czech Republic still lacks key environmental legislation. For example, the Natura 2000 framework which was to have been unveiled in 2004 is still awaiting a launch date. Programs for the reduction of hazardous substances in surface and ground waters were scheduled for implementation in 2009 but remain under public discussion. Waste management legislation is currently in a pre-legislative phase.

During the accession process, environmental protection assumed a high priority. However, since the Czech Republic's accession, spending on environmental protection has stagnated at around €800 million (CZK 20 billion) per year. Expenditure on environmental protection in the Czech Republic is close to the EU average of 1% of GDP (up from 0.73% of GDP in 2008). A key element of Czech environmental policy is the transfer of responsibilities to the private sector and local government (i.e., those who are most directly involved in waste management). The effects of the global economic crisis and increasing fuel prices led in 2009 to a discussion about breaking quotas for mining coal. Discussion of this topic within

Environmental
policy
9

the government soon spilled over into the media and the public sphere. In an electoral debate on 1 May 2010 all political parties with the exception of ODS refused to support a policy of increasing the output of Czech coal mines. The parties present at the round-table discussion supported the use of alternative sources of “smart” energy. However, the regulation of the alternative energy sector seems to be an area of imminent growth as there was considerable speculation on wind and solar energy permits in 2010. At present, there are government and EU subsidies for wind and solar power generation and it seems that these permits were seen by investors as a lucrative short-term investment. This sharp increase in speculative interest led the Czech government to temporarily cease issuing permits.

Another recent environmental policy controversy concerns the reconstruction of one of the country’s largest coal power plants at Prunérov. In fall 2009, CEZ, the state-owned energy company, was required to present the government with plans for reducing the plant’s emission levels. The minister of the environment was not persuaded by the plan and ordered an independent audit, which pointed out that a more efficient, albeit more costly option was available. Pressure from the energy sector and the government led the Environment Minister, Jan Dusik, to repeatedly postpone his decision. In the end, he resigned from the government in 2010 partially in protest against undue outside interference on this issue, and also because the Green Party had left the government. Furthermore, in December 2010 a corruption scandal led to the resignation of the Minister of the Environment Pavel Drobil (ODS). The new minister – Tomáš Chalupa – was appointed in January 2011 and represents the main coalition party ODS.

The Czech Republic has one of the highest proportions of people with secondary education among all the OECD countries. The situation is, however, significantly worse for per capita participation in tertiary education, as only about 13% of the Czech population have obtained some form of higher education. Over the last two decades, enrollment in tertiary education has more than doubled, and one of Czech government’s long-term priorities has been to further increase the percentage of the population attending tertiary education institutions in order to improve the international competitiveness of the Czech Republic. Education expenditure is currently 4.6 % of GDP and remains below the EU average.

In January 2009, the “White Paper on Tertiary Education” was launched with the aim of introducing wide-reaching reform in education including the introduction of tertiary fees in tandem with a system of study grants, student loans, and targeted means-tested assistance in order to put the long-term financing of tertiary education on a more sustainable basis, while simultaneously making access more equitable. The White Paper resulted in widespread public debates highlighting the issue of transparency in producing the White Paper as well as the exclusion of actors

included in the actual institutional arrangements proposed. With the fall of the Topolánek government this reform process came to a halt.

The main strengths of the Czech educational system are (1) ongoing networking of educational and research activities; (2) evolving cooperation between education and application spheres; (3) ongoing implementation of the Bologna Process; (4) involvement of universities in legislative and decision-making process regarding education; (5) the high prestige of education in society; and (6) tertiary education institutions are dispersed across the national territory. The weaknesses of the Czech education system are: (1) a lack of state resources; (2) large intergenerational differences in the population with respect to tertiary education; (3) high inequalities in access to tertiary education caused by a system of streaming during students' early academic careers; (4) low cohesions among different levels of education programs at different tertiary institutions; (5) high levels of dropping out, especially at the technical universities; (6) low involvement of the private sector in education; (7) the overall deterioration of the Czech primary and secondary education outcomes as documented by the recent PISA survey; (8) the lack of strategic vision and the low routine decision-making competences of the administrative bodies responsible for education, R&D, and innovation.

For a long time, one of the main areas of weakness of R&D in the Czech Republic has been the commercial sector, which has failed to commit significant resources toward the development of new products and services. In 2008 the Research and Development Council (RDC), a government body composed of experts chaired by the prime minister, introduced far-reaching changes aimed at redirecting financial resources from basic into applied research. In 2009, the Technological Agency (TA CR) was established to distribute state funding to projects within the area of applied research. In March 2010, the TA CR launched its first program supporting applied and experimental research.

However, given the global crisis and the general scarcity of resources it was proposed that some applied research funds would be redirected from pure academic research. This led to open protests by researchers and scientists in the fall and winter 2009, and to warnings that the policy would lead to the closing of top research institutions and a brain drain, as young scientists would see no future in the Czech Republic.

In the drive to intensify the research and innovation policy, the government introduced a number of initiatives such as the "Competitiveness and Innovation Framework Program," whose task is to implement EU plans in this area, especially in regard to the involvement of SMEs. For the period 2009 to 2017, the principal instrument for direct support of industrial R&D is the ministry of trade and industry's "Enterprise and Innovation" program.

Transformation Management

I. Level of Difficulty

Socioeconomic conditions within the Czech Republic are stable, and have not changed significantly across successive governments. In fact, it seems reasonable to conclude that the Czech Republic does not have important structural problems.

Structural constraints
1

The tradition of civil organizations within the Czech Republic dates back to the 19th century. Under communism, most CSOs were subordinated to the state and in effect became moribund between 1948 and 1989. Following the Velvet Revolution, CSOs revived and there are currently three main types: (1) organizations that have been revived from the pre-communist era; (2) organizations that existed under communist rule and still exist today; and (3) organizations that were formed after 1989. In the early 1990s, there was a sharp increase in the number and membership of NGOs in the Czech Republic. This initial public enthusiasm for CSO participation was replaced by an equally sharp fall in citizen activism. Within the last decade CSO membership and activism has been marked by a process of stabilization within some NGOs and steady decline in others. Consequently, there has been a widening gap between CSOs who succeed or fail in adapting to the post-communist transition process.

Civil society traditions
2

In a number of areas such as minorities, migrants, HIV/AIDS prevention and hospice care, civil society is the main provider of effective support. In general, CSOs are acquainted with the reality of daily experiences of the disadvantaged and the underprivileged and are flexible in providing assistance. CSOs are most active in large urban centers such as Prague, Brno and other regional centers. In particular, CSOs such as People in Need are vital in ameliorating social exclusion problems as well as trying to establish communication channels between Roma communities, local and regional governments, and state institutions. However, CSOs are often dependent on the state and the European Union for funding.

At present, there are no major ethnic, religious, or social conflicts in the Czech Republic. Most accounts of party competition within the Czech Republic stress the importance of left–right orientation in explaining party positions and vote choices. In recent years, there has been an almost 50/50 balance within the lower chamber between support for left- and right-wing parties. Consequently, the Czech Republic

Conflict intensity
1

is one of the few countries where Minimum Winning Coalitions or minority governments frequently occur. The key social-conflict issues in the Czech Republic may be summarized as: (1) growing discrepancy between very rich, a slowly weakening middle class and an increasing pool of poor people and (2) the political and social inclusion of the Roma into mainstream society.

II. Management Performance

14 | Steering Capability

Question
Score

The government is committed to bringing the Czech economy to a par with the most advanced member states of the European Union. It drafted and approved the Economic Growth Strategy (2005), which set targets for the 2005 – 2013 period. This strategy has two main objectives: (a) to set priorities for coordinating economic policies and directing EU funds; and (b) communication of these priorities to the public and the business sphere. The National Coordination Group (NGC) on the adoption of euro was established in 2007 together with an information website. The NGC regularly reviews the national plan on the adoption of the euro, however, this plan remains pending due to a lack of clear commitment. The government approved the non-binding “Framework for the strategy of sustainable development” in 2010, whereas the original plan was to launch a much more ambitious “Strategy of Sustainable Development.”

Prioritization
7

There are several expert policy-advisory bodies within the government, public research institutes are linked to the government and influential think tanks are affiliated with political parties. However, there is neither a governmental office, nor a parliamentary committee that deals directly with strategic planning. The framework for short- to medium-term development is based on the government’s policy manifesto, which is presented to the chamber of deputies for a confidence vote. In the period under review there were three such presentations of government policy manifestos. The first was made by the Topolánek cabinet in March 2009 and resulted in the fall of his cabinet. The second was made by the interim cabinet of Jan Fischer in May 2009. The third in July 2010 by Petr Nečas.

Within the Czech Republic there is some skepticism toward strategic planning for three reasons. Firstly, the duration of strategic plans spans the life times of a number of governments so that plans linked to a single party or leader are unlikely to survive a change of government. . Secondly, Czech politicians are not trained and motivated to think in a strategic way. Thirdly, there is no political consensus on the core of a national strategic development plan.

The overall implementation of government measures has been complicated due to the heterogeneous composition of government. Even though the governments of Topolánek, Fischer and the current Nečas government have tailored their goals accordingly, a substantial gap between proposed goals and actual results remains.

Implementation
8

Government democratic and economic reforms are primarily a product of Czech EU membership. However, in the period under review, and due to country's independent monetary policy, the influence of the European Union was limited. The constant amendment of basic legal regulations and adoption of new regulatory measures combined with poor coordination has created numerous implementation problems and increased transaction costs for society.

The Czech governments in this period failed to effectively implement their policy objectives – in particular, their environmental agendas. The main obstacle to the government efforts to implement structural reforms has been a polarized political situation. Fragile governing coalitions were the main constraint on the implementation of the far-reaching plans of the various electoral programs. The fragile political environment was also very evident during the Fischer caretaker government's term in office (May 2009 – June 2010). This caretaker, partisan government required support from all major parties and was expected to prepare the state budget. The constraints imposed on the Fischer government peaked in spring 2010 when the ODS ended discussion of all bills through use of procedural obstructions.

Since accession to the European Union, the government's activities have adapted to, and been strongly influenced by, the European Union's legislative framework. In fact, most EU legislation was implemented before accession in May 2004. In the period under study, the impact of the European Union in promoting domestic reforms was weakened by domestic political struggles. The adoption and implementation of new legislation emanating from Brussels is slow and continues to meet euroskeptic opposition from several political parties.

Policy learning
7

The inability of the country's political elite to keep the government in office for the duration of the Czech presidency of the European Council is a major failure. The CSSD initiated numerous votes of no confidence but did not expect to topple the Topolánek government in March 2009. Most of the media commented that the CSSD's victory was bitter sweet. However, it was the defection from the ruling party of two euroskeptic members of parliament that led to the failure of Topolánek's government. Domestically, the presidency contributed toward the development of a pragmatic view of Europe among the ODS's leadership. In the long run, it is likely that the ODS will become even more pragmatic, and thus more in tune with its own voters, who tend to be pro-European Union.

The organization of government and public administration has been relatively rigid. Much of the practice of governing has been linked to the nature of coalition governments, reinforced by the inertia of officials, and has proved very difficult to change. Following the EU accession, programs were initiated to improve administrative practices and to take advantage of modern methods of management.

Increased transparency and growing public pressure combined with the imminent budget cuts to result in political learning.

The Czech public administration is handicapped by the repeated postponement of the fulfillment of a new civil service law that was passed before the Czech Republic even joined the European Union in 2004. Due to this deficiency, public administration is endangered by the intrusion of political and economic interests that make effective changes very difficult, if not impossible.

15 | Resource Efficiency

In order to implement the budget cuts and address growing budget deficits in 2010, individual ministries conducted analyses of personnel and spending. The results of these analyses were rather gloomy; for example, the ministry of education discovered that some individual staff had been hired to cover multiple full-time jobs; the ministry of transport realized that its cars were being washed twice a day by an external firm, while another company held a contract for watering the flowers in its building for a monthly rate of \$20 per flower, and rent was being paid on a storage unit full of overpriced teddy bears with scarves embroidered with the legend “Ministry of Transportation”. The ministry of defense also discovered that it held a contract with an external company to purchase all military equipment and that it had subsequently purchased overpriced, unnecessary and often malfunctioning equipment.

A study that was compiled by graduate students of the Charles University and published in January 2011 stated that 80% of Czech ministries’ public tenders between 2006 and 2010 – at an overall value of CZK 276 billion (\$15.5 billion) – were awarded without competition. The defense ministry had the highest volume of purchases made without public tender; followed by the local development ministry. The least worst ministry was finance, which conducted 52% of its public procurement correctly.

There is no political will to complete the unfinished reform of public administration in central government, which makes the overall efficiency of Czech public administration questionable.

Efficient use of
assets

7

The critical situation in the public administration's personnel policy does not allow for efficient use of administrative staff.

Recently publicized cases of corruption in central government (ministry of defense, ministry of the environment, ministry of transport etc.) document the overall inefficiency of the administration's use of public budgets.

Like the second Topolánek government, the current Nečas government is trying to reconcile the conflicting objectives and interests of the coalition partners, with only partial success. The smaller parties (TOP09 and VV) repeatedly threatened to leave the government if policy agreement could not be reached. The tensions within the governing coalition limit the executive power of the government. Under the second Topolánek government and in particular under the Fischer government, the necessity to negotiate every vote within the parliament forced the government to undertake numerous compromises and to tread water halfway through its reform program. Furthermore, these reforms were insufficiently communicated to the different ministries and the public.

The prime minister has also lacked the formal means to sanction members of parliament who defected during roll calls, especially if the defectors were ministers from other coalition parties. In practice, with the exception of the Fischer caretaker government, which enjoyed large support for its policies, ministerial compliance has often hinged on the personal authority of the prime minister.

Prime ministers appoint a team of advisers who will be able to evaluate policy areas, and these teams often included individuals with varied political views. For example, in 2010 the Nečas government appointed a group of experts to form the National Economic Council (NERV) to work on the following six areas: (1) public finances; (2) pension reform; (3) anti-corruption; (4) relations with the European Union; (5) competitiveness and the support of enterprises; (6) health care financing.

The government's legislative plan divides tasks among the ministries and other central bodies of the state administration and sets deadlines for the submission of bills to the cabinet. Along with other ministries, the government office takes part in the interministerial consultation process. However, there are clear divisions between the ministries, and project groups that span these divides are rarely established.

As the ongoing government reform effort is focused mainly on enhancing economic competitiveness, the trade-off between economic, social, environmental and security goals is often neglected.

The Czech Republic has long battled against corruption. Although most recent governments have put the struggle against corruption high on their agenda, most have failed to propose concrete anti-corruption measures within the bureaucracy,

Policy
coordination

7

Anti-corruption
policy

7

police, and politics itself. Most recently, corruption was the main topic of the 2010 elections and a crucial focal point of the coalition agreement. The fight against corruption is high on the agenda of the minister of defense, who addressed numerous corruption cases in public tenders within the defense portfolio in fall 2010. Similarly, the minister of the interior fought corruption in the police and the state administration.

According to Transparency International's 2009 "Global Corruption Barometer Report," corruption within the Czech Republic was greatest within the public sector and political parties, and was somewhat less problematic within the judiciary. The number of cases involving public and European funds demonstrates that corruption is greatest in the distribution of public funds by national and local government. Thus far, no effective anti-corruption measures have been implemented; unlike other Central and Eastern European (CEE) countries (most notably Slovenia) no anti-corruption office was established. This situation indicates a lack of motivation on the part of political elites to root out opportunities for corruption and implement pro-active measures such as professional codes of conduct and effective prosecution procedures. Corruption appears to be high on the agenda during electoral campaigns, but disappears from any new government's agenda.

In December 2010, an employee at the State Environmental Fund uncovered attempts to siphon money to political parties via payments for government contracts. This led to the vote of non-confidence on the Nečas government. The smallest coalition party, VV, considered its support for the government until the very last moment. VV supported the government in the vote. The minister of the environment resigned in January 2010, citing the corruption case and naming one of his advisers as the culprit. The investigation of the corruption case, which almost led to the fall of government, is pending. The whistleblower was fired and the public confidence in the government's dedication to the anti-corruption agenda was shattered.

16 | Consensus-Building

There is a general consensus among the major political actors and the public on the merits of democracy and a market economy. In the first part of the period under study, the country was recovering from the period of intense political struggle between the left and the right, with the latter securing half the seats in the lower chamber in the 2006 elections. This finely balanced legislature resulted in dissent within the governing coalition. Moreover, both the governing coalition and the opposition attempted to entice deputies to defect. The Topolánek government failed to push through its package of key reforms and in March 2009 lost a vote of confidence. After the turmoil of the first and second Topolánek governments, Jan Fischer's consensual style of governance gained support both among the public and

Consensus on goals

10

the deeply divided political parties at both ends of the political spectrum. On the other hand, the controversial political style of the leader of the CSSD is seen as the main reason why the party, which won the election, was unable to build a governing coalition. Unlike the CSSD, which staked its faith on familiar political personalities, the ODS bet on the less well-known Petr Nečas. It was Nečas who was able to persuade his potential coalition partners that his party sought a fresh start.

In principle, there are no anti-democratic veto players in the Czech Republic, but within Czech political parties there is a growing tendency to block decision-making. Major political actors recognize the necessity of reforms. However, the experience to date suggests that small governing majorities in the lower chamber, together with the relative fluidity of the party system, do not facilitate the implementation of major long-term reform plans.

Anti-democratic
actors
10

Among the new political actors, the VV party seems to be a secretive, top-down centralized formation, led by Minister of Transportation Vít Bárta, its campaign manager and largest sponsor, the former owner of a large private security company, ABL. In fall 2010, the largest Czech daily, MF Dnes, published the revelation that under Bárta's company was collecting materials that discredited certain politicians. VV also required its candidates to sign contracts that restricted their future parliamentary votes to the support of VV party positions, eliminating their free mandates.

The political management of social cleavages in the Czech Republic is rather poor as the main political actors contribute greatly to the increased polarization of the underlying socioeconomic divisions. The Czech Communist Party (or Communist Party of Bohemia and Moravia, KSCM), which, unlike most other communist parties in Central and Eastern European countries has never undergone a reform process, has been successful in attracting protest votes from those who have lost out in the transition process. With the exception of the Roma community, the government has not had to deal with any ethnic conflicts.

Cleavage /
conflict
management
8

The 2010 elections were marked by public disillusionment with the large political parties on both sides of the political spectrum, and brought about, for the first time, a generational cleavage between the youngest adults and pensioners. In a controversial and widely circulated video called "Persuade Grandmother," two young actors appealed to the young to persuade their grandparents not to vote for the left-wing political parties, which were presented as being detrimental to crucial reforms. As a reaction to this viral campaign, several senior figures protested against what they called ageism. In the 2010 election, this campaign, as well as the use of social media, contributed to the mobilization of young voters. The parties that benefited most from these new forms of political mobilization were TOP 09,

and to a lesser degree VV, which together gained over 27.5% of the vote and 32.5% of seats.

In the 2010 elections, no political subject attempted to mobilize voters on the grounds of xenophobia and anti-immigration.

Civil society in the Czech Republic has been successful in creating a space between private interest and state spheres. However, the active involvement of CSOs and interest groups in the policy-making process or discussions of key developments such as the Lisbon Treaty (2004 – 2009) is rather limited. In general, government tends to act unilaterally in formulating and implementing policy and as a result CSOs have only marginal influence.

Civil society
participation
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Two notable exceptions to this pattern were the 2005 legislation on domestic violence and the involvement of civil society actors in the preparation of the new electoral law that attempted to introduce party-list quotas for women for general elections (2009 – 2010). The latter was an important instance of cooperation between government actors (most notably Minister without Portfolio Michael Kocáb, as well as Minister of Interior Martin Pecina), political parties (most parties have representatives in the council, with the exception of ODS which declined the invitation to participate), academics and the civil society actors. However, the parliament failed to adopt a new electoral law prior to the 2010 election.

In the previous period and in particular in 2008, Czech society tended towards a reconciliation with its past, especially with regard to the communist regime. However, the path to reconciliation came to a halt in the political turmoil of 2009. In its program, the Nečas government stated the need to legally recognize the “third resistance” (that against the communist regime, especially in the early 1950s) and rehabilitate its participants, whom the prime minister described as heroes in the country’s struggle for democracy. The government demonstrated its intentions when the prime minister and several members of the government took part in the service at the August 2010 funeral of Milan Paumer, a member of the Masin Brothers’ group, in the city of Podebrady. However, the occasion was marred by the very vocal presence of a group of protesters who considered official recognition of the Masin Brothers’ group to be a glorification of criminals and murderers. The country is still not ready to revisit its past in a way that would have the support of a decisive majority of political and civic actors.

Reconciliation
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17 | International Cooperation

The Czech presidency of the European Union in the first half of 2009 provided a sound basis for (1) a more wide-ranging domestic debate and discussion and (2)

Effective use of
support
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greater Czech involvement in the details of EU policy-making. It marked a progressive move away from posturing and euroskeptic rhetoric.

Since accession to the European Union, the government's activities have adapted to, and are strongly influenced by, the European Union's legislative framework. In fact, most EU legislation was implemented before accession in May 2004. There were some derogations from specific provisions of the *acquis communautaire*, and this is particularly evident in the case of the Czech Republic's bureaucracy. In the period under study, the impact of the European Union in promoting domestic reforms was weakened by internal Czech political struggles. The adoption and implementation of new legislation emanating from Brussels is thus rather slow and encounters persistent euroskeptic opposition from a number of Czech political parties. A crucial step in adapting to supranational EU structures was the decision taken by the Czech Constitutional Court on compliance between the Lisbon Treaty and the Czech Constitution. The Constitutional Court had been considering a case brought by 17 euroskeptic senators who argued that the treaty would create a super-state, and as such would infringe Czech sovereignty. By November 2009, the Czech Republic was the only EU member state that had not ratified the treaty, and the Constitutional Court's decision removed the final hurdle to the treaty's ratification. The euroskeptic Czech President Václav Klaus, who had been one of the main opponents, agreed not to further oppose it and signed the treaty into law without further delay.

The bulk of EU financial support for the Czech Republic is mediated via EU Structural Funds. The use of these funds suffers from the mediocre capability of mediating administrative structures and from some clientelistic behavior or even corruption.

In general, the government acts as a trustworthy and reliable partner in its relations with the international community. By joining the European Union, the Czech Republic acquired greater credibility. The Czech Republic's presidency of the Council of the European Union in the first half of 2009 was seen as a very important opportunity to consolidate the country's standing in Europe. This effort was, however, deemed a failure as the country was severely criticized for its handling of the post.

The differences between the government and the president on their constitutional rights and obligations in foreign-policy-making makes foreign actor's understanding of the official Czech position very difficult.

In addition to membership of the European Union, the Czech Republic is also a member of the Visegrad 4 (V4) group. In the eyes of the European Commission, regional groupings like V4 are very useful in delivering a valuable and effective regional response to E.C. policies. Efforts to define common interests within the

Credibility

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Regional
cooperation

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European Union have resulted in a further strengthening of V4 regional cooperation. During the Czech EU Presidency these activities became less important. Under the Prime Minister Petr Nečas, the government took a less pro-European stance than its predecessors (in particular the Fischer government and the second government of Mirek Topolánek), stressing the country's sovereignty within the European Union in its policy statements. However, both the coalition agreement and the policy statement of the government were rather abstract with regards to regional cooperation.

A further example of regional cooperation in the period under review was the 2009 CEE leadership initiative to approach U.S. President Barack Obama over the question of future security in the region. The culmination of this event was the signing in Prague in April 2010 of a new treaty on the reduction of strategic arms.

Strategic Outlook

Generally speaking, there is room for further improvement both politically and economically. The period examined here covers the country's first experience of having a leading role in the European Union. The Czech Republic's presidency of the European Union in the first half of 2009 was a significant event with an ambiguous outcome. On the global stage, the Czech Republic needs to strengthen its international role and straighten out its position on the European integration issue. The Czech presidency of the European Union provided a sound basis for (1) a more wide-ranging domestic debate, and (2) greater Czech involvement in the details of EU policy-making and hence a progressive move away from posturing and euroskeptic rhetoric. On the other hand, it was also a period of government instability and deepening political cleavages. The main goal remains the reform of the electoral system and the creation of conditions conducive toward the formation of governments with a majority to allow progress to be made on key political decisions and the ever-expanding reform agenda. As regards the sharply partisan division between left and right, a consensus on the basic goals for Czech society is key. More specifically, there needs to be greater political agreement on the desired level of state intervention into the economy, the desired level of social welfare provision, and the degree of wealth redistribution.

The Czech Republic faces a number of important policy challenges. The Czech economy is currently overly dependent on foreign investment by multi-national companies, and is also overly dependent on the automotive industry. Many international firms tend to seek out economies with a cheap and moderately skilled labor force, and such firms often make little contribution to the development of a domestic enterprise sector. In order to make economic growth sustainable, the Czech government needs to pay more attention to research, innovation and education policy. Moreover, investment in R&D by both the public and private sectors must be increased from its current low level. An important step here is the promotion of closer cooperation between institutions undertaking basic research and industrial production. The Czech government must also adopt measures to increase the overall quality of education from primary to tertiary level, which would demand higher investment in education and a speedy improvement of sectoral steering capacities.

Economic development has for a long time been stymied by the need to reduce the budget deficit. In the current economic crisis, the government expects that the budgetary situation will worsen because the improvement of the fiscal situation is now even more strongly associated with the reduction of mandatory expenditures and social welfare spending than in the recent past. Unfortunately, the fragile political equilibrium hampers the establishment of firm foundations for fiscal rectitude, because bold policy reforms are likely to lead to the fall of a government. Thus, there is a need to reach an overarching political consensus on core goals, effective instruments and specific provisions of ongoing reforms of social security (including pension reform) and health care. Otherwise there is a danger of that ineffective incremental changes that may bring

more long-term harm than profit will be implemented. In addition, labor market policy needs to become more effective, and family policy must become more pro-active in supporting working parents through greater provision of affordable childcare facilities. The previous adoption of ad hoc reforms such as larger payments to mothers with newborn babies, must be replaced by more durable long-term policies that encapsulate many different facets such as support for young families and single parents, and greater integration of state supports for family and work. Undoubtedly, other factors such as immigration will offset some of the negative effects of demographic change. However, if this offsetting process is to work, more will need to be done to integrate migrants into Czech society. More generally, demographic change will have to be managed effectively in order to optimize its likely impact on the economy.

In order to increase executive capacity, Czech governments need to enhance their strategic governance capabilities and continue the modernization of the public administration and de-politicization of the executive. Interministerial coordination has to be strengthened for policy-making to become more coherent. This requires that the Government Office be given a stronger position in public policy analysis, coordination and implementation. Capacity-building would benefit from regular monitoring of institutional arrangements. Greater priority should also be attached to the fight against corruption.