



Country Report of the Czech Republic

Chapter 1: Shelter

Chapter 2: Social Development and Eradication of Poverty

Chapter 3: Environmental Management

Chapter 4: Economic Development

Chapter 5: Governance

Chapter 6: International Cooperation

Chapter 7: Future Action and Initiatives

Appendices:

- **Basic Objectives and Preconditions of the Housing Policy prepared by the Ministry for Regional Development**
- **Changes in Settlement Structure**
- **Sectorial Operation Program “Environment”**
- **From the Initial Report of the Czech Republic on measures adopted to fulfill obligations under THE INTERNATIONAL COVENANT ON ECONOMIC, SOCIAL AND CULTURAL RIGHTS – Legal regulation of the right to housing**
- **Policies aimed at ensuring sustainable growth**
- **Graphs**

Chapter 1: Shelter

Not only period from 1996, but the *entire period from 1990* up to now has had a character of economic transformation. Fundamental changes aimed at elimination of the housing administrative rationing system and creation of a market-oriented structure took place especially during 1991 - 1993. *However, this period, including the following few years, was marked by a neo-liberal approach* and a generally narrow perception of the housing sector. Consequently, *elimination of elements of the housing administrative rationing system was not followed, in a timely fashion, by creation of support measures* that would ensure accessibility to housing for all social layers of the population.

The neo-liberal housing policy concept was based on *perception of housing as a purely private commodity*—accommodation was considered to be a private matter of every individual. Government or municipal interventions aimed at satisfying housing needs were cast doubt on. Some of the implemented measures reduced the role played by the state in the housing sector, shifting the responsibility for accommodation to households and other parties that were not wholly ready to assume the responsibility. This approach resulted—especially in the beginning—in privatization of dwellings that has in many respects negatively affected further development of some forms of housing.

The first step was *transfer of housing stock up till then owned by the state to municipalities*. Hence, municipalities received loss-making housing units that were often in a state of utter disrepair. At the same time, municipalities were not provided with adequate conditions for administration, maintenance, and repair of these structures. As a result, municipal authorities tried to privatize these newly acquired dwellings. Privatization took place chiefly on the basis of municipal decrees that allowed selling entire buildings to legal entities, most often cooperatives, formed by tenants. Privatization trends were further emphasized by the Apartment Ownership Act (72/1994 Coll.) that allowed *transfer of ownership titles to apartments to individuals*. Once again, this measure lacked a system character, as it did not define the manner of administration and maintenance of privatized housing. In addition, the Government underestimated the purchasing power of tenants. Combined with a pragmatic stance of municipalities, this law has caused numerous problems, the most serious of which is the fact that the new owners lack funds and that could *result in exacerbation of the situation concerning neglected maintenance of privatized dwellings*.

Privatization of apartments has also had a negative effect on cooperative housing, understood at the beginning of the 1990s as a remnant of the former regime. Measures adopted by the Government were focused on liquidation of cooperatives rather than on elimination of deformations caused by the communist administration. This course of action was based on the Apartment Ownership Act (72/1994 Coll.). Fortunately, the planned liquidation of cooperatives was never fully carried through.

Further, the effort to privatize as many apartments as possible was reflected in almost *complete liquidation of company apartments* which during the period between the First and Second World Wars formed a substantial proportion of housing in the former Czechoslovakia.

The *general lack of a conceptual approach to housing was also mirrored in a substantial decrease of newly built apartments and deformation of the structure of accommodation-related payments*. This situation was to a large extent due to uncoordinated rectification of prices which was based on the emphasizing of prices of services and energy rather than increasing net rental payments. These problems—some of which are new and some imported from the former regime—are reflected in a deformed stance of many people to accommodation. The problems have not been entirely eliminated.

The Government on March 12, 1997 adopted an important conceptual document, titled the Government's Objectives and Measures in the Housing Sector. Subsequently, the document was approved in the Parliament by a majority of deputies (159 of 181 present). Based on this document, the Government has gradually *expanded instruments supporting and controlling the housing sector* in a manner comparable with systems used in Western European countries. The *fundamental shortcoming of the Objectives and Measures in the Housing Sector was an overestimation of self-regulating market mechanisms and a lack of interaction between individual legislative actions* that have resulted *in a lower effectiveness of particular measures*. Rejected were proposals for instruments supporting non-profit rental housing and a system of long-term support for repair of dwellings, especially prefabricated panel buildings. On the other hand, some instruments that were implemented, such as CZK 200 000 interest-free government loans and subsidies aimed at reducing installment in the initial period of repayment, proved to have little stimulating effect on new housing construction.

The present Housing Policy Concept, approved by Government in October 1999 is based on the following aspects:

- It is based on a coherent understanding of the housing market as a market structurally and territorially differentiated and not a homogenous, so-called national market.
- The housing policy is understood as a result and integral part of the Government's economic policy and its individual segments.
- The Housing Policy Concept is based on the necessity to deepen social aspects of the housing policy. In this regard it fundamentally differs from the *Objectives and Measures in the Housing Sector*.

General Description of the Current Housing Situation

- Following restitution and privatization, the housing structure in the Czech Republic is consistent with the housing situation in other European countries (for details see the Annex).
- Although the quality of housing is lower, it roughly corresponds to the economic power of the Czech Republic. Neglected maintenance of dwellings caused by prolonged under-capitalization causes considerable problems.
- Measures accepted thus far are not sufficiently interrelated and focused. Hence, they are not fully effective. In addition, their effectiveness is limited by the overall economic and social situation in the country which in many respects still has a transformational character. As a result, the system does not function in a manner comparable with advanced countries.
- The housing market is structurally and territorially differentiated. The housing situation is quite diverse in different parts of the country; there exist substantial disparities between regions and municipalities. Most measures adopted in the past had an across-the-board character.
- The housing situation is affected by many external factors. The most pressing problem is the territorial distribution of enterprises and the situation on the labor market—these aspects cause local discrepancies between the availability of housing and employment opportunities. Demand in large cities with sufficient number of jobs is considerably higher than supply, causing shortage of housing and related problems. Conversely, regions with high unemployment have vacant dwellings for which there is no demand. Discrepancies between employment opportunities and available housing are further deepened by poor transport infrastructure, especially in rural areas.

Situation in Individual Housing Sectors

- The ***cooperative sector*** consists mostly of cooperatives. They own approximately 19% of all housing stock and their importance is considerable. The situation is more or less satisfactory from the point of view of users although the consequences of injudicious legislative decisions made at the beginning of the 1990s are becoming evident. Unfinished privatization poses some problems, and housing construction is stagnating as a result of lacking government support.
- The ***private rental sector*** is relatively small, amounting to approximately 6% of all housing stock. There are significant problems due to lack of maintenance of buildings, rent control regulations that cover most apartments, and poor relations between tenants and property owners.
- The ***municipal rental sector*** amounts to approximately 24% of all housing stock. It faces similar problems as the private rental sector; however, new units are being constructed thanks to government subsidies. The function of municipal housing is not clearly defined as a result of different stands of individual municipalities and continuing liberation of rent control.
- The ***owner occupied sector*** consists chiefly of family homes. However, the sector is being expanded with privately owned apartments as a result of both privatization and new construction.

Main Problems in Key Areas of the Housing Sector

Existing Housing Stock

1) Lack of maintenance, especially in the case of multiple-story apartment buildings

Maintenance of a number of older dwellings was neglected in the past as a result of ***prolonged under-capitalization***. The results are substantial shortcomings in repair and maintenance, reduced financial and utility value of dwellings, and a potential risk that the quality of accommodation will generally decline.

This situation has to a certain extent been caused by the manner in which housing owned by the state, and subsequently by municipalities, has been privatized. Unlike under the German model, buildings privatized in the Czech Republic were left non-repaired, a fact that has in many cases resulted in unnecessary financial losses and exacerbation of neglected maintenance. Transfer of apartments owned by the state or municipalities was effectuated without a parallel creation of conditions and rules for economical administration of apartment buildings. Hence, municipalities were allowed to uncontrollably dispose of property they had acquired free of charge, an approach that has in many cases resulted in poor use of these structures.

There are specific problems in the area of prefabricated panel buildings. The problems are due to design flaws, inadequate maintenance, and the fact that panel buildings amount to 31% of all housing. Currently, many buildings are in an acute state of disrepair. In the long term, there is a risk of urban, economic, and social devastation of entire metropolitan districts.

2) Lack of funds for appropriate maintenance, repair, modernization, and reconstruction

This problem applies mainly to the ***rental sector***. However, problems exist also in the home-ownership sector because the costs of repair, maintenance, modernization, etc. are very high with regard to the average income. Moreover, government support is not sufficient yet.

Although the *cooperative sector* has had a relatively long period to create adequate financial resources for proper maintenance of cooperative housing, it has not succeeded in doing so. This situation persists due to an increasing gap between regulated rents and rents charged in cooperative buildings.

3) Deficiencies in housing administration

The above mentioned problems are exacerbated by ineffective housing administration, especially as far as rental apartments owned by municipalities are concerned. The problem applies mainly to the use of the existing municipal housing stock, including dealing with rent dodgers, participation of tenants in housing administration, etc.

4) Decline in the number of housing units

The problem concerns especially private rental apartment buildings and apartment buildings with flats in home-ownership. In this area, *uncontrolled conversion of residential units to non-residential ones* took place during the first half of the 1990s. The result is a decline in the number of apartments, especially in large cities. This development has negatively affected the discrepancy between supply and demand.

New Housing Construction

1) The volume of newly constructed housing does not meet the need

The current extent and structure of housing construction does not fully reflect the demographic development (increase in the number of households is accompanied by a decline in the size of the population) and is to a degree devalued by a natural decrease in the number of dwellings. There is a risk that this situation may cause an overall decline in the quality of housing. For details about new housing construction see the Annex.

2) Excessive prices of new housing for most households

Despite a certain decline that occurred last year, the prices of newly constructed dwellings are inadequately high in comparison with the income of most households. The result is not only a relatively low number of newly constructed dwellings which are usually *affordable only to people with higher incomes*, but also a relatively large number of vacant new apartments and family homes, especially in Prague and vicinity. This fact is partly due to poor marketing of investors and developers who have overestimated the purchasing power and number of people in the highest income bracket. Furthermore, most housing needs of this part of the population have already been satisfied. Conversely, efforts to increase financial affordability of housing through focus on construction of small apartments are further reducing the already insufficient size of dwellings. The problem applies to both privately owned and rental units.

3) Unclear conditions pertaining to activities of investors and developers

Low demand and purchasing power on one hand and insufficient government support on the other restrict interest of developers in the housing sector. In the case of rental housing, *there are problems caused by difficulties in law enforcement*. There are inadequate legislative and economic conditions for organizations that could function on a non-profit basis. Construction activity is focused on home-ownership apartments which provide investors and developers with faster return on investment. In addition, this approach involves lower demand for capital (missing capital or borrowed funds are replaced by advance-payment financing by future property buyers who thus carry the business risk which is quite high due to dishonest practices of many enterprises).

Social Problems

1) Limited opportunities to find independent housing

Low-income families, young people, etc. who are forced to live in combined households have poor prospects of obtaining their independent accommodation on the housing market.

The problem is caused especially by the fact that housing is *expensive* and there is an actual shortage of suitable dwellings in some attractive localities.

2) Gradually increasing household accommodation expenditures

As a result of the process of rectification of housing prices, household expenditures on rent, energy, etc. are growing. The problem concerns especially low-income households living in rental or cooperative dwellings where they have little control over their housing expenditures.

Deregulation of prices in the housing sector has not been harmonized. Development of prices of services (especially electric power, gas, and heat) has been reflected in a deformed structure of household accommodation expenditures—the proportion of rent basically stagnates at about 1/3. The reason is the fact that the opposite method was chosen at the beginning of the deregulation process; the Government first initiated deregulation of prices of services and increases of rent followed much more slowly.

3) Insufficiently developed supportive measures for citizens with specific housing needs

There are no adequate measures that would allow resolving the housing situation of people who face difficulties as a result of health problems, age, family situation, ethnic origin, etc.

Chapter 2: Social Development and Eradication of Poverty

The Czech Republic's social policy has continued to be developed closely in connection with the exercising of human rights in the political, economic, social and cultural domains.

According to the Constitution, the "*Charter of Fundamental Rights and Freedoms*" forms an integral part of the Czech constitutional order. Ratified in January 1991, the Charter is a constitutional law which defines human rights and fundamental freedoms (Chapter II), rights of national and ethnic minorities (Chapter III), economic, social and cultural rights (Chapter IV), and the right to judicial and other legal protection (Chapter V). At the same time, the Charter specifies that the "constitutional law, other laws and other legal regulations must be construed and applied in accordance with the *Charter of Fundamental Rights and Freedoms*." In addition, the Charter stipulates: "international treaties pertaining to human rights and freedoms ratified and enacted by the Czech Republic are binding in the Czech territory and take precedence before the law." As the Czech Republic has ratified and enacted the *General Declaration of Human Rights* and the *Covenant on Civic and Political Rights* (CCPR) and the *International Covenant on Economic, Social and Cultural Rights* (ICESCR), these documents are legally binding for Czech citizens. The Czech legislation and measures taken in this area are also based on obligations arising under other important international agreements which have been ratified by the Czech Republic, such as the *European Charter of Human Rights* (ECHR) and the related protocols—the *European Social Charter* (ESC), *Framework Convention for the Protection of National Minorities*, *Convention on Elimination of All Forms of Racial Discrimination* (CERD), and the *International Convention on Elimination of All Forms of Discrimination against Women* (CEDAW).

One of the bodies which oversee protection of human right is the Government's Council for Human Rights. In October 1998 the Government appointed, within the framework of the Office of the Government for Legislation, a human rights commissioner who is responsible for the National Minorities Commission and the Interdepartmental Commission for the Roma Issue (established in October 1997).

Under the Association Agreement, the Czech Republic and the European Union negotiate harmonization of legislation concerning the social system and execute projects aimed at improvement of the social security system, work safety and health protection standards and other similar issues. For instance, Section II.3, 3.5 of the 1998 European Commission report concerning the Czech Republic's application for EU membership states that as far as equal opportunity standards are concerned, the Czech Republic has implemented the main principles of EC law pertaining to prohibition of discrimination based on gender. Being a democratic country, the Czech Republic also provides room for a social dialogue, both at the highest level (Government—trade unions—employers, so-called tripartite) and at the level of individual enterprises. An amendment to the Labor Code approved in May 2000 (in effect until 2001) includes adequate provisions pertaining to labor law, social dialogue, inclusion of employees in the relevant processes, and in conjunction the Employment Act also the requirement for equal treatment of both genders. The institute of ombudsman has been established to deal with citizens' complaints concerning the public administration.

The Czech social security system is focused on providing assistance to people in difficult situations. In 1995 the Parliament passed Act No. 118/1995 Coll. which supplements some laws in connection with the adopting of the Act on State Social Support (No. 117/1995 Coll.). Social security includes pension insurance, sickness benefits, social security allowance and social care.

Pension insurance provides citizens with income in retirement and in case that they become handicapped or suffer the loss of the person who is the source of revenue. This insurance includes retirement, handicapped, widow and widower and orphan pension. On July 1, 1997, under the Social Allowance Act (No. 75/1997 Coll.), the government began paying so-called separate allowance which is intended to offset increasing energy prices (heating allowance) and a rental allowance; these payments are devised similarly as state social allowance payments. People entitled to the allowances are defined in a special law. The payments have a character of price rectification for a temporary period of three years.

The sickness insurance system consists of four types of allowances—sickness benefits, allowance for persons caring for a family member, financial assistance in maternity and balance payments for women who are pregnant and on maternity leave.

Social care is provided by the state to citizens who are in a difficult situation which they are unable to overcome without help from the society. Social services and allowances include care for the family and children, handicapped persons, retired people, people with severe health problems, people in need of special assistance and socially inadapted citizens. The state offers community services, provides meals to retired citizens, helps blind and handicapped persons purchase motorized wheelchairs and pays allowances to persons suffering from diabetes. In addition, the state offers financial assistance to people in exceptional situations, etc.

Assistance provided to handicapped persons includes the cost of training for suitable vocation, an allowance paid before finding employment and an allowance paid during vocational training.

A special type of social service is unemployment insurance whose importance is rising as the unemployment rate grows (see below). In addition to state social allowances provided in a monetary, in-kind and institutional forms, there are social allowances and forms of financial assistance paid by municipalities. Monetary allowances (for example pension payments) are regularly increased according to the development of the inflation rate. This applies to the subsistence minimum and the minimum wage. The subsistence minimum was increased on April 1, 2000. Based on this sum, the government determines the minimum family income which is used—if a family falls into the low-income category—for calculation of the state child allowance (according to the number and age of children) and other purposes, such as childbirth benefits, allowance for purchase of essential household needs and the rental allowance.

An international comparison of the 1997 budget expenditures showed that the Czech Republic allotted 36.63% of its budget to social security, a sum which basically corresponds to the budgetary situation in a number of Western European countries (Holland, Great Britain), is lower than in Austria and some Northern countries, but higher than in USA (28.84 %). Health care expenditures accounted for 17.83% of the Czech budget. It needs to be taken into consideration that international comparisons are very difficult due to substantial differences in the nature and structure of the health care sector in different countries. Another figure which can be used to depict the situation in the Czech Republic is that there is one physician per 265 persons and 10.9 hospital beds per 1,000 people.

Social security needs continually change under the effect of demographic and economic factors, causing the need to reform some aspects and instruments of the social security system. The Government plans a reform of the pensions insurance system, which is necessary, but complicated, as well as comprehensive changes in the system of sickness benefits and health care in general.

Demographic developments during 1995 – 1998 brought a decline in the size of the population, which was previously slowly increasing, from 10,336,000 in 1994 to 10,295,000 in 1998. The number of newborns began to decrease already in the beginning of the past decade, from 129,300 in 1991 to 96,100 in 1995 and 90,500 in 1996, 1997 and 1998. During these years the number of deceased started to exceed the number of newborns. The size of the population declined by 22,000 people per year in 1995 to 1997 and by 19,000 in 1998. The number of immigrants during this period reached about 10,000 annually, and could not stop the decline in the population's size. On the other hand, positive demographic indicators include increase median lifespan of men from 68.2 years in 1991 to 70.0 years in 1995 and 71.1 years in 1998. During the same period the average lifespan of women increased from 75.7 years to 76.9 and 78.1 years respectively. The infant death rate (up to one year of age per 1,000 newborns) declined from 10.4 in 1991 to 7.7 in 1995 and 5.2 in 1998. The population's economic activity rate is relatively high; according to a 1997 survey it reaches 61.3%. In that year, 71.2% of the male and 52.1% of the female population was economically active.

The economic development combined with a transition toward market economy has brought a gradual differentiation of household income and assets. Most of the population receive a salary whose average nominal sum increased by 22.5% in 1992, 25.3% in 1993, and approx. 18.5% in the following three years; these rapid increases slowed down only in 1997 and 1998 when salaries grew by 10.5% and 9.3% respectively. Up to then nominal salaries were annually growing faster than consumer prices.

Real salaries increased by 8.5% in 1996, 1.9% in 1997 and declined by 1.3% in 1998. They grew again in 1999, by 4.5%, as a result of a slowdown in the increase of consumer prices to 2.5%. One negative aspect of growing salaries is the fact that wages have been increasing more rapidly than productivity per worker. The greatest annual increases took place in 1995 (3.3%) and in 1996 (3.2%); in the following two years there was a decline to 2.3% – 0.9% as a result of an economic recession. Thanks to an improved economic situation in 1999, productivity per one worker increased by approx. 2.5% (source: VÚPSV).

Differences between social groups and households have increased, a development which can be seen in comparison of the 1998 and 1994 indexes of average consumer prices of goods and services (living costs); they totaled 142.6 overall, in households of employees 141.5 in the low-income bracket 147.2, in the group of retired persons 150.5 in total, and in the lowest-income bracket 152.1. These increases took place after 1994, when the level in all three groups was the same, with the exception of retired persons in the lowest income bracket where it was lower. Statistic analyses of household accounts have shows that in the category of low-income families the greatest difficulties exist among families with three and more children and single-parent families.

As regards the position of women in the society, the legislation—as described in the European Commission 1999 report—includes some provisions on equal employment opportunities for men and women and is generally aimed at fighting all forms of discrimination in labor relations. A survey conducted in 1998 showed that 9.9% of employed women and 12% of men have university education and 40.1% of women and 26.4% of men secondary school education. While 8.9% of working men occupy a managerial position, only 4.1% of women have a supervisory post. Nonetheless, among scientific and specialized intellectual workers the difference was 8.2% in men and 11.8% in women. The number of women in leading political functions, including the Government, is relatively low.

Data collected by the Sociology Institute in 1996 suggest that the average hourly wage of women before 1990 was 70% of the average earnings of men. Although women's wages grew to

74% of what their male counterparts earn in 1992 and 76.5% in 1994, they declined to 73.1% and 71.4% in the following two years. The Ministry of Labor and Social Affairs has prepared a set of measures which are intended to stop this negative development.

As far as unemployment is concerned, the differences between the two genders were not significant in 1996 (95,000 men, 106,000 women). In the end of the first half of 2000, despite rising unemployment rate, the disparity between the number of unemployed men and women decreased (218,000 men, 234,000 women).

Slight economic growth in recent months has resulted in declining unemployment. After approaching the 10% level in the beginning of 2000 for the first time since the onset of the transformation, the unemployment rate declined steadily, reaching 8.7% at the end of the first half of 2000. Most seriously affected are the Northwest Bohemian and North Moravian regions where a number of mines and metallurgy companies face serious difficulties. In some districts within these regions the unemployment rate fluctuates between 15 – 20% and more. A very negative aspect of this development is not only a high proportion of unemployed women, but also a growing number of young people unable to find employment. A large number of unemployed people are unskilled workers, many of who are of the Roma ethnic origin. The following paragraph describes the main measures intended to correct the situation.

Efforts to improve the social situation are closely related to the development of the national economy. The Government is implementing or preparing various measures intended to alleviate and eliminate both the causes and the consequences of all the social problems mentioned in this report. In addition to a strong effort to restructure and boost the economy in general, the government's actions include a vast array of legislative, organizational and support measures and combined programs, such as revitalization of production sectors based on application of progressive technologies and management trends, restructuring of the banking sector, incentives for foreign investors, transformation of regional administration and policies, support for small and medium-sized businesses, export-oriented policy, etc. Specific social problems will be dealt with as part of upcoming reforms, which will concern such areas as sickness benefits and pension insurance, and development concepts for the energy, transportation, and housing sectors. In addition, the Government is preparing special programs, such as the National Employment Plan, requalification courses for the unemployed, programs aimed at improving the situation of the Roma population, and regional and municipal projects and measures.

Not all the above mentioned projects and programs have been completed, nor they are accompanied by effective mechanisms and instruments. A frequent deficiency is a lack of resources and quality on the part of the relevant institutions. Consequently, implementation and effective management of specific projects and programs is sometimes problematic.

Improvement in preparation and execution of plans will be effected by EU requirements for factual and chronological progress during the pre-accession preparation of the Czech Republic for joining the European Union as well as by methodological and to some extent financial assistance (Phare programs) from the European Commission.

Chapter 3: Environmental Management

The National Report of the Czech Republic for the HABITAT II conference contained a description of the first stage of development of the environmental protection strategy from the legislative, institutional and executive viewpoints. It also included an overview of the initial improvements (especially reduced air pollution) and the first version of the Government's environmental policy from 1995. In addition, the report explained the structure of settlements and the chief points of their development, as specified in the regional policy.

A 1998 amendment to the Act on Land Use Planning and Construction Rules stresses the maintaining of concord between all elements of the landscape with a special focus on protection of the environment and its individual components. The amendment provides for a clear distinction—based on land registry information—of non-urbanized landscape, which should for many reasons be protected from construction activity, from vacant land surrounded by developed areas. The objective is to make better use of existing infrastructure and reserves within urbanized areas. Environmental protection which is generally defined in the law is specified in detail in the implementing directive which defines general technical requirements for construction work. As regards environmental protection, applications for planning permit must include an assessment of the impact of the structure, operation or production activity on the environment, including a proposal of measures aimed at eliminating or minimizing such an impact. If required by special regulations, applicants must include an environmental impact assessment study. Environmental protection plays a significant role in development programs of the Northwest Bohemian and North Moravian (Ostrava) regions which have in the past sustained serious ecological damages.

Environmental protection in general and in the areas described under Questions No. 10 to 14 in Chapter 3 of the "Istanbul+5" report have been significantly improved after 1995. In addition to an overall progress, improvement has been achieved in the implementation of principles of sustainable growth and application of new approaches to and instruments of environmental protection. An important role has been played by stepped up preparations for the Czech Republic's accession to the EU and various contacts between Czech and EU authorities, especially within the framework of negotiations under the Association Agreement between the Czech Republic and the EU. During 1997 - 1999, an encouragement was provided by a favorable assessment of the Czech environmental policy by OECD. The Czech Republic is taking an active part in the work of various UN bodies, especially UNEP, the UN Commission for Sustainability and ECE UN. Participation in ECE UN has included implementation of an agreement on reduction of long-distance air pollution surpassing state borders, a program called "Environment for Europe" and regular meetings at the ministerial level. In addition, the Czech Republic has signed most of the relevant international agreements, including the UN Framework Convention on Climate Change and the Convention on Protection of the Ozone Layer. The Czech Republic has signed a number of bilateral and trilateral agreements on cooperation in the area of environmental protection.

An important milestone for the Czech Republic was the 1992 UN Conference on Environment and Development (UNCED) in Rio de Janeiro, the declaration adopted during the conference and a document titled "Agenda 21." Adoption of the principle of sustainable growth in its three dimensions (economic, environmental and social) has been reflected in activities of various government authorities and social organizations. Included in the Government's August 1998 Policy Statement, the sustainability principle was incorporated in newly adopted laws, such as the Environmental Impact Assessment Act and the Act on Waste. In February 2000 the Government approved the "National Cleaner Production Program" under which many corporations began implementing new management and audit systems.

At the same time, specialists, civic institutions and international organizations have criticized various deficiencies in environmental protection. OECD has stressed the necessity to improve provision of information, analyses, horizontal approach—such as Integrated Prevention and Pollution Control (IPPC), and compliance with the law, including monitoring and auditing (EMAS program). The EU highlighted the necessity of including environmental issues in departmental policies and assessing the impact of industrial development and other economic activities on the environment (EIA). The European Union has mentioned the Czech Republic's serious problems with the quality of water and waste disposal as well as shortcomings in the applicable legislation. As part of preparation for accession to the EU, the Czech Government has adopted a document titled "Framework Environmental Strategy" which defines individual stages of attaining compatibility of the Czech legislation and legal practice with directives and standards of the European Union.

Despite an expansion of executive, professional and research capacities in the applicable areas of public administration and cooperation with non-governmental organizations and civic associations, the above mentioned efforts have not always had the desirable results. Continuing pollution of some components of the environment, escalation of some civilization development problems, ongoing deficiencies in the environmental protection infrastructure and loopholes in the legislation have necessitated strong efforts to effect improvement in these areas. In this regard, the actions have been based on the need to respect such sustainability criteria as minimization of utilization of non-renewable and economical use of renewable natural resources, raw materials, energy and land, reduction of potential hazards and negative impact on the environment as well as close attention to the potential and quality of natural and human resources. In addition, the government has implemented several other principles, such as precaution, timely prevention, reduction of harmfulness and risks at source, financial liability ("polluter pays") and shared, albeit differentiated, responsibility of the central government administration, municipal governments, business sector and citizens for the condition of the environment. These viewpoints are reflected in all departmental policies, development programs and economic activities, and include implementation of state-of-the art technologies which have desirable environmental parameters as well as application of the principle of substitution of dangerous and harmful substances.

The Czech environmental policy discussed by the Government in April 1999 is the result of these efforts. It takes into account criticism of shortcomings and respects international obligations, demands of the population, conclusions of the 1997 "Report on the Environment in the Czech Republic" and ideas proposed in the Government's Policy Statement from August 1998. This extensive document contains an overview of the initial conditions, an analysis of problems and environmental protection principles, and a list of objectives, measures and instruments in the area of environmental protection.

Replies to Questions 10 to 14 in Chapter 3 of the of the "Istanbul +5" report are shown below.

Re Question No. 10 Manage, supply and demand for water in an effective manner

Based on consumption of surface and underground water, the need for water began declining in 1990, mostly due to changes in the industrial and agricultural sectors and also as a result of a decreased demand brought by rising prices. The number of households connected to public water mains has increased steadily, reaching 86.2% of the Czech population in 1998 (63% in OECD countries during 1994 – 1996). The number of people connected to public sewers increased from 72.3% in 1991 to 74.4% in 1998 (79% in OECD countries during 1994 – 1996). During the same period the proportion of sewage processed in water treatment plants increased

from 69.3% to 91%. During 1990 – 1997, a total of 244 water treatment plants were built. Registered BSK pollution decreased by 76% and pollution by non-dissolved substances by 61%.

The situation remains to be unsatisfactory in municipalities with two to ten thousand inhabitants; a fifth of these settlements do not have a water treatment plant and another fifth have fewer than 50% of their population connected to these facilities. Nonetheless, investments into protection of water have increased, reaching close to CZK 12 billion in 1997 from a total of CZK 40.5 billion which was invested into environmental protection. Further improvement will necessitate substantial financial resources. Protecting water and securing sufficient supply of water are two important objectives for the Czech Republic due to the fact that the country is located in the divide of three seas—North, Baltic and Black. As a result practically all Czech rivers drain water from the country to the territory of neighboring countries. The Czech Republic has agreements with its neighbors on protection of water in border regions. In accordance with EU requirements, attention is focused on rehabilitation of natural circulation of water, increased retention of land, protection of underground water, stricter industrial pollution limits and reduction of the amount of water used in industrial production. The number of households connected to sewers will continue to increase. This objective and other measures will be enshrined in the new Water Act.

Re Question No. 11 Reduce urban pollution

This issue concerns mainly reduction of air pollution, noise levels and other problems caused by transportation, automobiles in particular, protection of nature and cultural heritage in cities and maintaining order and cleanness. Despite the fact that during 1994 – 1997 emissions of SO₂ per capita per one square kilometer were reduced by 50%, i.e. 68 kg and 8.9 kg respectively, the figures continue to be the double of emissions in European OECD member countries. Emissions of CO₂ in the Czech Republic in 1997 totaled 12.7 kg per capita in comparison with 8.8 kg in European OECD countries. The situation is even worse in respect of NO_x emissions which in 1997 totaled in the Czech Republic 41.1 kg per capita in comparison with 29.1 kg in European OECD countries. Rapid increase and high concentration of automobile traffic in urban areas—for example in Prague there was one passenger automobile per three inhabitants in 1997—has not been accompanied by a sufficient increase in the number of vehicles equipped with catalytic converter. The proportion of such automobiles in 1997 was approx. 20.6%. On the other hand, emissions of lead were reduced during 1990 – 1997 by 75%, among other reasons due to increased sales of unleaded gasoline which accounted for 62.5% of all gasoline sold in 1997. One of the consequences of gradual implementation of the EU 98/70/EC directive in the Czech legislation is termination of sale of leaded gasoline as of January 1, 2001.

Problems such as air pollution, noise, dust, and use of land caused by automobile traffic affect especially inner parts of cities. Consequently, it is necessary to improve protection of urban areas by restricting traffic and encouraging greater use of public transportation, pedestrian zones, park-and-ride systems, bicycle trails, etc. Air pollution caused by local heating is being gradually eliminated through nationwide government-supported gasification. Legal protection against noise is provided by Directive No. 13/1997. Other forms of environmental protection in cities include more effective waste management (new waste management law has been drafted) and attention paid to the proportion of construction and vacant land in suburban areas (landscape protection) where construction activity increases despite the fact that there are vacant areas within cities with the necessary utilities and transport infrastructure.

Re Question No. 12 Prevent disasters and rebuild settlements

The territory of the Czech Republic faces virtually no danger from seismic activity. Fire protection is very good, as fire departments cover all localities. The only natural disasters of larger scope are floods which occur in certain sections of some rivers. This danger has gradually increased due to a reduced retention capacity of land, especially forests which were damaged by

air pollution in the past, disrupting the stability of water bodies. Damage sustained by the population has increased in some localities due to injudicious actions in flood zones, including residential housing built in unsuitable areas. Large floods which occurred in 1997 in the eastern part of the Czech Republic (centennial flood) exposed problems with the monitoring of water level, warning systems and provision of rapid help. The affected parts of cities and municipalities have been repaired and reconstructed relatively fast thanks to help provided by the central and municipal governments, prompt processing of claims by insurance companies, increased activity of construction companies and work done by citizens themselves. Aimed at taking advantage of experience from the floods, the Government's Policy Statement from August 1998 contains a plan to incorporate regulations pertaining to protection of natural resources into the Act on Critical Situations and to newly define the principles of financial aid disbursed in connection with natural disasters. The recently adopted Act on Coordinated Rescue System provides a legal framework for a coordinated approach to rescue operations and liquidation of the consequences of natural disasters.

Re Question No. 13 Promote effective and environmentally sound transportation system

The Czech networks of railways and roads is highly developed, meeting in a relatively homogeneous manner the transportation needs of the entire territory. Discounts are available for students and employees who use public transportation. The development of market-based economy after 1990 has resulted in a substantial increase of passenger automobile traffic and freight transportation by trucks. More intensive economic exchange with neighboring countries and a rising volume of transit traffic have put a heavy load on some Czech highways and roads; the situation is exacerbated by the fact that the highway network has not been completed. During 1990 – 1997, freight transportation on roads doubled in comparison with freight shipped by rail. The Czech Republic's transportation policy is aimed at reducing environmental pollution through monitoring vehicles and improving their technical standards, building new transport infrastructure (city bypasses, noise barriers) and using railways more effectively by means of construction of railway corridors and combined railway-road and where possible water transport systems. The building of intermodal and integrated transport systems and greater use of public transportation are promoted especially in urban areas. Moreover, attention is paid to construction and modernization of transport infrastructure connected to European railway and road networks.

Re Question No. 14 Support mechanism to prevent and implement local environmental plans and local Agenda 21 initiatives

Programs implementing Agenda 21, which was adopted at the UN Conference on Environment and Development (UNCED) in Rio de Janeiro, have not been sufficiently developed in the municipalities specified in Chapter 28 of Agenda 21. Although local authorities, especially in cities, usually have their own environmental protection development programs, these programs do not include comprehensive application of the sustainability principle and lack interdepartmental collaboration and cooperation with citizens, the business sector, non-governmental organizations, etc. Participation of all the implicated parties, including the public, in development of the urban space necessitates assistance in such areas as methodology, information, technology and education. The state environmental policy includes a plan to support these processes in the upcoming two years in 700 localities throughout individual regions and districts.

Chapter 4: Economic Development

Economic Situation

The Czech Republic is a small and considerably opened economy, whose development is principally influenced by its orientation to Western Europe and the process of integration into western European structures. The entire region of Central and Eastern Europe is currently undergoing a transition process, which is principally transforming the external environment in which the Czech economy is developing. At the beginning of the transformation process, the Czech Republic's economy was significantly more advanced than all other transition economies, with the exception of Slovenia.

For this reason, the starting conditions seemed favourable for reducing the technical and economic backwardness separating the country from the highly developed European economies. The country also enjoyed the advantage of relative macro-economic stability manifested by low domestic and foreign indebtedness and relatively little overhang of domestic demand in relation to domestic supply. The low unit wage costs made it possible to maintain a high rate of national savings and investments. Moreover, the country possessed a skilled and well-qualified labour force, with a substantial degree of adaptability.

On the other hand, certain starting conditions were less favourable compared with those in neighbouring Poland and Hungary. These included the virtual non-existence of a private sector, substantial concentration of economic activities in large entities (some of these entities enjoyed monopoly status), a relatively high dependence of the country on the trade links with members of the former Council for Mutual Economic Assistance. Recent analyses have shown that some of the advantages in the Czech economy have not been fully exploited and that the transformation process has been more demanding than initially expected.

If Gross Domestic Product (GDP) is measured in terms of purchasing power parity, the Czech Republic is almost at the forefront of candidate countries in Central Europe (the Czech Republic ranks second behind Slovenia). Economic performance is relatively high compared to Hungary and Poland; however, this lead has been gradually decreasing due to more rapid economic growth in Poland and Hungary (in recent years). Table 1 illustrates the process of reducing the disparities for certain candidate countries between the average EU economic level and that of the least developed EU member states:

Table 1: Economic Level of Certain Countries in Relation to the EU (EU-15=100)

	1993	1994	1995	1996	1997
Czech Republic	...	60	62	64	63
Hungary	45	45	45	46	47
Poland	33	34	36	38	40
Slovakia	40	41	43	45	47
Slovenia	62	64	65	67	68
Greece	64	65	67	68	69
Portugal	68	70	70	70	71
Spain	78	77	77	77	78

Source: EUROSTAT: Statistics in Focus, Economy and Finance, 28/1998.

The Czech Republic lags behind the EU in many areas. These must be carefully addressed and provided with sufficient resources, thus boosting the convergence process:

- The Czech economy and its manufacturing structure lack a sufficient competitive ability. The pace of the restructuring process in certain branches of economy is relatively slow. Boosting economic growth will need active policies aimed at increasing competitiveness, encouraging the

restructuring of firms and enterprises, supporting foreign direct investment and the continuation of privatisation and price reforms.

- A substantial proportion of technology in the Czech Republic is outdated, due principally to the post-war period in which countries of Central and Eastern Europe were unable to keep up with the pace of technological development reached in the developed countries of Western Europe. The Czech Republic succeeded in only partially reducing this technology gap, particularly through increased machinery and equipment imports, together with higher foreign investment inflows. On the other hand, a number of firms, particularly those in the manufacturing industry face very stiff foreign competition on both domestic and international markets.
- In the 1990s, the area of research & development (R&D), which is regarded as the key to competitiveness and labour productivity growth, has undergone considerable change. A number of state research institutes have been closed down, state and enterprise expenditure on R&D has decreased and R&D employment levels have fallen by 60 %. Further progress in this area requires not only additional financial resources, but also changes in the current education and training system.
- The economic recession and the ongoing process of restructuring has given rise to the current average rate of unemployment, which is expected to surpass 10% in 2000, and which is closer to the EU average. Such a development could disrupt the balance and social cohesion of the country. The high rates of unemployment (in certain districts it is nearly 20%) have become a real burden particularly in the North Bohemia and North Moravia regions. The deepening regional disparities should be gradually removed by a conceptual regional policy, which, within the scope of revitalisation programmes, will also take into account the structural changes necessary to apply to the Czech economy.
- Outdated technical infrastructure, mainly transport, but also the construction and modernisation of housing and urban infrastructure, will require extensive investment.
- Concerning schools and education at the beginning of the transition period, there existed a relatively highly educated and skilled human capacity, even in international terms. Until 1990, the educational level of the Czech population was predominantly based on secondary education. In the first half of the nineties, 12% of students were receiving university education compared with approximately double in western Europe. However, the labour force is still adapting to the new environment. Numerous areas lack an adequately qualified workforce. This is particularly true with highly qualified senior managers, where the Czech Republic lags far behind the EU. This may slow down the pace of technical progress and/or competitiveness growth. Moreover, there is a considerably unfavourable situation in research & development, as the number of employees in this area is a mere 26 per 10,000 people employed, compared with 41 in the EU.
- The healthcare system is a key factor in improving the quality of life. The Czech Republic lags behind the EU in this area. This concerns mainly the average life expectancy, which is lower than in West European countries by 4-6 years and 3-4 years for males and females respectively. Significant gap between the Czech Republic and the EU countries can be observed also in the sphere of the quality of health care provision. More emphasis has to be put on promoting the healthy lifestyle and implementing of preventative measures.
- The Czech Republic's environment is strongly polluted compared with the EU, and integration into Europe will need to take into account the necessity of improvements in this area. Immediately after 1989, the steps for improving the overall environment were taken. Since 1992 the legislative framework and the institutional background have been being established. In spite of considerable amount of resources spent, it has not been possible so far to approximate the levels of the environment and its protection to those in EU member states.

The Czech Republic began its transformation process from a relatively favourable starting position and it attracted considerable inflows of foreign investment. GDP started to recover from the first transitional recession in 1993, and in 1995 reached growth rates of more than 6% before a second recession set in. This later recession was the product of a number of weaknesses in the enterprise and financial sectors. During the last two years measures have been taken to overcome the most fundamental problems, but their favourable effects are only likely to materialise over the medium term. The unemployment rate has risen quickly from a low 4% in 1996 to nearly 9% in 1999, and continues to grow. A return to growth, driven by strengthening domestic and foreign demand, and a continuing inflow of foreign direct investment, is expected in 2000.

The Czech Republic is currently in the process of consolidating its transformation to a market economy, and establishing the conditions for strong and sustainable growth of economic activity and improvements in the living standards of the population. In this context, accession to the EU is a key objective for economic policy. The remaining structural improvements, leading to sustained increases in competitiveness of the Czech economy should create a successful and healthy economy that is able of catching up with the most developed economies. In the area of economic policy, accession to the European Union is therefore not an objective in itself, but creates the momentum to implement necessary structural and institutional changes, which are essential for the strength of the Czech economy, irrespective of the prospect of membership of the European Union

Current economic situation and diagnosis

Apart from the most recent macroeconomic trends, the current economic conditions in the Czech Republic are relatively favourable; GDP per capita on a purchasing power parity basis was 63% of the EU-15 average in 1997. Using these PPP data as a basis for comparison, the Czech Republic ranks second after Slovenia among the Central European candidates for EU accession. However, due to relatively high employment levels in the Czech Republic, and until recently relatively low unemployment rates, comparisons of labour productivity are not so favourable. In 1997, labour productivity in the Czech Republic, measured by GDP per occupied person, was only around one half of the EU-15 average. Due to a collapse in economic activity at the beginning of transformation, which was nonetheless milder than in other transition countries (a fall of less than one eighth between 1989-1992), real GDP in 1998 was still 5% lower than in 1989. However, such a comparison does not adequately reflect improvements in quality.

The country's economic structure judged by workforce distribution in the main sectors is closer to EU member states than the structure of the other transition economies. The share of agriculture (including forestry, hunting and fishing) in the total number of occupied persons is around 5.5% and its share in GDP is 4.5% - these are similar to the shares in Germany or Austria. On the other hand, the share of industry is higher and correspondingly the share of services is lower.

The rate of investments has been extraordinarily high throughout the entire transformation period; between 1992 and 1998, the share of gross fixed capital formation in GDP ranged from 28 to 33% (although there may be some measurement problems which overestimate this share). However, this high investment has not been fully reflected in economic growth; the implicit capital-output ratios over these 6 years were considerably higher than in other leading transition economies. This is partly due to the composition of investments - large proportions of investment expenditure went into infrastructure. This type of investment does not necessarily give a fast return in terms of GDP growth. Nevertheless, even for investments in the manufacturing sector which were around 30 to 35% of total investments over this period, there seems to have been considerable inefficiency

After the initial output decline associated with the first years of transition, recovery started in 1993 and picked up in 1995-1996 with GDP growth rates of 6.4% and 3.8%. This recovery was interrupted by stagnation in 1997 (real growth of only 0.3%) and a sharp recession in 1998 and 1999 which has been characterised by several quarters of declining output on a year-on-year basis. Swings in the pace of economic growth throughout the entire period were influenced significantly by huge fluctuations in foreign capital inflows, which represented 15.8% of GDP in 1995, but only 2.0% and 4.7% in 1997 and 1998 respectively.

The worsening economic performance in recent years reflects fundamental weaknesses in the Czech enterprise and financial sectors. These weaknesses, which accumulated over time, included the limited restructuring of the corporate sector, which had been held back by the immaturity and imperfection of both the formal and informal nascent market institutions, and in particular by a weak framework for corporate governance and the emergence of unclear ownership rights. The selected way of privatisation and hasty liberalisation perhaps also contributed to the problems, as did inadequate enforcement of legal norms. In addition, microeconomic policy to address these specific problems was given little attention. As a consequence companies continue to be short of capital, many are badly indebted, and there is little motivation to take strategic decisions.

The first visible impact of these economic problems was through the emergence of a sizeable current account deficit towards the end of 1996 and into 1997. Monetary policy was tightened to address this problem, but nonetheless could not prevent currency turbulence in May 1997 leading to the abandonment of the currency peg. In the wake of these problems both fiscal and monetary policies were tightened significantly and were only relaxed towards the second half of 1998; tight macroeconomic policies have no doubt led to a deepening and lengthening of the recession, even though the root cause of the recession was undoubtedly structural. During the years 1998-1999 measures were initiated and taken to overcome the long-term causes of recent weak economic performance.

After registering very low rates of unemployment in the early years of transition, unemployment has grown sharply in recent years, reaching more than 8% in the middle of 1999. The growth in unemployment reflects the slowdown in growth, but more importantly more vigorous restructuring in the enterprise sector.

The Czech economy is characterised by a large degree of openness, and is thus particularly susceptible to developments on external goods and financial markets. The degree of openness, measured as the ratio of the sum of exports and imports of goods and services to GDP, was 125% in 1998. In previous years, there were difficulties in combining strong economic growth with genuine external balance. However, in 1998 the current account deficit shrunk to only 1.9% of GDP, mostly due to the sharp contraction of economic activity, low prices for raw materials and a decline of imports due to the recession.

Throughout the 1990s, inflation in the Czech Republic has been low compared with other economies in transition. Only in one year did inflation reach significant double figures; rates around 10% were more typical throughout the early to mid-1990s. Due to a number of extraordinary factors, disinflation in 1998 was remarkably fast and net inflation (CPI adjusted for the influence of regulated prices and other administrative changes) fell to only 1.7% year-on-year in December 1998. This meant that end-year net inflation was 3.8 percentage points below the lower limit of the short-term inflation target (5.5% to 6.5%). Inflation has remained subdued in 1999: August-on-August consumer price inflation was only 1.4%, and August-on-August net inflation was minus 0.1%. The net inflation target is expected to be undershot again in 1999. Since the first years of transition, fiscal policy in the Czech Republic has been characterised by a relatively high degree of discipline, to the extent that balanced state budgets have been agreed, and the aim has been to gradually reduce the share of the overall government in GDP. The general government finances posted surpluses in some years. However, since 1996, deficits have been growing, up to 1.5% of GDP in 1998, despite sharp cuts in state level expenditure in 1997 and 1998.

However, behind the relatively good headline figures, structural problems were building within the wider public sector: surpluses of current revenues compared to non-investment expenditures were decreasing and the share of investment expenditures fell. Moreover, good results and balanced state budgets, were only possible by directing some expenditures for the transition of the corporate and public sectors outside the budget system to so-called transformation institutions. In addition to these hidden deficits on off-budget operations, a large number of state guarantees were issued on a number of different programmes without creating appropriate reserves, thus building up another type of implicit public debt.

As a result of a low level of debt inherited from the previous regime, and prudent fiscal policies over the transition period, official levels of public debt are relatively low at only 13.2% of GDP in 1998. However, it is estimated that contingent government liabilities could lead to a doubling of this official public debt.

Chapter 5: Governance

The Czech Republic is administratively divided into districts, which are further divided into municipalities. There are seventy-six districts, three of which are large cities—Brno, Pilsen and Ostrava. On average districts have eighty-three municipalities. The Czech capital, Prague, is an independent territorial unit; its jurisdiction corresponds to a region, and the jurisdiction of its city districts corresponds to districts. The smallest administrative units are municipalities of which the Czech Republic has over six thousand. Roughly ten percent of them have the status of a town, and about 75% of the country's population live in them. In contrast, small rural municipalities of up to one thousand inhabitants account for 78% of all municipalities, but only 16% of the population live in them.

During the period covered by the report, only municipalities were self-governing units. Higher territorial self-governing units (regions) were created by a constitutional act in 1997 (Constitutional Act on Creation of Higher Territorial Self-Governing Units). This law defines the borders of fourteen new regions and the territory of the districts which each region contains. The legislation entered into effect on January 1, 2000. Central government powers in districts are exercised by district offices whose activities and jurisdiction are governed by the Act on District Offices, Regulation of their Jurisdiction and on Certain Other Related Measures.

As the basic territorial self-governing units, municipalities are administered by a body of representatives as a public corporation which can own property and operate under its own budget. The state may interfere with the activities of territorial self-governing units, including municipalities, only if it is required to protect the law, and only in the manner stipulated by law. Representative bodies are elected by secret ballot on the basis of universal, equal and direct vote. Their term of office is four years. Within the limits of their jurisdiction, the representative bodies can issue generally binding directives.

The last municipal elections were held in the Czech Republic in 1998. At the level of municipal representative bodies the political spectrum is extremely varied. In addition to representatives of parliamentary parties and independent candidates there are also representatives of non-parliamentary political parties and political movements and their coalitions and associations, independent candidates and their associations created specifically for a given election. In 1998 a total of fifty-three such entities were elected. While parliamentary parties won 20.3% of all mandates at the municipal level, candidates without party affiliation received 77% of the vote.

The past two years have been marked by an exceptional increase in the Government's legislative activity which has been aimed at reforming the private and public law. This process included constitutional amendments and harmonization of the Czech legal system with the law of the European Union.

The Ministry of Interior has established a department for reform of the public administration which oversees implementation of individual reform measures, development of education and installation of information technologies throughout the public administration. In addition, the ministry has created the Working Committee of Deputy Ministers for Public Administration Reform.

The Government has drafted and tabled in the Parliament the Concept of Public Administration Reform. In addition, a media program for reform of public has been completed.

The Ministry of Interior, other ministries and the Office for the State Information System have joined forces in creation of the Concept of Building Public Administration Information Systems, a document approved by the Government in October 1999. Currently, the ministry is examining possible ways of financing and implementing the state information policy.

The Ministry of Interior has worked intensively on drafting a set of laws which will implement the above mentioned constitutional law on higher territorial self-governing units, initiating the necessary interdepartmental talks which have resulted in a document describing the necessary transfer of jurisdiction. This document has been approved by the Government. The

legislative work which has laid the foundation for the public administration reform has been successfully completed by the passing of the applicable laws in the Chamber of Deputies on March 8, 2000. The Ministry of Interior has continued this process through the following actions:

- work has begun on reform of the central government administration and preparation of concepts aimed at improving the efficiency of the public sector, public finances, public control and management of the public administration;
- work is being done on determining the manner of transfer of personnel in connection with the establishing of regional authorities and the remuneration of employees at the level of higher territorial self-governing units;
- the Government has discussed a document entitled "Expected Financial Expenditures for Establishment and Initial Operation of Regional Authorities";
- work is being done on definition of the number and structure of public servants and employees of self-governing authorities in regions and municipalities who will exercise powers of the central government;
- work has begun on determining the standard organization structure of regional authorities;
- work has begun on preparation of the second stage of reform of territorial public administration authorities which will take over the function of district offices after the latter are abolished in 2002;
- laws tabled by the Ministry of Interior have been approved by the Chamber of Deputies and by the Senate on April 12 and 13, 2000 with the exception of the Act on District Authorities which was returned to the Chamber of Deputies.

The Government has approved the Concept of Training of Public Administration Workers which includes a detailed timetable of actions that will have to be carried out as part of development of human resources in the public sector. In addition, a working group has been created of deputy ministers from the applicable ministries and officials from the Office of the Government. Following the approval of the draft of the Service Act, this group will propose a comprehensive system which will be used for training public administration employees.

Main Problems of the Public Administration in the Czech Republic

The existing public administration is marked by a high degree of centralization, chiefly due to an insufficient number of administrative levels.

The result of substantial centralization at the level of the central government is that work done by individual ministries mostly has executive nature—the organization structure of ministries and their personnel is to a large extent adjusted to this. The main responsibilities of the central government, i.e. the strategic, legislative, methodological and coordinating functions, are not in the center of attention of central authorities. One of the weakest points of the central government is poor horizontal coordination between individual ministries. Although the government's structure has been changed, the problems have not been eliminated.

- The importance of regulatory mechanisms is underestimated at various public administration levels, the central government in particular, as a result of attitudes exhibited by previous Governments; due to this the executive nature of work of central authorities is emphasized.
- The fact that higher territorial administrative units do not exist at the local and central levels does not allow effective application of the principle of subsidiarity. This situation has caused a substantial increase of decentralized public administration bodies and detached centers throughout the Czech Republic. Their number and extent of powers considerably hampers coordination of the public administration and significantly deepens

isolation of vertical levels of departmental management, making this issue one of the most serious problems of the Czech public administration.

- Numerous discussions and preparatory documents concerning the public administration reform in the Czech Republic have suggested that the reform should be patterned according to experience from abroad. Such an approach is certainly desirable, however, only to the extent in which it can take into account the effect of all factors which have affected the development of the public administration in particular countries and to the extent in which this development can be perceived comprehensively. Isolating individual elements and underestimating the effect of specific factors which are present in individual countries would cause substantial inconsistencies in the final structure.
- Another problem is a generally lacking knowledge of matters concerning the public administration on the part of both public servants and taxpayers. This is reflected in poor understanding of the two levels of the public administration—self-government and state administration—each of which has a specific purpose in a democratic society. Confusing the two levels is an expression of misunderstanding the fact that the aim of the public administration is to protect the rights of all citizens as members of the society.
- A relatively low awareness of civil matters causes that most citizens expect from the public administration system to provide far-reaching services and any limitations are perceived as an undemocratic violation of civil rights.
- Relatively low quality of public administration management, due to lacking professionalism of public servants, results in arrogant show of power at both levels of the public administration.
- There is a widespread belief that businesses are to be governed exclusively by market mechanisms, and the less the government interferes with the marketplace, the better for economic growth. This approach has caused a number of serious problems during the transformation period. The Czech public administration does not sufficiently cultivate the business environment.
- The concept of the control function of the public administration has not been finalized.

The approved Concept of Public Administration Reform in the Czech Republic is considered comprehensively, but as a system, i.e. with the break-up into individual elements while respecting their mutual links. It is conceived as a continuous process, but with the break-up into individual successive steps and with concrete definitions of their content, terms and responsibility.

However, the broad concept of the public administration reform should not be confused with any tendency to the limitation of the area for free decision-making of citizens, profit-making (business) and non-profit-making privately and publicly owned subjects and the way of satisfaction of their needs. On the other hand, it can be connected with the endeavor to define the non-contradictory decision-making rules the observance of which is enforceable and which create transparent institutional, procedural and operational (technological) prerequisites for the formation and implementation of general policy of the government and territorial administration.

The focal point of the public administration reform lies in the field of general (i.e. not sectorial) processes of public administration and its manifestations in the concrete organization of central state administration and territorial state administration and self-government. The detailed specification of the intentions and the legislative assurance of the reform are referred primarily to the reform of territorial administration and the aspects of government reform related therewith. Territorial administration represents the biggest part of the public administration system in the Czech Republic not only with reference to its capacity, but also with reference to the decentralization endeavor and targets of the government; at present its organization represents one of the most serious limits of the public administration's effectiveness.

Concepts in preparation:

1. Concept of increasing efficiency of management of the public administration—aimed at transforming "officiating" into modern management.
2. Program of changes in management of the public administration at the central government level—aimed at improving strategy, legislation, methodology, coordination and control.
3. Concept of increasing efficiency of public control—aimed at ensuring that all matters are controlled by taxpayers directly as well as through provision of high-quality professional services.
4. Concept of increasing efficiency of management of the public administration—aimed at economical use of public funds and evaluation of benefits achieved with funds from public budgets.
5. Concept of increasing efficiency of public services—aimed at ensuring that all activities funded by taxpayers be actual services provided to citizens.

The public administration reform will include the drafting of several documents aimed at improving efficiency of the public administration and the public sector in general. One of the most important tasks is installation of information technologies at all levels of the public administration. This task will include modernization and rationalization efforts introduced by means of modern technologies and processes, including support for strategic planning, management of public services and facilitating of decision-making processes in public administration. One of the most important objectives of the State Information Policy is to make the public administration more effective and more open to the public through the use of modern information and communication technologies. Experience gathered at home and abroad shows that in light of the current demand for effective democratization of the public administration and rapidly developing information technologies, it would be very unwise to build public administration information systems without a close relation to the main directions of development of the public sector in order to ensure maximum possible effectiveness.

The existing shortcomings in the public administration information system are chiefly due to a non-coordinated and hasty building of information systems by individual ministries during the transition period. The information system is plagued by the following problems and systemic errors:

a lack of a conceptual approach in respect of the possibilities offered by information and communication technologies, particularly the Internet, for activities and transactions on which the work of the public administration is based,
implementation of conceptual, decision-making and control processes without sufficient up-to-date information and modern instruments,
narrow view of the information system as a means of storing data in the enclosed environment of the public administration (not as a way of providing services to taxpayers) and a related lack of coordination in implementation of information systems throughout the public administration,
lack of binding rules concerning cooperation of the existing departmental information systems and rules for exchange and sharing of data,
insufficient legislative support for use of new technologies,
insufficient analysis of processes in the public administration and the ensuing sluggishness,
deficiency and inconsistency of processes,
poor horizontal and vertical communication and cooperation within and among public administration bodies and in relation to taxpayers,
insufficient provision of information to taxpayers about activities and financial performance of the public administration and lacking public control,
non-systematic training of public servants in respect of utilization of new technologies and processes.

The main objective of optimizing and building information systems throughout the public administration is to use modern effective and economical instruments and methods to:
increase efficiency and authority of the public administration

this objective will be attained by using various instruments of information and communication technologies and by creating new processes, activities and transactions which will be based on efficient communication and cooperation on vertical and horizontal levels within and among public administration bodies as well as in relation to taxpayers,

increase trustworthiness of the public administration among taxpayers

this objective will be attained by improving effectiveness and services, seeking conceptual solutions to information processes which are the basis of work of the public administration, ensuring that information/data is accurate and up-to-date and that the information systems are secure, providing public information services, providing access to information about work of the public administration, allowing public control, securing uninterrupted electronic communication between the public administration and taxpayers, etc.,

improve transparency and development of the economy,

this objective will be attained by providing access to public information about businesses and public administration bodies, their activities and ownership (including connection to similar systems in European Union countries), allowing public control and securing better conditions for effective fight against various forms of crime and creation of information systems aimed at development of business (information systems for small and medium-sized businesses, coordination of information systems in/about regions, publishing of information concerning European integration, creation and publishing of strategic plans of ministries and regions).

Chapter 6: International Cooperation

International cooperation of the Czech Republic is based on multilateral relations under United Nations, European Union (EU), OECD and various non-governmental organizations and bilateral relations with a number of European countries.

Under the United Nations, the most extensive cooperation has been developed as part of the UN Economic Commission for Europe (ECE UN), especially the ECE Committee for Human Settlements and the Committee for Ecological Policy and the Environment. Recently, the Committee for Human Settlements has focused its attention on two important areas—housing and urban development. The former consists especially of the project "country profiles" under which housing was analyzed in the participating countries and workshops were held on financing housing and privatization of the housing stock. Urban development activities have included an extensive project aimed at renovation of cities and modernization of the housing stock, including case studies in four selected cities (Vienna, Budapest, Bratislava, Ljubljana). The project was completed by a successful international workshop on urban renewal and modernization of housing stock held in Prague during June 14 – 17, 2000. The workshop was attended by experts from eighteen countries.

D. Grabmüllerová, director of the Housing Policy Conception Department at the Ministry for Regional Development of the Czech Republic, was appointed in 1999 to the directorate of the Committee for Human Settlements. Under the Committee for Ecological Policy and the Environment, the Czech Republic has taken an active part in the fourth conference "Environment for Europe" held in Aarhus, Denmark in June 1998 and in implementation of its resolutions. In United Nations, the Czech Republic actively participates in work of the Committee for Sustainable Development (CSD), the UN Environmental Program (UNEP) and the UN Committee for Human Settlements (UNCHS). As regards environmental protection, the Czech Republic has signed a number of international treaties and conventions and has bilateral agreements with most European nations.

Cooperation with the European Union is based chiefly on intensive exchange between Czech authorities and the European Commission as part of the Czech Republic's preparations for EU membership. This cooperation involves a wide range of information, conclusions, measures and consultations concerning both human settlements and the environment as well as financial assistance provided by the European Union (programs Phare, etc.). As regards the housing policy, the Czech Republic has benefited from documents produced during annual informal meetings of ministers from EU countries responsible for housing which have been provided by the EU countries hosting these meetings to the Czech Ministry for Regional Development. For example, a representative of the Czech Ministry for Regional Development took part in a 1998 meeting held in Austria which was focused on the relationship between housing, economic growth and employment and in a 1999 summit in Finland aimed at housing for seniors and application of principles of sustainable growth to housing development and operations.

In OECD, Czech representatives have taken part in a number of events aimed at dealing with issues concerning urban development and the environment, including an assessment of the environmental protection in the Czech Republic carried out by OECD environmental experts in November 1998. As far as the housing policy is concerned, Czech officials have taken part in an OECD seminar on financing the housing sector which took place in Paris in June 2000.

As regards cooperation with non-governmental international organizations, a leading role is played by the International Federation of Housing and Planning (IFHP). Contacts are maintained with IFHP's headquarters in The Hague and training centers in Paris and Lyon.

Bilateral cooperation consists chiefly of contacts with neighboring countries, in particular with Slovakia and Poland—at the ministerial level, Germany—at the level of the central government (Berlin), regional ministry (Magdeburg) and research institutes in Berlin (DIW - German Institute for Economic Research) and IWU in Darmstadt (Institute for Housing and Environment {*Institut Wohnen und Umwelt*}). Moreover, German authorities have provided their Czech counterparts with consultations in respect of renovation of prefabricated panel building settlements. Czech officials actively cooperate with the Metropolitan Research Institute based in Budapest, Hungary. As regards Austria, the Czech Republic maintains close contacts with the Federal Ministry of Economy (responsible for housing) and specialized departments of the City of Vienna. Very useful are also contacts with Holland, Finland and Denmark, both at the ministerial level and at the level of various organizations—for example Habitat Platform in Holland with which Czech authorities executed a project which consisted of providing technical assistance to cities in Nicaragua. The Dutch company "Bouwnetwerk" is taking part in several projects of construction and modernization of housing in the Czech Republic.

The project "Housing – an integral approach". In April 1999 the City of Brno in the Czech Republic and the Municipality of Utrecht in the Netherlands started the implementation of a major policy-project "Housing, an integral approach". The project being a result of a fruitful co-operation between the two cities since 1993, includes features such as housing, monument care, strategic planning and the use of district development plans. By means of lectures, workshops and the installation of two local managers in Brno, a mutual effort is made to establish a consistent housing policy in the city of Brno. Both Brno and Utrecht benefit from the co-operation. The knowledge that will be obtained from the project will be spread amongst other cities and countries by means of reports, articles and presentations. The project "Housing, an integral approach" aims at the development of a consistent housing policy in the city of Brno, within the framework of the national housing policy, based on the local circumstances, the outcomes of two development plans at the city district level, and formulated as input for the "Brno integral strategy". The overall objective of the project is to support the city of Brno and its inhabitants to cope with new responsibilities in the fields of housing due to the transition from a centrally planned economy towards a market economy, and to improve the transparency in the relation between the municipal government, the city-district, the local people and other partners in the field of housing.

Cross-Border Cooperation in Czech Border Regions

In addition to cooperation between particular cities and municipalities in foreign countries, which usually takes place under bilateral agreements and specific plans, the Czech Republic has developed since the beginning of 1990s cooperation between border regions by means of creation so-called Euroregions.

Creation and localization of individual Euroregions is based on historical developments, reflecting historical traditions and forms of cooperation between border regions. Euroregions consist of two legal entities (Czech and foreign) which are overseen by a joint executive body. Under common management Euroregions prepare strategies of long-term cooperation and coordinate activities within their territory. To support their work, Euroregions create joint expert committees which secure execution of specific programs.

The first Euroregion—NISA—was founded in 1991 along the border between the Czech Republic, Germany and Poland. Since then additional Euroregions have been created on the Czech-German border. In addition, Committees for Cooperation with Lower and Upper Austria have been founded along the border between the Czech Republic and Austria. These activities have been supported by initiatives of the European Union which has set up a development

program called CBC Phare to provide assistance for development of border regions in Central and Eastern European countries which border EU nations. This initiative mirrors Inerreg, a program established in EU countries. Under these programs, assistance is provided on the basis of joint programs which are aimed at elevating cooperation on investment and non-investment projects to a higher level. Additional Euroregions have been and are created along the Czech Republic's border with Poland and Slovakia to which the CBC Phare program was expanded in 1999. It can be realistically assumed that in the near future all areas along the Czech borders will be part of a Euroregion, a fact that will allow more intensive cooperation between Czech border regions and their foreign counterparts.

In connection with the planned entry into the European Union, the Czech Republic is taking advantage of technical and financial assistance from the EU, primarily through the Phare program. Funds disbursed to the Czech Republic during 1995 – 1997 reached a total of ECU 224 million. Assistance has been provided by the European Investment Bank, the European Bank for Reconstruction and Development, the World Bank and other financial institutions. Technical and financial assistance has been concentrated on:

- a) building democratic institutions (about 30 %)—aimed at improving law enforcement and public administration by means of training events, technical assistance, and harmonization of the Czech public administration with the structure of bodies in EU member states; other objectives include protection of intellectual property, protection of the environment, integration of the Roma population, development of welfare protection, ensuring equal opportunity for women and men, etc.;
- b) investment support (about 70 %)—aimed at ensuring necessary investments which will adapt the Czech Republic's infrastructure to the *acquis communautaire*. This support is focused on restructuring agricultural production, regional development and investment into human and intellectual resources (including participation in the framework program for research and technological development). Attention is also paid to meeting EC standards in such areas as environmental protection, agriculture, industry, work safety, health care, transportation and telecommunications. Projects for developing small and medium-sized businesses are also supported.

This year the Czech Republic began working together with the Council of Europe Development Bank with the aim to facilitate access to adequate housing for disadvantaged persons who have specific housing needs based on their age, health condition and/or appurtenance to a certain social or ethnic group. The targeted groups are retired persons, people with reduced self-sufficiency, persons with a physical and/or mental handicap, mentally deficient people, socially inadapted citizens, low-income families and members of the Roma ethnic minority.

The planned social impact:

- Construction of retirement homes will improve the social situation of citizens with reduced self-sufficiency by providing good-quality housing under financially more accessible conditions, including a variety of social services. In many cases, the facilities will help integrate senior citizens into the society, making them more socially active.
- A lack of accessible, inexpensive, small-size apartments forces young families (especially families from socially weak groups) to live in common households with parents or rent expensive apartments—in the latter case young families are often unable to fulfill their financial obligations. Construction of housing accessible to these social groups will result in creation of various types of municipal housing, ranging from the most modest accommodation types to privately owned dwellings. Existence of such a social housing system in municipalities will result in better management of rental housing stock thanks to simpler enforcement of the applicable laws. In addition, it will stop marginalization of some groups of citizens which are disadvantaged due to low social and cultural status, as a result of which they face the threat of permanent loss of accommodation.

Chapter 7: Future Action and Initiatives

Strategic Goal

The strategic goal of the National Development Plan adopted in January 2000 by Government is to raise the GDP level in the Czech Republic by 2006 to a level close to 75 % of the average GDP per capita in EU member states (EU criterion for Objective 1 status), avoiding deepening of regional disparities and significantly improving the state of the environment.

To that end, the Czech Republic will focus mainly on the increase of technological level and competitiveness of the Czech economy, on enhancing skills and labour force adaptability and will carry out an active regional policy.

The underlying precondition for achieving the above-mentioned strategic goal of the National Development Plan is the respect to the principles of the policy of economic and social cohesion as well as to the principles of sustainable development, including ensuring the establishment of the necessary legislative and institutional framework.

Economic Strategy of the Czech Republic

In the mid-term, the economic strategy of the Czech Republic will be based on four fundamental pillars as follows:

- Competitiveness
- Growth
- Employment
- Solidarity

In order to achieve competitiveness and an increase in labour productivity, there have been growing efforts to narrow the disparity in labour productivity indicator separating the Czech Republic from developed economies. At the same time, much attention will be given to sustain the economic growth of approx. 2-3 percentage points above the average level in EU member states.

It is necessary to tackle several major problems that undermine the whole system. Their correction will require specific actions implemented through economic policies and which will enable the goals of the strategy to be achieved. One of the fundamental elements determining the strategy's success is the improvement of the Czech Republic legal base through harmonisation of the Czech legal system to that of the EU. It will be necessary to overcome the law enforcement status quo and strengthen the legal framework on privatisation, enterprise and management of state assets. The ongoing process of privatisation will continue with preference for bids submitted by foreign (multinational) strategic partners. In the banking industry, stress will be placed on the development of universal (wholesale) banks, while maintaining the consolidation process within the sector. The state will introduce a strict licensing policy, meanwhile facilitating mergers and acquisitions fuelled by the privatisation of major Czech banks (CSOB, CS, KB).

Trying to bring the above-mentioned system problems to an end and to achieve the goals of the country's economic strategy, the Czech Republic will introduce an economic policy, which includes three essential policy groups as follows:

- Macro-economic policies
- Structural policies
- Policies aimed at the human factor and the development of social solidarity

Basic Objectives of the Housing Policy

All the proposed measures are based on the fundamental objective *to create a situation in which every household will be able to find adequate accommodation from the viewpoints of size, quality, and price*. A necessary *condition* for attaining this goal is to *increase the currently insufficient volume of funds* allocated to housing, namely funds for *maintenance of existing dwellings and construction of new units*. Another *condition* is development of adequate economic, legal, and other instruments, i.e. *the strengthening of the role played by the state, so that public funds are used as productively and economically as possible*. At the same time, it will be necessary to develop market principles in order to weaken lingering paternalism and to emphasize the *responsibility of individuals* for their housing situation. Financing from multiple sources will have to be used to reach these objectives (combination of private and public funds, partnership of the private and public sectors, incorporation of support from employers). The government's role is to stimulate the flow of private investment rather than to replace private initiatives. In this regard, public funds will be used to supplement creation of the State Housing Development Fund, an important non-budget source for the financing of housing development.

The aim of the housing policy is to increase overall availability and affordability of housing for the population.

Overall availability of housing depends on interaction between available and suitably located housing and household accommodation needs. *It is affected mainly by the scope of housing construction, use and maintenance of existing dwellings*, and demographic developments. Factors stressed in this Housing Policy Concept include preparation of land for housing construction, support for suitable technologies that reduce the cost of new construction, and use of existing structures, including non-residential premises, for additions, modifications, and conversions to residential purposes. To ensure optimal use of existing housing, people have to be, among other factors, sufficiently mobile. Currently, there exist disproportions between the location of available housing and areas offering employment. An important action in this area will be an improvement of the transport infrastructure, including increased availability of services that allow daily commuting to large cities.

Affordability of housing, based on the proportion of household financial resources and the price of housing, must be increased, as it is one of the greatest obstacles that prevent satisfying housing needs of people in most income brackets. Subject to economic growth, improvement of the situation will be ensured through *development of rental housing on a non-profit basis, improvement of the system of social allowances* for housing, improved approach to *home ownership accommodation*, and some other measures.

Expansion of Housing Policy Priorities

An analysis of past developments and the above mentioned facts has shown a need to *expand the priorities of the housing policy*. Up to now the Government's housing policy has been focused mainly on support for new construction and increase of the number of newly constructed dwellings. As a result of measures adopted in the past a certain improvement has been recently secured in comparison with the first half of the 1990s; more than twenty-two thousand new apartments were completed in 1998 and the number of new dwellings is continuing to grow. At the same time, it is apparent that further intensification of new housing construction cannot be secured through another massive increase of subsidies only; the strategy has to be based on elimination of external restricting factors and deformations

Besides continuing support for new construction, the Government is proposing to pay a closer attention to maintenance and optimal use of existing dwellings, including the elimination of obstacles that prevent this objective. It is expected that the result will be a substantially more effective use of existing capacities, increase in the number of available dwellings, improvement of quality, and increased interest of investors in the housing sector.

New Objectives of the Housing Policy

Exceeding the transformational framework of the past, the character of the new objectives is focused on specific instruments of the housing policy and on dealing with specific problems.

1) Support for acquisition of both new and older dwellings

This measure is based on the assumption that ***older dwellings will more easily satisfy household accommodation needs because they are always less expensive than newly constructed units***. Hence, the Government is proposing to adopt support measures (aimed especially at providing loans under special terms) that will reduce the currently predominant orientation of households on new construction and make purchases of older dwellings more accessible.

2) Stronger support for selected groups of people who are disadvantaged as regards access to adequate housing:

The situation in the housing sector and the existence of standard support instruments already allows focusing the housing policy on specific groups of people who are disadvantaged due to low income, health condition, age, origin, etc. Adoption of adequate measures, for example in the form of loans offered under advantageous terms or subsidies, will help these groups, such as young people, handicapped, or homeless, to obtain suitable housing.

Decentralization of the Housing Policy

Effective housing policy can be executed only if competencies of government authorities are well divided. Especially important is vertical distribution of powers between central, intermediary (regional), and local authorities, because long-term studies of housing patterns have shown that accommodation problems need to be dealt with at the lowest levels due to the complicated nature of satisfying different needs of people. Consequently, the ***main goal in the near future will be to fundamentally reinforce the role of municipalities as far as housing is concerned.***

In addition to municipal housing policies, whose function is irreplaceable especially in the executive stage, it will be necessary to rapidly ***analyze possible patterns of distribution of powers exercised by the forthcoming regions*** in the housing sector.

Regional Approach to Housing Policy

Specific socio-economic conditions in individual regions that concern housing necessitate ***a deviation from the past methodology—which was mostly inclusive—to providing individual forms of support towards a differentiated approach.*** The first step in this direction is a program of subsidies for construction of nursing homes which, in 1999, has for the first time taken into account the number of establishments for old citizens in individual districts. A similar approach will be used in respect of other programs that will be implemented on the basis of the Government's regional policy.

Development of Particular Housing Sectors

Due to the overall socio-economic situation, it will be necessary to ***reinforce rental housing and develop housing on a non-profit principle in the short term.*** Conversely, ***long-term objectives***

include further development of home-ownership sector based on continuing privatization and improvement of the living standard.

- As regards **rental** housing which today includes especially dwellings owned by municipalities and private property owners, there are the following objectives:
 - * In the private rental sector gradual revitalization will be effected mainly through increased funding. No substantial enlargement of this segment is expected.
 - * In the municipal rental sector the number of housing units is expected to decline as a result of privatization. Attention will be paid to implementing the objectives of municipal housing policies, including social housing for people with low incomes.
- In the **cooperative sector**, the objective is to strengthen the importance of cooperative principles in the following two areas:
 - * **Renewal of construction** activity of existing cooperatives
 - * Creation of legislative and economic conditions for **formation and development of new non-profit housing organizations** that will offer housing mainly for people with average incomes.
- In the **home-ownership** sector the objective is to secure growth based on spontaneous and ongoing privatization of housing and growing construction of new dwellings.

Housing Development in view of the Czech Republic's Accession to the European Union

The Government will respect housing development trends in the European Union.

Neither the EU nor its institutions have direct powers in the area of housing; based on the principle of subsidiarity the housing policy is left in the jurisdiction of individual countries.

Nonetheless, unification of the European space and objectives stated in agreements of the European Community have resulted in the fact that the ***EU's influence on the housing situation is increasing*** both directly and indirectly.

- ***Direct effects*** are relatively limited; they apply chiefly to investment activities and come into view for example in ***unification of regulations pertaining to construction products and materials***, environmental impact studies, ***implementation of rules for placing public orders***, etc.
- ***Indirect effects*** are more complex and they are deepened as a result of expansion of housing-related areas over which the EU exerts influence. This applies especially to ***economic, regional, and social policies***, including one of EU's main objectives—the ensuring of economic and social cohesion in Europe. An important role is played by the ***European social policy*** which—in the area of housing—pays a close attention to fighting against social exclusion and creating employment opportunities.¹

As regards the process of accession of the Czech Republic to the European Union, the Government's approach is based on the supposition that ***the housing situation does not form an obstacle to the country's accession to the European Union***. However, it can be expected that a lower quality of accommodation (in comparison with most EU members) will make the Czech housing sector attractive for foreign investors, developers, financial institutions, etc. with which most of their Czech counterparts will be unable to compete. The Czech Republic has to be

¹ White Book, Chapter VI B - Securing Universal Social Integration

- prepared for such a development and as part of attaining economic and social cohesion it must not only *harmonize the relevant legislation*, but also *become familiar with housing policy developments in EU member countries, exchange experience, and examine indirect influences of accession to the EU on the housing sector*.

For an overview of the principles of housing policies of other European countries see the Annex.

Integration of the Principle of Sustainable Development into the Housing Sector

Principles of sustainable development will be integrated into the housing sector. These principles were formulated during an international conference in the 1990s² and are included in the Government's 1998 Policy Statement. Among the main aspects of sustainable development in the housing sector are:

- ***Territorial dimension*** (land savings and its effective use).
- ***Social dimension*** (less segregation).
- ***Physical dimension*** (a new approach to construction technologies and energy consumption) and methods that include participation, so-called "enabling principle", and use of "good examples." Especially municipalities have to become familiar with these principles, as they are the most important elements as regards securing of sustainable development in the housing sector.

² Conference in Rio de Janeiro in 1992 - Agenda 21; Conference in Istanbul in 1996 - Agenda HABITAT