

**MUTUAL LEARNING PROGRAMME:**  
**PEER COUNTRY COMMENTS PAPER – CZECH REPUBLIC**

Integrating interventions: the need for improved impact on local economic and employment development in the Czech Republic

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# 1 LABOUR MARKET SITUATION IN THE PEER COUNTRY

*This paper has been prepared for a Peer Review within the framework of the Mutual Learning Programme. It provides information on Czech Republic's comments on the policy example of the Host Country for the Peer Review. For information on the policy example, please refer to the Host Country Discussion Paper.*

## Economic growth and employment

From 2000 until the outbreak of economic crisis at the end of 2008, the Czech Republic (CR) experienced steady economic growth. GDP growth in the early 2000s was moderate, but it reached its maximum in the modern history of the CR during 2005 to 2007. Comparison with the EU countries shows that the average GDP growth in the CR during this period was about two times higher than the EU 27 average and three times higher than in Germany (the country to which the Czech economy is closely linked to). The slowdown of economic growth due to the economic crisis was steep although under the EU average.

**Table 1: Basic economic and employment development data 2000-2010**

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
GDP growth (%)	3.6	2.5	1.9	3.6	4.5	6.3	6.8	6.1	2.5	-4.1	2.3
Employment rate (age 15-64)	65.2	65.2	65.6	64.9	64.2	64.8	65.3	66.1	66.6	64.1	65.0
Unemployment rate (ILO)	8.8	8.1	7.3	7.8	8.3	7.9	7.1	5.3	4.4	6.7	7.3
Long-term unemployment rate	4.1	4.2	3.7	3.9	4.3	4.2	3.9	2.8	2.2	2.0	NA

Source: Czech Statistical Office

The key factors for the robust economic performance in the CR were growth in productivity, (while the contribution of employment growth to the GDP was modest especially after 2005) and high inflows of foreign direct investments (FDIs). The inflow of FDIs led to a significant re-industrialisation in the CR followed by an increase of employment in the manufacturing sector (accounting to almost 40% of total employment in 2009, a large share compared to the situation in the EU 27). Economic growth related to FDI inflows has fostered an increase in the demand for labour since 2004 and a decrease in unemployment rates; before the economic crisis the economy was able to employ nearly all the labour force.

## Unemployment and related factors

The unemployment rate, which was in 2000 a serious concern (at 8.8%<sup>1</sup>), decreased to 4.4% in 2008. The number of unemployed people per vacancy decreased between 2005 and 2008 from 8 to 2.<sup>2</sup> In 2007 and 2008, the shortage of labour was particularly serious as companies could not find employees in some regions. Shortages concerned blue collar workers, middle technical staff as well as highly qualified experts in most sectors, particularly manufacturing. This shortage was partly solved by the supply of foreign labour which grew after 2000. Illegal immigration was estimated to represent 50% to 100% of legal foreign employment in 2008; according to official data, foreign workers represented about 6.5% of the total labour force in 2009.

However, the economic crisis interrupted promising developments observed during previous years. The economic downturn in manufacturing led to higher unemployment and

<sup>1</sup> All unemployment rates used in the text are based on ILO definition/methodology.

<sup>2</sup> Despite the fact that the notification of vacancies is mandatory for employers, it is estimated that only about 30%-50% of vacant jobs are registered – the proportion of unemployment/vacancies was much smaller than shown by official data.

the same process followed in the service sector. The unemployment rate in 2009 stood at 6.7% and at the end of 2010 it reached 7.3%, which was still lower than the EU average. The unemployed/vacancy ration increased steeply to 18.2 in December 2010.

It is worth noting that the incidence of unemployment is unequally distributed among various social groups and regions. Key characteristics correlated with unemployment rates are age and education.

Generally, as in the rest of the EU, higher education levels indicate a lower risk of unemployment. The unemployment rate among the labour force with an elementary education (nine grades) was of 24.1% in 2009, compared to about 20% in the years of high economic growth. The proportion of this group in the labour force was however, only 6.5% and has been gradually decreasing. On the other hand, the unemployment rate of individuals with a university education has remained under 2.5% since 2002 and stood at 2.4% in 2009.

Another important variable is age, as young people (and particularly the less educated) and recent school graduates face higher unemployment rates. Underlying causes include the lack of experience of young people and mismatches between the structure of education and demand on the labour market, increased by re-industrialisation in recent years (particularly in technical qualifications of all kind and all levels).

Long-term unemployment is a particular concern in the CR. The proportion of long-term unemployed people (unemployed over 12 months) in total unemployment stock reached almost 55% in 2006 and it has remained above 50% since the late 90s. The number of long-term unemployed has remained very high during last decade (approximately between 100,000 and 150,000) and much less sensitive to economic growth.

### **Regional differences at NUTS 3 level<sup>3</sup>**

The major disparity in the CR according to GDP/capita is between the capital city Prague and the rest of the country. In 2007, the GDP/capita of Prague was 172.5%<sup>4</sup> of the EU 27 GDP/capita, while all other regions were far below the EU average (reaching in average 66.4% of the EU 27 average).

GDP/per capita differences among other regions were rather low in recent years but regional GDP growth was diverse. Several groups of regions can be identified:

First, there are successful regions with robust growth which coped relatively well through the crisis. A second group of regions have experienced growth but were more severely hit by the crisis; their unemployment rate increased significantly, particularly in certain micro-regions. Third, there are regions experiencing long-term economic downturn since half of 90s and whose unemployment rate increased even further due to the crisis. Typically these are regions traditionally depending on old industries (mining, steel mills, textile) and which were not able to attract enough foreign direct investors. Regional differences in unemployment are larger and more serious than the differences in economic performance measured by the GDP/capita, but they are more or less correlated with economic growth.

**Table 2: Regional GDP and regional unemployment rate**

<sup>3</sup> NUTS 3 regional level in the CR represents the 'natural' regionalisation and also middle tier of government. NUTS 2 regions are in the CR artificial units not representing regional economies in an appropriate manner.

<sup>4</sup> This is particularly because Prague, unlike other regions, is defined as city region which is quite unique in Europe.

	PHA	STC	JHC	PLK	KVK	ULK	LBK	HKK	PAK	VYS	JHM	OLK	ZLK	MSK
<b>GDP (CR=100%)</b>	215	91.9	86.9	89.7	71.8	80.5	74.0	83.1	83.5	83.6	92.3	76.2	80.9	84.2
<b>Unemployment rate</b>	3.1	4.4	4.3	6.3	10.9	10.1	7.8	7.7	6.4	5.7	6.8	7.6	7.8	9.7

Source: Czech Statistical Office

Czech Regions (NUTS 3): PHA-Prague, STC-Central Bohemia, JHC-South Bohemia, PLK- Plzeň, KVK-Karlovy Vary, ULK-Usti nad Labem, LBK-Liberec, HKK-Hradec Králové, PAK-Pardubice, VYS-Vysočina, JHM-South Moravia, OLK-Olomouc, ZLK-Zlín, MSK-Moravia-Silesia.

## 2 ASSESSMENT OF THE POLICY MEASURE

Measures to tackle unemployment and to foster job creation in the CR are conceptually very different from the ones described in the Host Country Paper, although most of the activities and tools used within both Italian policy measures are also used in the CR.

A key conceptual difference between the Italian and Czech policy measures lies in the level of integration of the policy measures. Czech interventions are divided among several ministries and as a consequence they are limited to one sector. Policy measures are fragmented, meaning that the various tools and interventions are implemented by different sectors/ministries or within the OP of one ministry/managing authority more or less independently from each other. The roots of this fragmentation are the **institutional structure/s** responsible for the management and implementation of measures and the **prevailing delivery mechanisms of the interventions**.

### Institutional structures

The responsibility for employment, labour market and part of lifelong learning policies is split between the Ministry of Labour and Social Affairs and its regional/local public employment services (PES), which are (since February 2011) regional branches of the Czech Labour Authority. Regional offices<sup>5</sup> of PES used to have a great deal of independence in designing, managing and implementing specific interventions while the conceptual framework was always firmly set up at the central level. Policy measures are designed to assist target groups separately using specific intervention tools, which prevents the combination into more complex measures. Key target groups are registered unemployed and workers at risk of unemployment and related objectives are improving skills and knowledge of employees at all levels; economic development as such is not dealt with explicitly by these measures. This prevents cross-sectoral cooperation in design and in the delivery of interventions – a strong feature of the Italian approach.

Support to small and medium sized enterprises (SMEs) and support to innovation in companies is dealt with centrally by the Ministry of Industry and Trade. It takes the form of grants, soft loans and guarantees to SMEs or building business support infrastructure/premises. Interventions to support R&D and innovation, education and part of lifelong learning are under the responsibility of the Ministry of Education, Youth and Sports. All these interventions are conceptualised, managed and implemented centrally, with certain roles of regional governments in secondary education.

Some of the tools and activities that are delivered as part of the Italian policy measures do not exist in the CR at all, such as providing services to SMEs or apprenticeships as part of employment interventions.

<sup>5</sup> There are 14 NUTS 3 regions in the CR, with population from 0.3 to 1.25 million inhabitants. Each region has its regional PES (which are subordinated to National Employment Service Administration); several district PES offices are subordinated to each regional PES. There are 77 'districts' in the CR.

### **Interventions delivery mechanisms**

Czech European Social Fund (ESF) interventions of the Operational Programme Human Resources and Employment (OP HRE) are implemented using generally two delivery mechanisms:

- 'Individual/tender' projects, which are designed by regional public employment authorities within the national framework and tendered by the regional PES. The training and assistance to various groups of unemployed are then delivered by tenderers. This mechanism is suitable for the design and delivery of policy measures similar to the Italian L&S4 programme, but only at the regional level of the Czech Republic. In principle, it can be also used for programmes similar to AR.CO, but the institutional constraints as well as the design of the OP does not allow integrating the activities of one OP into one programme, and integration with interventions of other OPs/ministries is almost impossible.
- Grant projects – the distribution of grants is performed according to Calls for Proposals (CfP). Various beneficiaries can submit their project for funding. National or regional PES design CfP and then fund large numbers of selected projects, generally of small scale, aiming to provide assistance or training to specific target groups: e.g. women coming back from maternity leave, employees of a specific company or members of a professional association of businesses in particular industries.

The fragmentation of interventions into many (and often small) projects designed for target groups and the strong decentralisation enable the consideration of local needs and reflection on specific local/regional conditions. However, it does not necessarily lead to a robust design of projects so they can fully meet the identified needs. Such schemes seem to be very different from the policy measures described in the Italian Host Country paper. They are very demanding from the administrative point of view – the OP HRE has funded more than 1000 projects until 2010, most of them with a budget under EUR 400,000.

Other Czech interventions to foster economic development are made within the European Regional Development Fund programmes and are almost exclusively designed as grant schemes, usually centrally organised, managed and implemented. An important part of the SMEs support takes the form of soft loans and guarantees issued by state owned banks as intermediary bodies. Again, these tools are not used in combination with other measures or in cooperation with other bodies as part of wider programmes.

### **Similarities and differences of Czech and Italian measures**

Tools and activities similar to those used in Italy are being implemented by various Czech OPs in order to stimulate job creation and tackle unemployment, though some valuable forms of interventions do not yet exist in the CR:

- Services to SMEs in general are almost inexistent
- Networking and partnership building among local/regional actors are not encouraged by the Czech projects or programmes
- In the area of lifelong learning, initiatives mostly consist of individual projects from employers who obtain grants to train their own employees and adjust their skills to changing technologies, etc.
- Increasing formal qualifications by obtaining a formal degree is not part of ESF interventions

Individual projects of regional PES aimed at various target groups of unemployed provide training, individual coaching and assistance, including assistance pacts, but do not cover other target groups such as employers and do not cooperate with educational institutions on a systemic manner.

In the recent past, more complex cross-sectoral projects were piloted in the CR. These projects had some features of the Italian AR.CO programme: e.g. training voucher schemes for SMEs or integrated local projects to assist specific groups of socially excluded people prepared and implemented in cooperation with local actors (municipalities, SMEs associations, PES), such as the project KREDIT.

As described above, the differences between Italian and Czech measures are rooted institutionally. The Czech approach does not allow for vertical integration or complex, cross-sectoral cooperation of various local/regional actors within one programme/project. It is also very difficult to establish horizontal partnerships as the delivery mechanisms are mostly grants or individually tendered training and assistance projects.

Finally, in the CR, the sectoral division of responsibilities for various elements of economic and employment development and the existence of different institutional structures and the role of central/regional/local bodies within these structures, make it very complicated to establish either formal or even informal cooperation networks. Institutional remits are distributed unequally within different structures and it is very difficult to find partners at the same level.

### 3 ASSESSMENT OF THE SUCCESS FACTORS AND TRANSFERABILITY

#### Vertical success factors identified in the host country paper

**Success factor:** Employment-effective policies focused on Small and Medium-Sized Enterprises (SMEs), a segment of the economy with a large potential.

**Transferability:** Transferability to the CR is currently low, as in the CR, SMEs policies and employment policies are separated institutionally and support to SMEs does not contribute sufficiently to job creation. In fact, support to SMEs may often lead to job destruction in the short-term due to the modernisation of technologies and the increase in productivity, while new jobs may appear in the medium and long-term run, due to the growth of the company as a consequence of the intervention. Neither SMEs programmes nor employment programmes support business advisory services; the lack of services to SMEs (both, private and or provided by public agencies) and the lack of non-technical skills (e.g. managerial skills) of SME managers is one of the key problems for SMEs in the CR.

**Success factor:** Focus on target groups

**Transferability:** Very good, already existing (personal advisor, job placement plan, pact, female labour market participation, entrepreneurship) or proven schemes (training vouchers).

**Success factor:** Support to self-employment and one-person business as leverage for new employment.

**Transferability:** Possible and very needed in all features described in the Host Country Discussion Paper, despite the existence of many institutional obstacles, partly related to sectoral fragmentation, institutional rigidity and general reluctance to partnerships and cooperation. Infrastructure for business support has been created (ERDF) but the quality of its services is very poor. The use of ESF for this purpose is exceptional.

**Success factor:** Qualifications upgrading through education, training/retraining and work-based training measures to develop the skills required by (potential) local or regional employers.

**Transferability:** Possible and very needed. Work placements as well as cooperation between employment agencies and educational institutions already exist in the CR but on



ad hoc basis only, with no systemic approach or established partnerships. Business-university and inter-university cooperation is most needed but are undermined by misunderstanding and a lack of confidence on both sides.

### **Transversal success factors identified in the host country paper**

#### ***Success factors:***

- Possibilities for actions by regional and/or local authorities. Enhanced quality of cooperation among the partners and clear allocation of functions and roles (agency as mediator and facilitator institutions).
- Social innovation, identification of solutions by way of consensus and support to review social and labour laws and regulations.
- Clustering, networking, promotion of integrated joint actions.
- Coordination of various policy actions, in particular structural policies and labour market measures, to improve the efficiency and effectiveness of the available means and thus contribute to improve the regional/local employment situation.

#### ***Transferability:***

The transversal success factors described above are also important in the CR. Due to the weaknesses of these factors, employment and economic development policies in the CR suffer from numerous deficiencies. The factors relate to cross-sectoral cooperation, networking, integrated actions, etc. All of these are most needed but very difficult to transfer because of a very different, non-collaborative environment in the CR, accompanied with certain legislative obstacles embedded in the system of government – e.g. public procurement legislation. The grants or public procurement are the most common mechanisms of interventions and cannot be successfully changed without changing the factors described above.

## 4 QUESTIONS

- What were the difficulties and success factors in establishing vertical cooperation among the various actors?
- How does vertical cooperation work and what are the problems associated with coordinating large projects that involve a variety of stakeholders?
- What are the relationships, division of tasks and roles among various local/regional partnerships and cooperating structures in the AR.CO programme?
- Was the programme based on existing partnerships and networks or were they established for the purpose of the programme?

## ANNEX 1: SUMMARY TABLE

Labour market situation in the Peer Country
<ul style="list-style-type: none"> <li>• After 2004 the Czech Republic experienced a period of relatively high economic growth and the economy performed relatively well during the crisis. Robust economic growth generated a high demand for labour and a decrease in unemployment rates, followed by the immigration of foreign workers.</li> <li>• Long-term unemployment however, remained a very serious problem, which was not tackled successfully even during the period of economic growth.</li> <li>• The high variations in regional unemployment are a much more serious problem than regional differences in GDP per capita. The crisis further increased regional inequalities, particularly at the micro regional level.</li> </ul>
Assessment of the policy measure
<ul style="list-style-type: none"> <li>• Similar tools within the measures can be found in the CR and Italy, though some of them do not exist in the CR.</li> <li>• The way the tools/activities are delivered regionally and within programmes is very different – an integrated, network based approach in Italy as opposed to a fragmented, non-collaborative implementation in CR.</li> <li>• Cross-sectoral approach, which is typical for the Italian measure AR.CO, using intervention programmes integrated locally, is almost impossible in the CR under current conditions.</li> <li>• Measures, as described in the programme L&amp;S4, are implemented similarly in the CR though they are implemented regionally and with a more limited scope.</li> </ul>
Assessment of success factors and transferability
<ul style="list-style-type: none"> <li>• Vertical success factors are partially transferable or already existing in the Czech Republic, with the exception of the much needed cross-sectoral cooperation and integration of interventions, which are very difficult to implement.</li> <li>• Horizontal success factors, mostly partnership working, networking and the cooperation of different actors at the local level is essential but difficult to transfer to the CR due to different programme design, different institutional structures and possibly also due to different historical experience.</li> </ul>
Questions
<ul style="list-style-type: none"> <li>• What were the difficulties and success factors in establishing vertical cooperation among the various actors?</li> <li>• How does vertical cooperation work and what are the problems associated with coordinating large projects that involve a variety of stakeholders?</li> <li>• What are the relationships, division of tasks and roles among various local/regional partnerships and cooperating structures in the AR.CO programme?</li> <li>• Was the programme based on existing partnerships and networks or were they established for the purpose of the programme?</li> </ul>