



European  
Commission



EU Network of  
Independent Experts  
on Social Inclusion

Assessment of the implementation of  
the European Commission  
Recommendation on **active  
inclusion**

*A Study of National Policies*

Czech Republic

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Assessment of the implementation of the  
European Commission Recommendation on  
**active inclusion**

[A Study of National Policies](#)

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**COUNTRY REPORT – CZECH REPUBLIC**



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## Summary

The Czech Republic's start position of social exclusion and of indicators concerning active inclusion was relatively favourable (also by international comparison) and deteriorated only slightly in the period 2008-2012. Nevertheless, the scope of measures and activities in a number of key areas of social inclusion can be assessed as inadequate with respect to needs, even though no dramatic fall has occurred in any of the areas. The strategy is not quite balanced with respect to the three strands: most emphasis is put on inclusive labour markets (in this case the *work-first* strategy aiming at getting people to work quickly by favouring conditionality of benefits and incentives rather than human resources development). Little stress is placed on adequate income support. Vertical policy coordination is problematic in some areas, namely those where local actors play the main role in the given field, but are not subject to much regulation by the national authorities.

The measures introduced under the three strands of active inclusion between 2008 and 2011 (2012) may collectively be characterised as follows: cuts in social expenditure responsible for a decrease in the volume of social benefits and free-of-charge community services of various kinds; pressure for increased conditionality of benefits, based on activity, in the field of unemployment and social assistance; and introduction of measures to make work pay. Policy changes brought mainly restrictions in generosity and access, which affected both those who can work (somehow more) as well as those who cannot work.

In spite of these changes, still in 2011 (incomes from 2010), the effectiveness of social transfers in the reduction of poverty was the second best in the EU (37.8% of people at risk of poverty before transfers and 9.8% after) and the risk of social exclusion was the lowest in the EU.

**Adequate income support:** the changes implemented between 2007 and 2012 were relatively complex (they cover both direct and indirect taxes, social insurance contributions, and perhaps all categories of social benefits, also relating to their many dimensions). Their cumulative effect weakened the adequacy of incomes. Some changes do not affect income directly, but determine the level of consumption (the VAT growth and rent increases in connection with deregulation). The conditionality of benefits was reinforced in the systems of benefits (social assistance benefits in particular), with the aim of increasing the pressures concerning job searching. The decisive step was the establishment of the institution of 'community service' (2008).

**Inclusive labour markets:** a decisive and persistent problem when it comes to active inclusion is the fact that the scope of anti-cyclical measures of active employment policy taken during the crisis was rather limited. The scope of such measures only increased temporarily and slightly in 2010, while the years 2009 and 2011 saw the already limited scope of these measures fall further. In the same line, neither was the staffing of public employment services strengthened. As data show, the degree of targeting the active employment policy measures to the most vulnerable groups in the labour market is only partly satisfactory.

**Access to quality services:** as the gap between service capacities and clients' needs widens, the availability of services is becoming increasingly limited for certain groups of users. As regards employment services, in spite of their apparent effectiveness and efficiency, this applies particularly to the hardest to place long-term unemployed people. There is also a problem with the availability of pre-school childcare facilities in small municipalities (facilities for children under 3 years old are largely unavailable) and socially excluded communities where only a smaller proportion of children attend kindergarten. Financial accessibility of pre-school facilities (for children under 3 years old in particular) has become more limited since January 2012 as a result of the

increase in GDP and the subsequent rise in fees. Furthermore, the rising fees in health care impede the financial accessibility of health care for population groups living on the lowest incomes. In services for the elderly and handicapped or crisis interventions, we observe stagnation in the population covered by services but increasing needs.

The financing of active inclusion from national sources may be assessed in all areas as insufficient. The EU structural funds help substantially (but not sufficiently) to bridge this gap. In the area of monitoring and evaluation of active inclusion, we have observed certain progress in recent years.

We can recommend the strategic documents of the Czech Republic to be more thoroughly implemented: a) elaborated into specific actions with set deadlines and tied to operational goals b) backed by the necessary financial resources c) with due monitoring of implementation progress. A suitable balance should be achieved among the three strands of active inclusion, with more emphasis put on active employment policy and human resources development in the field of labour market inclusion, as well as on the adequacy of income and access to quality services. In order to support such development, the EC should find a better way to bind access to EU funds with their effective use for active inclusion.



## 1. Integrated comprehensive strategy

The period between 2008 and 2012 is marked primarily by the economic crisis that, at the start, led to a fall in GDP in 2009, followed by a slower growth rate and further stagnation towards the end of 2011. As a result, unemployment went up in 2009 and 2010, and then slightly declined in 2011. In 2009, the public finance deficit increased, which prompted the government to commit itself to bringing the deficit below 3% by 2013 and to steering public finance towards a balanced budget by 2016 – which has obviously foreshadowed a series of austerity measures in public finance.

The Czech Republic's start position of social exclusion and of indicators concerning active inclusion was relatively favourable (also by international comparison) and deteriorated only slightly; nevertheless, the severely disadvantaged position of specific groups in the labour market can be pointed out as a persistent problem.

### 1.1 Comprehensive policy design

As regards the active inclusion strategy, the aforementioned overall context marked a situation that was unfavourable to enforcing a comprehensive policy design based on striking the right balance among the three strands of active inclusion.

The active inclusion strategy can therefore be described as cost-saving and oriented at less fiscally demanding measures and, at the same time, as 'maintenance-oriented' (i.e. it is driven by the effort to sustain such measures and such a scope of measures that would prevent any further undue aggravation of the situation in the area of social exclusion). On the other hand, this strategy has hindered the development of measures that necessarily imply demands on capacities and resources. All in all, the scope of measures and activities in a number of key areas of social inclusion can be assessed as relatively inadequate with respect to needs (see below), even though no dramatic fall has occurred in any of the areas. The strategy is not quite balanced with respect to the three strands: most emphasis is put on inclusive labour markets (in this case the *work-first* strategy aiming at getting people to work quickly by favouring the conditionality of benefits and incentives rather than human resources development); by contrast, little stress is placed on adequate income support. As for access to quality services, these are clearly limited in a number of areas.

Furthermore, the designing of policies in a number of public policy areas in the Czech Republic is characterised by relatively strong departmentalism (i.e. generally weak horizontal and even vertical interconnections), which then impacts particularly on those strategies that require complex and interconnected measures, such as in the area of active inclusion.

On the other hand, interconnectivity in addressing active inclusion has, in some respects, been improved. At the conceptual and programme level, conceptual documents are gradually being developed and have addressed that issue, including the problematic field of active inclusion, reflecting its links with other dimensions of social inclusion, as well as other dimensions of public policy. These are, above all, the National Reform Programme, and also the Vision by the Department of Labour and Social Affairs for Social Inclusion towards 2020, the Strategy to Combat Social Exclusion 2011-2015 and others. As a result, greater account is being taken of a broader range of policies concerning active inclusion during the implementation of measures, which can be seen, for example, in the area of social services – in the process of designing and implementing the Regional Plans for Development of Social Services.

## **1.2 Integrated implementation**

Considering the above-mentioned consequences of departmentalism in public policies, as well as the underdeveloped capacity and resources in a number of areas (further weakened due to the austerity measures taken), it cannot be said that the active inclusion strategy can be integrated towards effectively addressing the multi-faceted causes of poverty and social exclusion without improving the coordination of measures. Between 2008 and 2011, the active inclusion strategy put a growing emphasis on increased pressure and incentives to accept any job (*work-first approach*) by applying increasing conditionality of benefits, material incentives to work and control mechanisms. Individual handicaps affecting job searching were also addressed to some extent. In the process of enforcing these objectives, integration improved in the area of policy governance, which can in the future prove effective in advancing the mentioned approach: a decision was made in 2011 to shift onto employment offices the responsibility for social assistance administration, that is, the administration of benefits in material need (social assistance benefits), including 'community service' as an activation measure (previously within the competence of municipalities).

Less stress is laid on addressing other barriers, such as job qualifications, access to jobs and discrimination, health barriers, housing problems, child care services and financial problems. Interventions financed under the European Social Fund projects are more likely to target the multi-faceted dimensions of poverty and social exclusion than the mainstream policies. This applies particularly to the interventions falling under the priority area Social Inclusion, which typically tackle issues concerning the most vulnerable groups. However, these interventions have the problem of insufficient interconnection with the mainstream policies, which makes it impossible to efficiently resolve certain barriers to labour-market inclusion concerning child care services, housing, discrimination and the lack of financial resources (cf. for example Šimíková 2011).

## **1.3 Vertical policy coordination**

Vertical policy coordination is problematic in some areas, namely those where local actors play the main role in the given field, but are not subject to much regulation by the national authorities, whether in the sphere of competences or the provision of resources. Such areas include social housing, child care, care for the elderly and long-term care. The situation is better where the institutional structures stretch from the national to the local level, such as in the area of employment services, and where there is strong methodological guidance from the national authorities (departments): health care, the primary education system, specific segments of social services and partially also inclusion efforts in excluded Roma communities.

## **1.4 Active participation of relevant actors**

Active participation of relevant stakeholders in the development, implementation and evaluation of strategies has improved owing to the fact that social inclusion has been established as a topic of discourse, as well as owing to the projects financed under the ESF. The role of various actors (non-governmental organisations in particular) has traditionally been strong in the provision of social services and crisis intervention services. In recent years, this role has been further reinforced due to the projects funded through the ESF. On the one hand, non-governmental organisations can be beneficiaries and coordinators of grant projects and, on the other, they are increasingly becoming suppliers of services and activities for projects coordinated by other parties at the level of state administration and local authorities.

Their role in developing measures at both the national and local level has also been strengthened. At the national level, specific inter-departmental and departmental commissions were established to tackle social inclusion (Commission on Social

Inclusion), or to develop other conceptual and strategic materials concerning specific dimensions of active inclusion, where non-governmental organisations as well as social partners are typically represented. Their real influence may not always be clear-cut; however, consultations do play a role in formulating standpoints and priorities, and in assessing progress.

Similarly, the ESF projects facilitated these parties' participation in the evaluation of measures: it is precisely the non-governmental organisations and other independent parties that tend to lead research and evaluation studies: for example, in the field of social inclusion in excluded Roma communities (the 'NAPSI together' project). They also take part in evaluating the implementation outcomes of the ESF projects.

The participation of people with direct experience of social exclusion is still low: they are represented in the above-mentioned bodies through non-governmental organisations. In recent years, a number of round table discussions have been held within the framework of the ESF project 'NAPSI together' on the issue of social exclusion where the people concerned were represented (NAPSI 2011). Direct experience with this approach has thus been gained and further initiatives to continue in the involvement of people with direct experience of social exclusion are emerging.

## **2. Description and assessment of the impact and cost effectiveness of measures introduced or planned under the three strands**

The measures introduced under the three strands of active inclusion between 2008 and 2011 (2012) may collectively be characterised as follows: cuts in social expenditure responsible for a decrease in the volume of social benefits and free-of-charge community services of various kinds; pressure for increased conditionality of benefits, based on activity, in the field of unemployment and social assistance; and introduction of measures to make work pay.

The measures were, in fact, affected by the following circumstances: In June 2006, a centre-right coalition won the election, committing itself to stabilising public budgets (i.e. to introducing both short-term and long-term reforms in order to gradually achieve a balanced national budget – the deficit was 2.4% in 2006). Considering the difficulties in winning the majority vote in parliament, the laws along these lines were not adopted until 2007, coming into force in January 2008. They contained a series of austerity measures in the social field and, alongside these, measures promoting work incentives and the conditionality of social benefits.

At the end of 2008, the impact of the crisis began to make itself felt, leading in 2009 to a drop in GDP by 4.7% and a public budget deficit of 5.8%. The government coalition lost its majority in parliament and stepped down in the spring of 2009. The new administrative government then adopted policies to restore growth, including, among other things, further short-term cutbacks in public spending.

The elections in June 2010 were won again by the centre-right coalition government that declared its priority to reduce the public finance deficit by one percent a year and achieve a balanced budget by 2016. On the one hand, the government strived to push through measures ensuring short-term savings in the social field and, on the other, to reform the pension and health care systems in such a way as to ensure the long-term sustainability of public budgets.

We can thus roughly distinguish three stages of development: the first one since 2008 until mid-2009 (the election of the administrative government), when the Act on Stabilization of Public Budget (Act No. 261/2007 Coll.) established the basic line of action for this period. The second stage covered the years 2009 and 2010 when as a

result of the crisis distinct temporary measures were introduced to eliminate the impact of the crisis; however, these were immediately followed by measures aiming at short-term cutbacks in social expenditure and at cost savings. Alongside that, other measures were being adopted to underpin the activity-related conditionality of social benefits, as well as the work incentives. Finally, in the third stage (from 2011 to 2012, with the outlook for 2013), further steps are being taken aiming at short-term cost savings and at increasing the conditionality of benefits and incentives (more often disincentives). In addition, reforms of the pension and health care systems are being developed and advanced.

## **2.1 Adequate income support**

Over the whole period, the measures adopted in the field of adequate income pursued the aim of reducing the generosity and accessibility of benefits of various kinds. On the other hand, some measures were introduced in the field of taxation and social insurance which relieved the pressures on households, especially low-income ones. In doing so, the principle of making work pay was at the forefront of attention. The measures were therefore targeted at individual beneficiaries and households active in the labour market.

At the same time, indirect taxes (VAT) were raised, impacting invariably on the lowest-income groups. The cost of housing continued to grow fast, alongside the continuing rent deregulation.

The outlined trends were gradually established over the period concerned, with a noticeable intensification and acceleration in 2011.

Given that the adequacy of income support is determined by a combination of policies involving taxation, social benefits and indirect taxes, we will pay attention to all of these spheres. Secondly, although our priority will be concerned with measures to support income in the field of social assistance and unemployment, we will take account of other measures too: especially those targeted at families with children and at other low-income groups. The reason is that families with children are more likely to be found in low-income groups and, secondly, that the level of social assistance benefits/benefits in material need is lower than is the poverty threshold defined as 60% of median income (Eurostat). Other benefits (and possibly services) of various kinds are therefore also relevant for households at risk of poverty. Generally, it is those that provide compensation for loss of income or reduced earnings, or for the increased burden related to the care of children and other dependants.

### **2.1.1 Description of the measures taken since 2008**

*Measures taken by the centre-right government between 2008 and 2009*

The above-outlined general course of action in the field of adequate income support was established by the Act on Stabilization of Public Budget adopted in August 2007 (Act No. 261/2007 Coll.) and in force from January 2008. This Act brought several major changes.

A strategy was adopted for shifting the tax burden from direct to indirect taxation and for eliminating tax progression in the middle and higher income groups. The reduced VAT rate was raised from 5% to 9%, and the standard rate from 19% to 20%, with direct impact on the net income of low-income households.

Progressive taxation was replaced with a single flat-rate income tax of 15% (calculated, however, using gross wage plus employers' social security contributions). Previously, low-wage earners had been subject to a tax of only 12% of their gross wage. In order to ensure that their income is not jeopardised and to ensure stronger work incentives for low-wage earners, tax credits for the tax payer, his/her spouse and children were considerably increased at the same time. In the case of children,

the tax credit approximately doubled; in the case of the tax payer and his/her financially dependent spouse, the rise was even higher. Specifically, the tax credit for the tax payer increased from CZK 7200 to 24,840 (which roughly equals one month's gross wage) and was applied to working pensioners, too. The spouse tax credit increased from CZK 4200 to 24,840, and the child tax credit from CZK 6000 to 10,680. At the same time, the concept of joint taxation for spouses (which until then had been of benefit particularly to those households where one spouse's income was very low or missing) was abandoned.

As calculated by Večerník (2009), these measures left a significant mark on the low-income segment, considering that 16% of income-earning households were exempt from paying income tax in 2008.

On the other hand, legislation was adopted that removed the government's obligation to re-evaluate the living minimum, and therefore also social assistance benefits, to be in line with price inflation. Indexation of the living minimum and, subsequently, of the social assistance benefits remained solely at the discretion of the government. As a result, the living minimum was not re-evaluated over the period in question and remained far behind the development of wages and prices. Furthermore, the possibility of making use of the institution of 'substitute social assistance recipient' (i.e. a form of material benefit) was reinforced and applicable in cases of misconduct on the part of benefit recipients. A measure was also taken under which the long-term unemployed recipients of social assistance (without a job for over 12 months) would only receive benefits up to the level of the subsistence minimum, instead of the living minimum (i.e. a drop of more than one-third in the level of guaranteed income).

In addition, some benefits relevant for low-income households (or entitlements to these benefits) were reduced. This applied mainly to benefits targeted at children. Child allowances were limited to households with an income below 2.4 times the living minimum (while previously it had been 4 times the living minimum).<sup>1</sup> The income threshold determining entitlement to the social allowance, which is another child allowance aimed at low-income households, was reduced from 2.2 times the living minimum to 2.0 times the living minimum. The birth grant was reduced: only slightly in the case of the first child, but more radically in the case of subsequent children in the family. The contribution towards children's school needs was cancelled.<sup>2</sup>

On the other hand, more flexibility was introduced in the parental benefit scheme: up until their child is 18 months old, the parents can choose among three options: the fast track where the parental benefit amounts to CZK 11,400 a month and is received only until the child turns two years old; the standard track, where the parental benefit amounts to CZK 7600 a month and is received until the child turns three years old; and the slow track, where the benefit is granted until the child reaches four years of age, but is reduced from CZK 7600 to 3800 after 18 months of receipt. The fast track was only made available to those claimants who had been entitled to a maternity leave allowance – which precedes the parental benefit – of at least CZK 380 per day.

A decision was also taken to discontinue the provision of the sickness benefit during the first three days of sickness. Alongside that, the co-financing of health care was introduced in the form of a fee per appointment with a general practitioner and a prescription fee *per item prescribed*, both amounting to CZK 30; another CZK 60 fee

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<sup>1</sup> They were further differentiated according to the child's age, not according to the household's income, as was the case in previous times. The volume and degree of the targeting of the benefit towards low-income households thus declined.

<sup>2</sup> Also the funeral grant, falling under the system of state social support, was changed; its personal scope was limited to dependent children and parents of dependent children.

per appointment with a specialist, as well as per day in hospital, and, finally, a CZK 90 fee per emergency treatment.

In view of the regional election victory by the opposition Czech Social Democratic Party in 13 out of the total 14 regions, and given the party's promise to cancel the fees in the health care sector, most fees for children were cancelled in autumn 2008, and the annual ceiling for payments was reduced from CZK 5000 to 2500 (EUR 200 and 100) in the case of people over 65 years of age and children.

The established trend was potentially most harmful to non-working households living on low incomes: their situation was worsened as a result of the increased VAT on groceries, medication and other commodities, in combination with the limited indexation of the living minimum and other benefits aimed at children and with out of pocket fees for health care.

In September 2008, additional measures were confirmed (Act No. 382/2008 Coll.), effective from January 2009, which, on the one hand, reduced the generosity of social assistance benefits and, on the other, introduced elements of motivation towards seeking legal employment.

Firstly, it was put forward that the entitlements of social assistance recipients (except in the categories of those considered incapable of work) should be automatically reduced after 6 months to the subsistence minimum level, which is about one-third lower than the living minimum. Those recipients who take part in a community service programme for at least 20 hours per month can have their benefits topped up to the living minimum level (provided they meet additional general conditions, such as registration with the employment office and an active job search). If they work for more than 30 hours per month, they can get a bonus in the amount of half the difference between the living and the subsistence minimums.

However, a 2009 survey by the Ministry of Labour and Social Affairs (MLSA) shows that only 10% of municipalities provided community service opportunities for benefit recipients and 30% of municipalities did not pay social assistance benefits (MPSV/MLSA 2010a). Over half the municipalities organised no community service at all.

Furthermore, specific steps were taken that served to at least partially offset the impact of the crisis and strengthen the transfers to population groups at risk of poverty and social exclusion. Among these steps was the cancellation of employees' contributions to sickness and unemployment insurance, which reduced the employees' contributions from 8.5% to 6.5% of the gross wage (but put further strain on the state revenue and budgetary balance). Another step was a raise in civil servants' wages by 3.5% on average. It was effective from June 2009 and affected 450,000 employees (i.e. 8% of overall employment). Finally, the child tax credit was raised from CZK 890 to 967 per child a month (i.e. by about 10%), in addition to which the entitlement to the child allowance (determined by income level) was slightly broadened and the benefit level increased. However, these measures had been prepared and adopted earlier, irrespective of the economic crisis.

Finally, a decision was made to slow down the process of rent deregulation by two years (i.e. to prolong the process until 2011 and 2012) in the case of big cities (this concerned 300,000 out of 750,000 households in the regulated housing sector). The reason was that it was precisely in big cities that rent was growing faster than expected as a result of deregulation.<sup>3</sup>

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<sup>3</sup> It was estimated that rent might also increase by as much as 50% in the other types of localities during 2011 and 2012.

### *Measures taken by the administrative government between 2009 and 2010*

At the end of 2009, the administrative government that replaced the split coalition in May 2009 took new austerity measures (Act No. 362/2009 Coll.). At the same time, certain measures proposed consensually across political party lines to alleviate the impact of the crisis and to boost growth were dropped upon the split of the government coalition in the spring of 2009. This included the raising of replacement rates for unemployment benefits to 80%. On the contrary, the new austerity steps included increasing the state income, especially by raising indirect and other specific taxes, and reducing expenditure through savings in the field of government transfers to the population. As a whole, these measures tended to be applied indiscriminately, although their social effects were to a great deal regressive (i.e. they impacted more on low-income groups).

These measures were: a rise in the reduced VAT rate from 9% to 10% and in the standard VAT rate from 19% to 20%; a rise in excise duties on beer, cigarettes, alcohol, diesel and petrol; and the doubling of the property tax. Further, they included a raising of the social insurance contributions ceiling from 4 times to 6 times the average wage (this measure clearly placed an increased burden on higher-income groups). The total volume of wages in the public sector was lowered by 4%. Finally, another anti-crisis measure (in effect from August 2009) was cancelled as of January 2010: regressive relief for employers on social insurance contributions on wages below 1.15 times the average wage (about 8% of the total contributions at most<sup>4</sup>).

Nevertheless, the accessibility and generosity of social transfers to families with children, to disabled people and to the sick were further reduced. Under the previously-adopted anti-crisis measures (in effect from June 2009), the income threshold for entitlement to child allowance had been increased from 2.4 times to 2.5 times the living minimum and the benefit level had been raised by CZK 50 (approx. EUR 2). This increase was revoked under the new law. Specific social assistance benefits for disabled people were also reduced, such as the benefit for motor vehicle operation (a 50% cut in the case of people with second-degree disability and a 20% cut in the case of those with third-degree disability). The replacement rates for sickness benefits and maternity benefits were cut too: both were set at 60% of the assessment rate (a calculation based on the daily assessment rate which reduces income used for benefit calculation). Prior to that, the replacement rate had been 72% in the case of long-term illness and 70% in the case of maternity benefits (available for 26 weeks). This measure then remained in effect until a later date. Nevertheless, following public criticism and political debate called by the opposition and backed by smaller coalition parties, the maternity benefit was reinstated at 70% of the assessment rate from mid-2010 and fully back-dated to compensate the parents for lost benefits. These rapid changes provide a powerful illustration of how hastily drawn the measures were.

### *Measures taken by the new centre-right government between 2011 and 2012*

The new centre-right government that emerged from the supplementary elections in May 2010 committed itself in its Programme for Government from August 2010 to reducing the public budget deficit to 3% in 2013 (i.e. by 1% each year), with a long-term goal of achieving a balanced budget (as early as by 2016). In view of this aim, it announced a number of further austerity measures which were then laid down by Act No. 347/2010 Coll. (Act amending some laws connected with austerity measures within the remit of the Ministry of Labour and Social Affairs).

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<sup>4</sup> The author's own computations.

The new austerity measures delivered further reductions in social transfers to vulnerable groups, such as sick people, people with disabilities and low-income families with children. As has been mentioned, the sickness and maternity benefits were kept at the level set under the temporary austerity package in 2009. The replacement rate for sickness benefits remained at a level of 60% of the assessment rate, instead of the previous 66%, and even 72% in the case of illness lasting longer than 3 months. In addition, the period covered by replacement income paid by the employer in the event of sickness was extended by 5 working days, that is, from 3 + 7 (10) days to 3 + 12 (15).<sup>5</sup>

The care benefit (a benefit paid under the social assistance system to people dependent on the assistance of another person) provided for the purpose of direct purchasing of social services or other forms of assistance by beneficiaries was reduced from CZK 2000 to CZK 800 a month for people with first-degree dependency (the lowest level).<sup>6</sup>

Other austerity measures were targeted at families with children:

- The personal scope of application of social allowance was significantly reduced (as of January 2011). The benefit had previously served as an additional child-related allowance for low income households (in addition to the child allowance), but had been income tested and had played the role of preventing the risk of child poverty. The benefit was only kept in the case of disabled children since 2011.
- The birth grant was restricted to the first child only and was subjected to an income test (entitlements were reserved for families with income below 2.4 times the living minimum).
- The slow track of the parental benefit was reduced to a level where the total sum drawn cannot exceed that drawn under the fast track.<sup>7</sup>

The government also cut the wage funds for public sector employees (except teachers) by 10%. In addition, unemployment benefits were reduced to 45% of previous income from the first month of unemployment in those cases where the employment contract is terminated of the employee's free will or by mutual consent without serious reasons, or is terminated by the employer giving notice on the grounds of breach of labour discipline. The dismissed workers who are entitled to severance pay can no longer claim unemployment benefits during the period covered by the severance pay. The institution of "non-colliding" employment was abandoned: this institution had previously made it possible for the unemployed to continue to draw unemployment benefits even if they found a temporary job offering earnings not exceeding half the minimum wage.<sup>8</sup> Accessing unemployment benefits was also made more difficult: it was conditioned by 12 months of employment during the previous two years, instead of three years preceding the granting of the benefit.

In connection with the economic slowdown towards the end of 2011, certain steps were taken to reinforce the above-mentioned measures and introduce new ones.

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5 No replacement income is paid during the first three days, following which the employer pays replacement income for another 7 working days, and (since January 2011) for another 12 working days of illness.

6 The rationale was the rapid increase in benefit take-up and the finding that a considerable number of the recipients purchase no services at all, and possibly continue to use assistance from their family members. They perceive the benefit as a tool to improve their income level.

7 While previously the total amount drawn during this four-year period had been slightly higher.

8 The rationale was the suspicion that this institution was frequently misused by employers upon agreement with their employees.



These steps came into effect in January 2012 and involved complex legislative arrangements (i.e. specific amendments to laws in the social field):

- **Act No. 364/2011 Coll.**, amending some laws connected with austerity measures within the remit of the Ministry of Labour and Social Affairs;
- **Act No. 365/2011 Coll.**, amending Act No. 262/2006 Coll., the Labour Code, as amended, and other related laws;
- **Act No. 329/2011 Coll.**, on provision of subsidies to people with disabilities and on amendment to certain related acts;
- **Act No. 366/2011 Coll.**, amending Act No. 111/2006 Coll., on assistance in material need, as amended, Act No. 108/2006 Coll., on social services, as amended, Act No. 117/1995 Coll., on state social support, as amended, and other related laws;
- **Act No. 367/2011 Sb.**, amending Act No. 435/2004 Coll., on employment, as amended, and other related laws.

These measures cover multiple areas and have a potentially most significant impact on low-income households with children who are more dependent on social transfers. The following can be seen as important changes:

The reduced VAT rate was raised from 10% to 14%, with effect from January 2012 (and is to be raised again to 17.5% in 2013, with both the rates merging as a unified single VAT rate). The standard VAT rate is therefore to be lowered to 17.5% in 2013.

Employees' health insurance contributions were increased from 4.5% to 6.5% of gross wage, effective from 2013.

As regards social assistance benefits, the housing supplement entitlement period was restricted to 84 months during the preceding 10 years.<sup>9</sup> In addition, a ceiling was imposed on the housing supplement even in those exceptional cases where the housing costs were high and had until then been fully covered (such as in the case of private dormitory-style residences used often as emergency accommodation, given the lack of social housing). The ceiling is determined by applying normative housing costs (i.e. real local housing costs).

Between 2007 and 2011, the living minimum was not re-evaluated (as a result of this rule having been suspended by the government in 2007) despite growing inflation. The cumulative inflation rate over this time period was about 14% (2007 – 2.8%, 2008 – 6.3%, 2009 – 1%, 2010 – 1.5%, 2011 – 1.9%)<sup>10</sup> although prices of food grew a little slower. The benefits based on the living minimum were raised as of January 2012; nevertheless, this rise only makes up approximately for the estimated burden of the VAT increase (effective from January 2012) on low-income households.

The social allowance for disabled children was also cancelled – the impact of which was only partially offset by raising the care benefit (i.e. a social assistance benefit provided for the purpose of purchasing care services) in these cases.

In 2012, the process of rent deregulation is to be completed. According to the statistics maintained by the Ministry of Regional Development, there were about 750,000 households in the regulated housing sector prior to the start of deregulation.

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<sup>9</sup> The same restriction applies to the housing allowance, which is another benefit supporting low-income households in the case where their housing costs exceed 30% (35% in Prague) of their income. The housing supplement is thereafter provided under the social assistance scheme as an income and means tested benefit.

<sup>10</sup> Macroeconomic indicators by Czech Statistical Office: <http://www.czso.cz/csu/redakce.nsf/i/statistiky>

By 2011, deregulation affecting 400,000 households took place (in areas outside regional capitals). The impact of bringing deregulation to a close on these and the remaining 350,000 households is not easy to assess. Neither can it be claimed that low-income households are concentrated within the regulated housing sector (which was part of the rationale behind deregulation). Nevertheless, Jahoda and Špalková (2009) estimate that the average housing expenditure of households in the regulated housing sector will increase from 27% to 37% of their income as a result of deregulation – this is above the threshold of 30% (35% in Prague) entitling households to the housing allowance.

In March and April 2012, further austerity measures were announced by the government in response to the economic slowdown and a decline in government income:

- a further increase in VAT rates by 1 percentage point -- to 21% (the standard rate) and to 15% (the reduced rate) in 2013
- reduced adjustment of pensions between 2013 and 2015 (pensions are to be increased by one-third of the consumer prices index and one-third of the wage growth, whereas previously it had been by 100% of the price index plus one-third of the wage growth); furthermore, the tax allowance for working pensioners is to be discontinued (as is the case with other employees).

### **2.1.2 Assessment of the measures from the perspective of adequacy, activation and incentives**

No systematic *ex-ante* or *ex-post* assessment of the social effects of the realised changes was carried out during the implementation of the changes. Nevertheless, the Ministry of Labour and Social Affairs has, in recent years, conducted or out-sourced a wide range of analyses related to the issues of social exclusion. Using data provided by the Czech Statistical Office, the Ministry also regularly (on a quarterly basis) assesses developments in the field of income and expenditure of households, but without a particular regard for the categories at risk of poverty. Some overview analyses (listed among the references below) give a certain amount of *ex-post* information about the effects on these groups, but with a delay and in what could be considered insufficient detail, similarly as the SILC data (CZSO). Some analytic studies by the Czech-Moravian Chamber of Trade Unions (some of which are presented in this study) pay attention to assessing the impact on the population's income level; academic studies are few (e.g. ČMKOS 2012 is presented in this study).

While the above-mentioned analyses are not very specific, the changes implemented between 2007 and 2012 were relatively complex (they cover both direct and indirect taxes, social insurance contributions, and perhaps all categories of social benefits relating to their many dimensions). Many of them do not affect income, but determine the level of consumption (the VAT growth and rent increases in connection with deregulation). The changes often overlap. Although most of them have a rather detrimental effect on people's income, others have a positive impact. Sometimes corrections were adopted in short succession. It is also clear from the overview above that none of the measures in itself has had a major impact on the risk of poverty and social exclusion; it is rather a case of their cumulative effect. On the whole, these circumstances hamper a clear and differentiated assessment of individual measures; this would require the use of more complex simulation methods and additional information. Considering the information that is available, we can attempt to outline a rather general assessment.

### Adequacy

As regards active inclusion, it is especially the areas of the benefit/tax system relevant for low-income groups that deserve our attention. In the Czech Republic, this is particularly the segment of state social support benefits (some of them are income tested and, furthermore, families with children are concentrated in the lower income deciles).

Clearly, the implemented changes entailed radical reductions in spending on child-related benefits (the child allowance was affected, in the first place, by the changes in force from 2008; the social allowance and the birth grant were affected by the changes in force from 2011). In view of public finance consolidation, cost-saving was indeed the key aim of the implemented changes. On the other hand, the state's expenditure on the housing allowance significantly increased, resulting largely from increases in housing and energy costs and rent deregulation. Even more importantly, the expenditure on social assistance increased sharply between 2009 and 2011. On the one hand, this can be attributed to the effects of the crisis, particularly the growth in unemployment and since 2010 in long-term unemployment, and, on the other, to the introduced changes, considering that the loss of the entitlement of state social support led to a rise in social assistance claims (e.g. following eligibility restrictions for social allowance in 2011).

**Table 1a: Expenditure on selected social benefits paid between 2007 and 2011**

Expenditure (in million CZK)	2007	2008	2009	2010	2011
<b>State social support</b>					
Child allowance	10 236	6 232	4 736	3 862	3 498
Social allowance	4 607	3 174	2 962	3 100	786
Housing allowance	1 565	1 619	2 280	3 521	4 641
Foster care benefit	771	844	922	1 005	1 073
Parental benefit	26 690	28 294	28 586	27 722	25 709
Birth grant	2 097	1 647	1 579	1 565	292
Funeral grant	509	71	17	16	15
Other (contribution towards school needs)	57	2	-	-	-
<b>Total</b>	<b>48 532</b>	<b>41 883</b>	<b>41 082</b>	<b>40 791</b>	<b>36 014</b>
<b>Social assistance</b>					
Allowance for living	2 593	2 176	2 328	2 863	3 820
Supplement for housing	524	473	512	686	850
Extraordinary immediate assistance	170	146	249	334	212
<b>Total</b>	<b>3 287</b>	<b>2 794</b>	<b>3 089</b>	<b>3 882</b>	<b>4 882</b>
Care benefit	14 608	18 252	18 697	19 599	18 084

Source: MLSA 2011a, MLSA 2012a

A similar trend can be seen when we look at the development of the number of recipients of individual benefits: for example, it shows that the child benefit is reserved for a relatively narrow group of children and that, on the contrary, the number of social assistance recipients and recipients of the housing benefit has been at a gradual and steady increase since 2009.

**Table 1b: Number of recipients of selected social benefits paid between 2007 and 2011**

Average number of benefits per month (in thousand)	2007	2008	2009	2010	2011
<b>State social support</b>					
Child allowance	1 680	886	682	530	484
Social allowance	241	186	147	148	26
Housing allowance	115	86	94	119	141
Foster care benefit	16	18	19	21	21
Parental benefit	339	356	362	337	324
Birth grant	9	10	10	10	2
Funeral grant	9	1	0,3	0,3	-
Other (contribution towards school needs)	5	-	-	-	-
<b>Total</b>	<b>2 404</b>	<b>1 523</b>	<b>1 314</b>	<b>1 165</b>	<b>998</b>
<b>Social assistance</b>					
Allowance for living	72	66	73	90	101
Supplement for housing	25	21	20	23	26
Extraordinary immediate assistance	6	5	8	9	10
<b>Total</b>	<b>103</b>	<b>92</b>	<b>101</b>	<b>122</b>	<b>137</b>
Care benefit	260	309	308	313	301

Source: MLSA 2011a, MLSA 2012a

As regards the adequacy of income of people in the working population who are at risk of poverty, other measures had significance as well, in addition to the cuts in state social support: the lagging behind of the minimum wage development appears to have had adverse consequences for the risk of poverty faced by working people (see Table 2). On the other hand, the major tax reliefs introduced as of 2008 (see above) and the decrease in social insurance contribution from 8.5% to 6.5% of gross wage effective from 2009 had positive effects. The other low-income groups (the unemployed or inactive) were negatively affected especially by the living minimum persistently falling short of the growth in both prices and wages (see Table 2).

**Table 2: Wages and social assistance benefits between 2007 and 2011 (in CZK per month)**

	2007	2008	2009	2010	2011
Average gross wage	20957	22593	23488	23951	24319
Average net wage	16153	17264	18254	18573	19212 <sup>+</sup>
Minimum wage	8000	8000	8000	8000	8000
Living minimum – single person	3126 <sup>x</sup>	3126 <sup>x</sup>	3126 <sup>x</sup>	3126 <sup>x</sup>	3126 <sup>x</sup>
Living minimum – 2 adult household	5480 <sup>x</sup>	5480 <sup>x</sup>	5480 <sup>x</sup>	5480 <sup>x</sup>	5480 <sup>x</sup>
Living minimum – family of 4* people	9400 <sup>x</sup>	9400 <sup>x</sup>	9400 <sup>x</sup>	9400 <sup>x</sup>	9400 <sup>x</sup>
Minimum wage (% of gross wage)	38.1	35.4	34.0	33.4	32.9
Living minimum – single person (% of net wage)	19.4	18.1	17.1	16.8	16.3
Living minimum – 2 people (% of net wage)	33.9	31.7	30.0	29.5	28.5
Living minimum – family of 4 people* (% of net wage)	58.2	54.4	51.5	50.6	48.9

Source: Basic Indicators of Labour and Social Protection (2010), MLSA of the Czech Republic, CZSO for average wage in 2011

\* Two adult members and two children 10-15 years old

<sup>+</sup> the author's preliminary estimate

<sup>x</sup> does not include housing supplement which is determined on the basis of real housing costs

The development of the living minimum level (on which social assistance benefits are based) clearly fell short of the development of wages by 16% during the reported period, which is naturally reflected in the worsened income situation of social assistance recipients, although obviously the number of social assistance recipients was hence limited.<sup>11</sup> Nevertheless, we have already seen that the number of social assistance recipients was on the increase, despite the relative drop in the living minimum rate. In addition, the income level of social assistance recipients was negatively affected by the institution of the 'subsistence minimum', mainly because, beginning from 2009, the social assistance recipients who had been in the register for over 6 months were being automatically referred to the subsistence minimum scheme. This was the case unless they had participated in a community service programme (prior to that, from 2008, this rule had already been applied to the long-term

<sup>11</sup> The reason being that the entitlement to social assistance benefits is based on comparing the household's other income to the living minimum level.

unemployed – people without a job for over 12 months). On the other hand, these effects could have been offset by the fact that the payments towards housing costs under the social assistance scheme were calculated on the basis of real housing costs and that, until 2012, it was possible to increase one's social assistance benefits by participating in a community service programme for over 30 hours per month.

The data by the Statistics on Household Budgets on the income of low-income (up to 1.9 times the living minimum) households with children show a real decrease in income, amounting to about 11%, experienced by this broader category of low-income households during the period of 2007 to 2010 (see Table 3).<sup>12</sup>

**Table 3: Development of real net monthly income per person, according to family budget statistics (2007-2010)**

	2007	2008	2009	2010
<b>1 Minimum-income households with children</b>				
In absolute figures (in thousand CZK)	4 030	4 044	3 968	3 962
Year-on-year index	101.3	94.4	97.1	98.4
Base index (to 1992)	110.9	104.6	101.5	100.0
<b>2 The total of employees with children</b>				
In absolute figures (thousand CZK)	9 239	10 139	10 454	10 796
Year-on-year index	105.7	103.2	102.1	101.7
Base index (to 1992)	148.8	153.5	156.7	159.7
Income ratio ½	0.436	0.399	0.379	0.367

Source: MLSA 2011b

While the real value of the income of minimum-income households with children declined on average by about 11% between 2007 and 2010, the income of employees with children was on the increase. Other explicit factors negatively affecting this group were the increase in the VAT rate, as well as the increase in housing costs and the introduction of charges for health care as of 2008, because the social assistance system does not provide compensation to these ends.

The SILC data (see Annex, Table 1) confirms that at first the number of people at risk of poverty was on the decline between 2007 and 2010. It is only the 2011 data that show the number increasing. However, the SILC 2011 survey reports data on the households' income in 2010 and therefore does not reflect the developments of 2011 and 2012. Nevertheless, we can still see an increase in the number of the 'working poor' and, most importantly, the highly and persistently differentiated risks of poverty, with the following groups being at a much greater risk compared with the population at large: the unemployed, single-parent households with children, families with three or more children, single people of productive and post-productive age, and children. This data does not as yet reflect the impact of the restriction of access to the social

<sup>12</sup> Since 2011, this category has no longer been individually analysed as a result of a decreased number of these households in the quota sample.

allowance in effect from 2011, nor does it reflect the drop in the birth grant and other changes made in 2011, not to mention the increase in VAT from 2012.

According to the survey by the Centre for Public Opinion Research (CVVM), between 2008 and 2011, the proportion of people who declared that their household was very poor or poor increased: from 5% and 24% (in October 2008) to 6% and 28% (in October 2009), 7% and 28% (in October 2010), and 7% and 26% (in October 2011), respectively. The proportion of people who declared that their income was not sufficient to meet the basic needs of their household rose from 6% in 2008 to 9% between 2009 and 2011 (CVVM 2011a, b). While this data does not indicate a very sharp increase in the risk of poverty and deprivation, we must bear in mind that the quota sample on which the survey is based does not sufficiently represent the marginalised population groups.

The Czech-Moravian Chamber of Trade Unions (ČMKOS, 2011) estimates that the burden presented by the increase in the VAT rate from 10% to 14% in 2012 on four-member families could be around CZK 1000 (i.e. about 4% of the average gross wage). The increase in consumer taxes would mean an additional burden of 1% of the average wage. In the case of households of pensioners, the aggregate effect of the changes is estimated to reduce their income by 10%.

### *Activation*

Beginning in 2007, the conditionality of benefits was reinforced in the systems of benefits (social assistance benefits in particular), with the aim of increasing the pressures concerning job searching. The decisive step was the establishment of the institution of 'community service' (2008) and the conditioning (upon 6 months of benefit receipt) of further social assistance claims for benefits equivalent to the living minimum by participation in community service activities (as of 2009). This condition was removed in 2011, but the employment offices were given discretion to impose community service participation on unemployed people after as little as two months of unemployment and to take them off the register if they refused to participate. This obviously entailed the loss of entitlement to unemployment benefits, as well as the capping of social assistance benefits at the subsistence minimum level. In reality, very few municipalities organise a community service programme. Participation in community service corresponded to around 16,000 people per year (MPSV 2011c, MPSV 2012b). However, the government's intention is to fulfil the aim of activating 50,000 people in 2012 through community service (MPSV 2012b).

Further activation mechanisms are connected with the employment policy (see the following section).

### *Incentives*

Owing to the introduction of relatively complex 'making-work-pay' schemes, the incentives to work improved as early as 2007 and the following years. This improvement followed both from the decline in the absolute level of social benefits and in the replacement ratios to wages, and from the introduction of positive incentives.

Under the minimum income support scheme, incentives were strengthened as early as 2007: only 70% of earnings from employment are taken into account when calculating the entitlement to social assistance; 80% of income replacing earnings are considered in the social insurance systems. On the other hand, the allowance for living increase of CZK 600 for long-term unemployed social assistance recipients was discontinued from 2008.

Beginning in 2009, it was possible to have one's benefits raised above the subsistence minimum level through participation in community service. As for the system of support in unemployment, the Act on Employment established that the entitlement to unemployment benefits could be retained, as long as earnings did not exceed half the minimum wage (the institution of 'non-colliding employment'). An important incentive for low-wage workers was also the increase in tax credits as of 2008 (see the section above).

The OECD model illustrates the drop in replacement rates affecting particularly those families with children where only one parent was economically active. As for families where both partners were active and single-person households, the replacement rates did not decline much or even increased (in the case of single-person households).

**Table 4: Net replacement rates for the total of social benefits for the long-term unemployed (60<sup>th</sup> month of unemployment)**

	67% of average wage						100% of average wage					
	Without children			2 children			Without children			2 children		
	1 pers.	2 pers. 1 EA	2 pers. 2 EA	1 pers.	2 pers. 1 EA	2 pers. 2 EA	1 pers.	2 pers. 1 EA	2 pers. 2 EA	1 pers.	2 pers. 1 EA	2 pers. 2 EA
<b>2007</b>	47	71	53	69	80	62	29	52	44	55	62	52
<b>2008</b>	42	66	56	67	77	61	30	47	47	53	57	52
<b>2009</b>	45	64	56	65	75	62	32	46	47	51	55	52
<b>2010</b>	48	64	56	64	74	61	36	46	47	51	57	52

Source: OECD 2011: Benefits and wages: tax-benefit OECD model

The modest effect the austerity measures had on the replacement rates is probably due to the reasonably sensitive design of the social assistance benefits in the sense that although they did not take account of the growth of inflation in relation to the living minimum, they, on the other hand, better reflected real housing costs (the supplement to housing costs depends on the specific local level of the housing costs) – and these were on the increase in the given period. Secondly, the possibility of improving one's benefits through participation in community service programmes and non-colliding employment was also reflected here. Thus although incentive measures did play a role in policy models, they were of limited relevance in practice. Their influence is likely to grow even weaker in the future: the institution of non-colliding employment was abandoned from 2011 and the subsistence minimum could not be increased through participation in community service since 2012. On the other hand, the replacement rates of benefits will drop as a consequence of decreasing social benefits.

Summed up, the changes in measures relevant for adequate income mainly brought the restrictions which affected both those who can work (somehow more) as well as those who cannot work. In spite of these changes, still in 2011 (incomes from 2010), the effectiveness of social transfers in the reduction of poverty was the second best in the EU (37.8% of people at-risk of poverty before transfers<sup>13</sup> and 9.8% after); the risk of social exclusion was the lowest in the EU.

<sup>13</sup> Presentation at the press conference by Czech Statistical Office, June 19, 2012 on the results of SILC 2011.



## 2.2 Inclusive labour markets

### 2.1.1 Description of the measures taken since 2008

Measures in the field of active inclusion in the labour market are closely associated with the issue of income support. The main line of the active inclusion strategy in this period was to improve financial incentives in connection with changes to the tax/benefit system, and to increase the conditionality of entitlement to benefits related to (long-term) unemployment (see above). In this study, we will focus on the developments in the field of unemployment benefits, active employment policy and other measures affecting inclusion in the labour market.

In effect from 2008, the unemployment benefit was raised from 50% to 65% of the previous wage during the first two months of unemployment. However, the period of benefit payments was shortened by one month (to 5 months, or 9 and 12 months in the case of unemployed people above 50 and 55 years of age, respectively). As regards the social assistance system, the increase in the allowance for living of CZK 600 and CZK 300 for claimants unemployed for over 12 months, and those who proved increased costs of the job search, respectively, was cancelled as of 2008.

Under the employment services system, as of 2009 an obligation was imposed () on all people unemployed for longer than 5 months to sign an Individual Action Plan (the signing thereof had until then been voluntary and had concerned particularly unemployed people under the age of 25 and the long-term unemployed). Rejecting the mandatory offer resulted in the sanction of being struck from the register for a period of 6 months and the loss of entitlement to social assistance. Again, the steps taken before the onset of the crisis thus meant activation of the unemployed by means of the increased conditionality of benefits and incentives to accept a job.

The onset of the crisis in 2009 put the 'regular labour force' in jeopardy: the unemployment rate increased by around 80%. At the same time, the crisis expanded the possibilities of drawing funding from the ESF for temporary measures under the *de minimis* regime, with the aim of easing the impact of the crisis on the labour market. The Czech Republic developed, most notably, an extensive range of programmes aiming at preventing the occurrence of unemployment. These included interventions for businesses facing a fall in demand, which, on the one hand, made it possible to provide and cover the costs of requalification programmes for the employees; furthermore, they also compensated the employees for the lost wages (full compensation was provided in the pilot phase, unless the support paid to one single business exceeded a certain threshold, and partial compensation was provided in later phases – i.e. 60-80% in the case of general requalification programmes and 25-45% in the case of specific programmes, with the possibility of a 10% increase in the case of disabled and other disadvantaged participants).<sup>14</sup> In addition, the Operational Programme Human Resources and Employment supplied funding for measures providing personalised support to people who had been dismissed.<sup>15</sup> Owing to these measures, 923 businesses and 57,500 employees were involved in the Educate Yourself programme during the pilot phase in the first half of 2009, and 2,825 businesses and 165,000 employees in its following phase in 2009-2010. This corresponds to over 4% of the labour force.<sup>16</sup> This project was followed by the similarly-focused project Education is a Chance, which gave preference to employees above 50 years of age, or those with primary education. It operated with a budget of CZK 4.5 billion, while targeting 150,000 participants (between 2010 and the first half

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<sup>14</sup> The programmes *Educate Yourself* and *Education is a Chance*.

<sup>15</sup> The programme *Restart*.

<sup>16</sup> The costs of these two phases were CZK 1.63 billion (about one-third of the annual budget for active employment policy).

of 2012). Even though the real effects of programmes enhancing the participants' employability were subject to debate, they did help cushion the impact of the crisis by maintaining jobs in the businesses at risk (MPSV 2010b, 2012c).

Since 2008, progress has been made in the field of life-long learning. In January 2008, the government adopted the *Implementation Plan of the Strategy of Lifelong Learning*. The plan concentrates on all levels of initial education and, at the same time, seeks to strengthen ties with the labour market. Meanwhile, Act No. 261/2007 Coll. established (as of 2008) tax reliefs for employers who invest in the continuing education of their employees. However, it laid down the condition that for it to be applicable, the education must be related to the specific activities of the business. The *Implementation Plan* was a step towards gradually developing the *National Qualification Framework* and harmonising it with the *European Qualification Framework*. It was also instrumental in the formulation of the *Principles for Recognition of Informal Education Outcomes*. The described steps represent the prerequisites for real progress in the field of lifelong learning. Nevertheless, the problem persists as there is a lack or even absence of specific lifelong learning programmes for workers with outdated or no qualifications. In view of the ageing of the population and the raising of the retirement age, this presents a major problem, one that is being tackled much too slowly.

After the elections in June 2010, the new centre-right government adopted a number of measures that imposed 'negative or repressive sanctions' on the unemployed and removed positive incentives: these included reducing the unemployment benefit to 45% from the first month of unemployment, applicable in the case of voluntary termination of employment; cancelling unemployment benefit payments during the period covered by severance pay; and, finally, cancelling the possibility of increasing one's income through combining the unemployment benefit with 'non-colliding employment'.

A decisive and persistent problem when it comes to active inclusion is the fact that no strong anti-cyclical measures of active employment policy were taken during the crisis. The scope of such measures only increased temporarily and slightly in 2010, while the years 2009 and 2011 saw the already limited scope of these measures fall further. In the same sense, the staffing of public employment services was not strengthened: it is therefore impossible to offer effective personalised services in the area of counselling. In 2008, the participants in active employment policy measures accounted for 26.3% (or 92,500 people, in absolute terms) of the total number of the unemployed. As unemployment went up, the absolute numbers rose to 102,300 in 2009 (which is only 19.1% of the unemployed). The year 2010 then brought a rise to 126,500, which corresponded to 22.5% of the unemployed. In 2011, however, the figure dropped to 97,000 (i.e. 19.1% of the unemployed) (cf. Table 5). The number of participants in requalification programmes fell particularly sharply in 2011 – from 65,500 to 45,500 (i.e. by 30.5%).<sup>17</sup>

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<sup>17</sup> The author's own computations based on data provided by the MLSA 2011 web portal.

**Table 5: Active policy measures and unemployment (Czech Republic), PES data**

	2008	2009	2010	2011
<b>Unemployed</b>	<b>352 250</b>	<b>539 136</b>	<b>561 551</b>	<b>508 451</b>
<b>ALMP participants:</b>				
Public works	16 246	19 794	22 882	21 322
Job creation in private sector	12 756	20 208	25,882	13,410
Job creation through the ESF (unspecified)	16 584	10 596	-	-
Sheltered workshops – creation	974	1 231	1 640	1 405
Sheltered workshops – maintenance	9 349	10 315	10 076	14 620
Work rehabilitation	134	76	120	72
Local projects	43	204	459	643
Vocational training (out of which ESF)	36 451	39,831	65,453	45,521
<b>Total ALMP participants</b>	<b>92 537</b>	<b>102 255</b>	<b>126 512</b>	<b>96 993</b>
<b>as % of the unemployed</b>	<b>26.3</b>	<b>19.1</b>	<b>22.5</b>	<b>19.1</b>
ALMP expenditure	6 131 729	4 953 467	6 171 493	3 815 886
out of which ESF	2 678 240	2 736 558	4 175 475	2 156 359
<b>out of which ESF in %</b>	<b>43.7</b>	<b>55.2</b>	<b>67.6</b>	<b>56.5</b>

Sources: MLSA 2010b, 2012c, MLSA web portal

The degree of targeting of active employment policy measures to the most vulnerable groups in the labour market is only partly satisfactory. Despite the fact that these measures are largely financed by the ESF, where it is precisely the targeting to the disadvantaged groups that is a prerequisite for projects, the analysis of the targeting of requalifications continues to indicate (it is a persistent problem) that the groups most remote from the labour market are under-represented.<sup>18</sup> The figures for 2011 are as follows: the targeting index for disabled people is 0.69, in the case of unemployed people above 50 years of age it is 0.79 (while in the 25-49 age group it is 1.10). In the case of unemployed people with a low level of education (primary education at most, or ISCED 0-2), the index is 0.63 (while in the case of unemployed people with a completed secondary education the index is 1.56). In the case of unemployed people who have been in the register for over 2 years, the index is 0.52; in the case of those in the register for 12-24 months, it is 1.26, which is comparable to the category of 3-6 months in the register (where the index is 1.22). These values mark a modest improvement in comparison with the previous year; the restricted scope of measures must, however, be kept in mind.

After the 2010 elections, the government took a number of steps in the field of labour market regulation aiming at enhancing its effectiveness, while redefining certain instruments of active employment policy at the same time (e.g. the bridging

<sup>18</sup> In specific terms, if we compare the share of these groups in the total number of the unemployed (denominator) with their share in the total number of participants in requalification programmes (numerator), we get an index of the targeting of these measures to the given groups. Any value above 1.00 means over-representation, while values below 1.00 mean under-representation.

allowance, supporting previously unemployed people in setting up their own businesses, was raised to a quarter of the average wage paid for a period of 5 months, with effect from January 2011). Most importantly, however, system changes were made to the organisation of employment services. The first one was the centralisation of services implemented in 2011 when the Employment Office with a centre in Prague was established, with 14 offices in regional capitals and further contact points affiliated to them. Prior to that, 77 local employment offices had been directly reporting to the department of Employment Services Administration of the MLSA. Secondly, the competences of municipal social services departments entrusted with social assistance payments were transferred to employment offices as of 2012.<sup>19</sup>

During 2011, checks on illegal labour were strengthened in coordination with Labour Inspectorates and tougher sanctions were applied to legislation: 167,000 checks were carried out in the course of 2011, and 200,000 are planned for 2012. So far, the checks have not revealed a great many offences concerning the illegal employment of unemployed people. In the last quarter of 2011, for example, 540 illegally working unemployed people were found (i.e. 0.1% of the total number of the unemployed) (MLSA 2012d). It thus appears that an even more significant proportion of these checks involves a reduction in the illegal employment of agency and foreign workers.

Illegal labour was at the centre of attention of the DONEZ project. Under this project, employment offices may impose on unemployed people involved in it the requirement of reporting at a Czech post office (where a Czech Point is established) at a specified time. This arrangement is to prevent the regular performance of illegal work. Between October 2011 and the end of February 2012, 47,000 unemployed people were subjected to these checks. The initiation of administrative proceedings with the result of removal from the register was proposed in 4,000 cases (i.e. about 8% of the people checked) (MLSA 2012e). This measure might help eliminate false unemployment, but was criticised by the Office of the Public Defender of Rights as being restrictive and at variance with the law, as the unemployed must report to a place that does not provide mediation of employment. Moreover, this obligatory checking in at the post office hampers their ability to search for employment. (Veřejný 2012a).

As has been mentioned, modifications were made to the institution of community service, effective from January 2012, removing positive incentives (the possibility for the participants to have their benefits increased above the subsistence minimum level) and, by contrast, employment offices were given greater leeway to apply this workfare measure to unemployed people after as little as two months of unemployment, regardless of the insurance-based character of the unemployment benefits.

The reform of employment services seeks to make savings in administrative costs and stream-lining services through institutional integration with social assistance, as well as through outsourcing job mediation to private providers. It is not yet possible to assess the effect of these changes. What appears to be a problem, however, is employment offices' staffing capacity for individual work with the unemployed. The 2012 draft of the state budget is counting on staff cuts in Employment Offices, which has been the subject of criticism from the trade unions (ČMKOS 2011). The part F 01 mentions 6,565 employees of the employment offices, while the official systemisation of job positions involves, for the time being, 8,093 job positions (see the 2012 draft state budget). The draft discusses cost savings of CZK 400 million and staff cuts of 1,953 people.

Similarly, the Public Defender of Rights (Veřejný 2012b) criticised the insufficient number of staff handling the social assistance agenda following the transfer of the

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<sup>19</sup> It is a theoretical possibility to better coordinate activities in both fields: employment policy and social assistance.

agenda from municipalities with extended competence to Employment Offices in January 2012. The transfer involved staff cuts of more than 60% in comparison with 2011, resulting in problems with managing the delivery of benefits.

The vice-president of the Association of Personnel Services Providers publicly voiced doubts about the possibility of private providers effectively mediating employment for vulnerable groups in the labour market under the measure 'shared employment mediation' (Mladá Fronta 2012a).<sup>20</sup> However, no *ex-ante* evaluation is available.

Starting in 2012, employment support for disabled people has been further reduced: the institution of 'sheltered workshops' has been abandoned, as will the status of 'person with disability' as of 2014. The contribution towards operating costs of sheltered workplaces (previously workshops) has been reduced to CZK 48,000 a year (previously three times the average wage, which is about 25% higher). The contribution for employers with 50% or more of the workforce disabled has been reduced from 100% to 75% of the operational costs, with a limit of CZK 6,000 a month (a quarter of the average wage; 25% below the minimum wage).

### 2.1.2 Assessment of the measures taken since 2008

#### *Increased investment in human capital*

The Czech Republic is among the countries with lower rates of spending on education. The situation will be further aggravated by the austerity measures in public finances: in 2011, the state budget allocation to the Ministry of Education, Youth and Sports was CZK 127.1 billion in absolute terms, which is below the level in 2009 (CZK 134.6 billion). It was raised to CZK 137.9 billion for the year 2012, but the new measures involve a reduction to CZK 133.4 billion this year and further cuts in the following years: to CZK 117.9 billion in 2013 and CZK 111.7 billion in 2014.<sup>21</sup> The cuts on spending in the field of active employment policy, where the Czech Republic is also among the countries with the lowest spending-to-GDP ratio, have already been described above. These circumstances complicate the development of lifelong learning, as well as the inclusive education of children. These areas are essentially being developed owing to projects funded by European Structural Funds (ESF) only. As a result, the National Qualification Framework has brought into play new possibilities concerning, for example, the recognition of informal education in the field of lifelong learning (certification of job skills and experience), but has not so far facilitated practical implementation of new programmes for lifelong learning. Similarly, legislative steps in the field of inclusive education have been taken to eliminate the segregation of children from disadvantaged backgrounds (these are especially children of Roma ethnic origin from excluded communities) from the mainstream; however, the normative directions and other set conditions act to impede the development of the recommended system – one that would provide children with personalised support within the mainstream, according to their educational needs. In the spring of 2012, the Office of the Public Defender of Rights carried out a survey at schools with a curriculum based on framework education programmes for children with mild mental disabilities. It proved that around one-third of the pupils in classes where instruction is based on this programme are Roma children, who account for about 3% of the child population. The Office of the Public Defender of Rights views this as a consequence of

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<sup>20</sup> The remuneration is CZK 5,000 per person under the condition that 60% of the clients obtain at least a temporary contract, plus remuneration for each permanent contract (CZK 1,250) and a further bonus if the placement lasts longer than 6 months (CZK 500). From the perspective of private providers, such remuneration seems low and difficult to achieve considering the difficulties in finding job placements for these applicants in the open labour market.

<sup>21</sup> Data from the Ministry of Finance of the Czech Republic (see [www.mfcr.cz](http://www.mfcr.cz)), State Budget Acts from 2009-2012.

the persistent nature – in spite of the formal legislative steps taken – of a system that perpetuates the segregation of these children from mainstream education (Veřejný 2012c).

#### *Development of active and preventive labour market measures*

As we have shown above, active measures, and requalifications in particular, are generally being curtailed, except for the intention of expanding the scope of public services, which are to become an important alternative to active employment policy measures. Considering the insufficient number of staff of public employment services, it is difficult to carry out individual counselling and offer 'tailor-made services'. The question is to what extent these problems can be offset by the new instruments, such as shared employment mediation, given the limited total of available resources.

#### *Continuous review of incentives and disincentives resulting from tax and benefit systems*

The question of incentives has always received a great deal of attention. We have already shown a number of adjustments within the tax and benefit systems, which improved both the tax limit rates and the activity-related conditionality of benefits. The following have played decisive roles: high tax credits from 2008, the introduction of the institute of public service from 2009, the modification of public service from 2012, and finally and most importantly, the series of social benefit reductions in combination with the freeze on the indexation of the living minimum. On the other hand, this resulted in the increasing inadequacy of minimum income support.

#### *Support for the social economy and sheltered employment*

From 2012, the possibilities for supporting sheltered employment have been legislatively restricted, both for the present and the future (see above). However, the year 2011 saw a substantial expansion in the scope of support for the operation of sheltered workshops and workplaces (see Table 5), which indicates a growing need for these measures. In the Czech Republic, measures in the field of social economy are represented primarily by sheltered employment for disabled people (Czech legislation does not recognise the institution of 'social economy'). The ESF projects in the area of employment do, however, provide support in the field of social economy. To date, 45 Social Businesses, which are typical beneficiaries of this support, have been established in the country (see <http://www.socialni-ekonomika.cz/cs/seznam-socialnich-podnik.html>). The MLSA opened two calls for proposals in 2009 focusing on investment and non-investment support for social economy, which will not be closed until November 2012: Call No. 1 in the intervention area 3.1 of the Integrated Operational Programme (IOP) – Investment support for social economy (CZK 384 million) and Call No. 30 in intervention area 3.1 of the Operational Programme Human Resources and Employment (OP HRE) focusing on covering non-investment expenditure (CZK 249 million). Both the Calls correspond to CZK 0.62 billion for the period of about 3 years (i.e. CZK 0.2 billion per year), which would appear as a rather limited amount considering the number of unemployed from groups at risk of social exclusion.

#### *Efforts to increase access to employment*

Generally, the extent of job support is relatively limited. Between 2008 and 2010, it gradually increased (yet disproportionately to the impact of the crisis). In 2011, while

the extent of job support in the public sector was reduced only moderately, the private sector saw a radical reduction in job support – by almost a half. No increase is expected in 2012 (see the budget).

### *Efforts to tackle labour market segmentation and to ensure quality jobs*

Concerns about labour market segmentation and the quality of jobs fall outside the attention of policy in the labour market. It can be said that segmentation tends to deepen (see the growing long-term unemployment and the differences in specific unemployment rates among certain categories of the unemployed and among regions). This is also linked to the strategy based on a shift away from active policy measures to public services, on reducing job creation subsidies and on a freeze of the minimum wage and reducing requalification programmes (see above). One positive change is the introduction of mandatory social insurance for agency workers.

To summarize, the changes in active inclusion affected those who can work more strongly (less support in access to labour market): in particular, due to the limited scope of ALMP measures, but they also affected those who cannot work (the handicapped or parents with small children), since even those last-mentioned are facing fewer opportunities in return or gaining less access to the labour market.

## **2.3 Access to quality services**

### **2.3.1 Description of the measures taken since 2008**

#### *Social assistance, employment and training services*

Employment and training services are discussed in the previous chapter. No major changes took place with regards to social assistance services, such as crisis intervention or emergency shelters. However, the years 2008 to 2011 saw an increase in the number of clients of these services: from 2,121 to 2,567 in the case of protected housing; from 3,537 to 5,124 in the case of asylum homes; from 793 to 1,164 in the case of homeless shelters; but a slight decrease from 1,162 to 1,081 in the case of centres for social rehabilitation services (MPSV 2009, 2011d, 2012h). However, not even this could accommodate the increased need indicated by the number of unsuccessful clients, which rose from 2,548 to 4,766 in the case of emergency shelters; from 977 to 2,850 in the case of night shelters and hostels; and from 632 to 2,564 in the case of centres for social rehabilitation services. Only in the case of sheltered housing was there a decrease from 3,669 to 2,053. In 2009, the Agency for Social Inclusion in Excluded Localities was established to develop work in socially excluded communities (populated predominantly by the Roma). Nevertheless, assessing its influence remains ambivalent (Sirovátka 2011): there are the problems of limited authority, resources and coverage (the Agency only operates in a small number out of the 330 excluded communities).

#### *Housing support and social housing*

The social housing deficit is pressing. At present, housing support relies on two key instruments: the housing allowance (income tested benefit) and the housing supplement (income and means tested benefit). In the past, the Czech Republic established two programmes to support the construction of social housing: 'supported housing units' (intended for disabled and elderly people) and housing for people on a low income (allowance per housing unit exceeds CZK 0.5 million). However, these programmes were downsized after 2007: the resources allocated for 'supported housing units' were reduced from CZK 425 million in 2007 to CZK 118.5 million in 2008 and remained at the level of CZK 124 million in 2011 (which corresponds to

around 200 units). There was a proposal to raise the support to CZK 300 million in 2012. The housing support for people living on a low income did rise to CZK 1,094 million in 2007, but was reduced to CZK 597 million in 2008 and has been practically eliminated since 2009 (MMR 2012a:21).

In June 2011, the Czech government approved the 'Housing Strategy 2020' where it comprehensively set the objective of specifying the conditions governing the support for and provision of social housing in connection with the institution of the 'housing shortage'. It also laid down the objective of specifying the forms of housing support for groups at risk of social exclusion and living on low income (with deadlines in 2012). It set the objective of making better use than to date of the resources from European funds to support housing – the revolving principle (MMR 2011).

### *Childcare*

The need for childcare facilities has been on the increase in recent years. The number of places in day nurseries (for children aged 0-3 years) has been consistently negligible (i.e. slightly exceeding 1,000 places), mostly in big cities. Even the availability of places in kindergartens for children aged 3-6 years (sometimes even children aged 2 years can be admitted) has decreased: in 2008/2009, 20,000 children were rejected, in 2010/2011 it was 39,500 children and in 2011/2012 it was 49,000 children (Ústav pro informace ve vzdělávání <http://www.uiv.cz/clanek/445/1803>).<sup>22</sup>

Since 2008, the governments have been declaring support for alternative childcare arrangements in the form of tax reliefs for childcare facilities run by employers, and through encouraging licensed child-minding (atin 'mini-nurseries') and neighbourly help in childcare. The preparations in that direction are underway: the draft Act on Child Group was accepted by the government in August 2012 (MPSV 2012i, Mladá fronta DNES 2012b).<sup>23</sup> Generally, progress is rather slow in this field, even though the need has been building and the proposed measures seem to be of benefit with respect to extending the variety of choice. However, they are not firm enough as the level of support is modest and no substantial capacity increase is expected in the near future.

### *Long-term care services and health services*

In the Czech Republic, long-term care services and health services are guaranteed on the basis of public insurance and are universally available. Under the framework of the comprehensive reform package of the new government, regulatory charges for health care were introduced as of 2008, including a charge per appointment with a doctor,

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22 Each year, about one hundred thousand new children are accepted into kindergarten (the author's own estimate, official data is not available).

23 Information was supplemented after the date of delivery of the report based on MPSV 2012i and information from MPSV/MLSA.

The draft introduces a new type of childcare services. The mixed-age group of children from 6 months to mandatory school age are divided up into three sizes of Child Group: -- Small (max. 6 children + 1 carer); -- Middle (7-12 children + 2 carers); -- Large (13-24 children + 2 carers/3 carers if it concerns small children). The carer's professional qualification to look after children, a simple general education and training policy, the obligation of the liability insurance, less strict but adequate sanitary, operational and dimensional requirements for Small and Middle Group etc. are defined. Pro-family tax measures are also included concerning the childcare and supporting working parents and pro-family employers. An income tax relief will be introduced for parents-employees to take up childcare and to meet labour market entry and re-entry. An articulated version of the Act is to be submitted to the Government by 31 March 2013. Moreover, measures have been taken in order to support childcare under the trade licence business: "Securing childcare for children up to 3 years of age" by the extending of expertise (qualification) of entrepreneurs and carers (Amendment to Trade Act in 2012) as follows: - Educational qualification; or - Qualification of childcare provider for children up to the compulsory school age.



per prescribed medication, and per stay in hospital. In 2009, the charges were adjusted: children were made exempt from payment for an appointment with a doctor or dentist; the annual ceiling for payments was reduced from CZK 5,000 to 2,500 in the case of children and elderly people over 65 years of age; and the counting of patient co-payments for reimbursable medication towards this ceiling was introduced. People in institutions and elderly people in retirement homes are charged for their stay, but only as long as they still have at least CZK 800 per month left. In accordance with adaptations made in 2011, the charges per stay in hospital were raised (from CZK 60 to 100 a day), as were the charges per appointment with a doctor (from CZK 30 to 50) and per appointment with a specialist without a referral from a general practitioner (from CZK 60 to 200).

The field of long-term care is facing the problem of persistently poor levels of availability and quality. The problem arises from the separation of funding and organisation of health care from social care, leading to unnecessary hospitalisation of people who do not receive the social care they need. This also leads to other people not receiving long-term care at all. The government's intention is to convert acute care beds into so-called 'follow-up care beds' (by means of reallocating financial resources among healthcare facilities) and to encourage follow-up home care schemes. This presumes a coordinated assessment of the clients' health and social needs (MLSA 2012f).

The field of services for elderly and (mentally) disabled people witnessed stagnation in the years 2008-2011 in terms of the population served (the number of clients), whereas the need (indicated by the number of unsuccessful claimants) was on the rise. This is obviously related to both the facilities' capacities and financial resources being fixed at the level of previous years, but under conditions of growing demand for the services. In specific terms, the number of clients in retirement homes slightly increased from 36,166 to 36,523; the number of those in homes for disabled people dropped from 14,765 to 14,124 between 2008 and 2011. The number of clients in 'special regime homes' increased from 7,016 to 9,415 people. On the other hand, a marked increase can be observed in the number of unsuccessful claimants: from 52,953 to 58,490 in the case of retirement homes, from 2,873 to 3,241 in the case of homes for disabled people and from 7,874 to 13,713 in the case of special regime homes (MLSA 2009, 2011d, 2012h).

### **2.3.2 Assessment of the measures taken since 2008**

#### *Availability and accessibility of services*

Throughout the crisis (as of 2009), uncertainties concerning the continuity of service provision increased. It is precisely in the field of social services, which are largely delivered by non-governmental organisations, that the draft budgets repeatedly proposed cuts in funding. This having been subject to objections on the part of stakeholders (service providers and municipalities), the initial budget level was essentially sustained. Nevertheless, considering the growing needs, service availability has gradually been diminishing. The situation is similar in the area of pre-school childcare facilities. The construction of housing for low-income groups has been reduced to a minimum, despite the urgent need for such housing. The field of long-term care also requires immediate action. The employment services – in spite of their apparent effectiveness – do not dispose of sufficient capacity to deliver intensive individual counselling services.

#### *Inclusive services (solidarity, equal opportunities for users, due account for diversity)*

As the gap between service capacities and clients' needs widens, the availability of services is becoming increasingly limited for certain groups of users. As regards

employment services, this applies particularly to the hardest to place long-term unemployed people. Another problematic area is the availability of pre-school childcare facilities in small municipalities (facilities for children under 3 years old are largely unavailable) and socially excluded communities where only a smaller proportion of children attend kindergarten (Sirovátka 2011). In general terms, the financial accessibility of pre-school facilities (for children under 3 years old in particular) has become more limited since January 2012, as a result of the increase in VAT and the subsequent rise in fees. The rising fees in health care also impede the financial accessibility of health care for population groups living on the lowest incomes.

### *Quality of services*

The MLSA puts emphasis on enhancing the quality of social services. Since January 2007, the Standards of Quality of Social Services have constituted a binding legislative provision (the criteria of the Standards are contained in Annex II to Decree of the MLSA No. 505/2006 Coll., implementing some provisions of Act No. 108/2006 Coll., on social services). The control of the Standards lies with the MLSA (which has a network of about 120 external and professionally trained inspectors of the quality of social services at its disposal). The MLSA also provides methodological guidance (among other things, service providers have access to Methodological Guides on the Standards of Quality). With the use of ESF, sixty 'mentors in the standards of quality' were trained (a training course focusing on the practical application of the standards, comprising 120 hours of tuition). Organisations providing social services use the funding for training their staff in the provision of social services.

The quality services in the field of childcare is ensured by applicable sanitary standards and qualification requirements imposed on service providers. The Draft Act on Child Group sets standards on hygiene requirements for spatial and operational conditions in the areas in which the service will be provided. Increasing the number of children in the child group means increasing hygiene requirements. For more than 12 children in a child group, the same hygiene requirements are set as for kindergartens. The Draft Act on Child Group also sets qualification requirements for carers in a child group. As for childcare under a trade licence business, hygiene requirements are the same as for kindergartens. Qualification requirements are also set for childcare under a trade licence business and they are the same as for carers in a child group.<sup>24</sup>

The quality of health care has traditionally been high. Recent measures by the Ministry of Health (taken mostly in 2011-2012) aim to regulate quality by reinforcing the patients' right to information and free choice of doctor.

### *Integrated services (comprehensive, coordinated services)*

The coordination of certain kinds of services (long-term care services and social services) continues to be a problem. The planning of the availability and coordination of services makes use of the community planning method. Act No. 108/2006 Coll. on social services obliges regional authorities to prepare medium-term plans for the development of social services in partnership with municipalities throughout the region and, in the same sense, giving municipalities the option of preparing the medium-term plan for the development of social services in cooperation with regional authorities and other parties. The MLSA of the Czech Republic is developing the National Plan for Development of Social Services. The conducted analysis (Ondrušová et al. 2011)

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<sup>24</sup> Information on Draft Act provided by the MLSA (information supplemented after the date of delivery of the report).

confirms that the regional plans show considerable variation in form and quality. The planning and coordination of social services is to be improved through the project Support of Processes in Social Services, which is being carried out by the MLSA in the years 2010 – 2014, with support from ESF funding.

#### *User involvement (and personalised approach)*

It is the MLSA's long-term strategy to strengthen user involvement and the personalised approach by promoting the provision of care and services in private homes and by enhancing the users' discretion over service providers (The Social Services Act introduced care benefits paid to beneficiaries for the purpose of purchasing care services).

#### *Effective monitoring and performance evaluation*

In the area of monitoring and evaluation of active inclusion we have observed certain progress in recent years. The monitoring and performance evaluation is conducted on a continuous basis by the providers. Although monitoring and evaluation of public programmes are not common practice in the Czech Republic, the Ministry of Labour and Social Affairs has, in the long-term, been outsourcing and drawing on research studies on a variety of aspects of social services (for a number of these studies, see the website of the Research Institute for Labour and Social Affairs, [www.vupsv.cz](http://www.vupsv.cz)). The community planning process involves the regular evaluation of existing activities in the field of services (analysis of needs). The project Support of Processes in Social Services brings specific evaluation studies (see above, Ondrušová et al. 2011: Analysis of medium-term plans for development of social services). It appears to be desirable for the future to sustain and, even more so, to enhance the practice of monitoring and performance evaluation.

To summarize, the changes in social services rather brought stagnation, sometimes moderate improvement and at times a reduction of their scope, although increasing needs and demand in most areas. The impacts are similar for both those who can work as well as for those who cannot work.

## **3. Financial resources**

### **3.1 National resources**

The overall expenditure (VÚPSV 2012) on the social and health system in the Czech Republic is below the EU average. Between the years 2008 and 2009, it rose from 19% of GDP to 21% of GDP (not so much as a result of the resources being increased, but because of a decline in GDP by nearly 5%). Health spending and pension spending as a share of GDP increased by one percentage point each while the levels in other sectors did not change; thus, in actual fact, they declined as a result of the austerity measures. Aside from the benefit schemes (expenditure in this sector is discussed in the first section above), another area of key importance for social inclusion is that of active employment policy, as well as that of social services. As regards the active employment policy, the national expenditure gradually decreased from CZK 3.45 billion in 2008 to CZK 1.66 billion in 2011 (i.e. by more than 50%, with a simultaneous steep increase in unemployment rates). Most importantly, the level of funding received from the EU also decreased in 2011 (see the previous section).

As for the field of social services, with the help of European funding, it has so far been possible to maintain spending roughly at the level of the years 2007-2008 or even exceed this level, notwithstanding the fact that the amount of state expenditure has

slightly decreased (from CZK 7.4 billion in 2009 to CZK 6.3 and 6.4 billion in the years 2011 and 2012, respectively). This is in spite of the fact that the government, being aware of the growing need in this area, often chooses to balance the budget using reserve funds or money from European funds during the year. Thus, while in the years 2008 and 2009, expenditure on social services totalled CZK 8.8 and 8.9 billion, respectively, in 2010 it came to CZK 10.1 billion (with the budget being CZK 8 billion only)<sup>25</sup>. In 2012, spending is estimated at CZK 8.1 billion, of which CZK 6.4 billion is accounted for by increased state funding and CZK 1.7 billion by funding from EU funds (MPSV 2012g), while the initial budget proposal was CZK 7.26 billion. In addition, another CZK 18.2 billion was paid in the form of care benefits directly to users for the purpose of purchasing care services in 2008. In 2010, the sum came to CZK 19.6 billion, and in 2011 (after the benefit had been decreased to 40% of its original level in the case of people with the lowest, first-degree disability) to CZK 18.1 billion (see Table 1a, previous section).

On the whole, the field of active employment policy, in particular, may be assessed as heavily underfinanced. As regards social services, it is not possible to guarantee that the increasing need in this field is met within the resources available. The support of housing (namely, construction of social housing) is limited for the time being. Similarly, the support of preschool childcare facilities for children under the age of 3 years is also negligible.

### 3.2 Use of EU Structural Funds

Between the years 2007-2013, the Czech Republic can draw funding from the European Social Fund through three of its operational programmes, as well as from other structural funds. The allocation from the ESF is EUR 3.8 billion in this period. Together with co-financing through the state budget, the total funding could reach EUR 4.4 billion, which is approximately CZK 124.2 billion. With regard to social inclusion, the most relevant is the Operational Programme Human Resources and Employment (OP HRE), focusing primarily on the reduction of unemployment by means of active labour market policy and professional training, and also on the inclusion of socially excluded people back into mainstream society. The total allocation for OP HRE from the EU funds is EUR 1.84 billion, which amounts to approximately 6.8% of the total EU funding intended for the Czech Republic. In addition, the programme budget is to be increased by another EUR 0.32 billion from Czech public sources. A total of EUR 2.1 billion (i.e. about CZK 50 billion) is thus available and can be drawn upon until the end of 2015 (see [www.esfr.cz](http://www.esfr.cz)).

By April 2012, projects of a total amount of CZK 1.2 billion were completed; another set of projects in the amount of CZK 44.5 billion were being implemented or contracted and projects corresponding to CZK 4.2 billion were being approved (MMR 2012b). This is a huge financial resource. In the last three years, for example, it has by far surpassed national co-funding (representing about CZK 2.2 to 4.2 billion per year), within the balance of expenditure on active employment policy. Approximately CZK 2 billion per year are used to co-finance social services, and OP HRE provides supplementary funding for other fields as well, such as education, including inclusive education, housing support and infrastructure.<sup>26</sup>

The specific priority axes of the OP HRE are as follows: *Adaptability* (EUR 525.4 million, i.e. 28.6% of the OP HRE), which includes further professional education

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<sup>25</sup> See the 2011 State Budget Act [http://www.mfcr.cz/cps/rde/xchg/mfcr/xsl/zakon\\_o\\_sr.html](http://www.mfcr.cz/cps/rde/xchg/mfcr/xsl/zakon_o_sr.html), and the Draft Act on the State Budget for 2012 [http://www.mfcr.cz/cps/rde/xchg/mfcr/xsl/vf\\_sr\\_vladni\\_navrh\\_zakona.html](http://www.mfcr.cz/cps/rde/xchg/mfcr/xsl/vf_sr_vladni_navrh_zakona.html)

<sup>26</sup> It must be noted that yet another programme is available in the field of education – Education for Competitiveness.

supported by employers and the creation of new training programmes for employees; *Active Labour Market Policy* (EUR 605.8 million, i.e. 33.0% of the OP HRE) focusing particularly on the integration of job applicants at the risk of social exclusion; *Social Integration and Equal Opportunities* (EUR 398.6 million, i.e. 21.7% of the OP HRE), that is, support for social integration and social services, support for social integration of Roma communities, integration of socially excluded groups in the labour market, equal opportunities of women and men in the labour market, reconciling work and family life and other areas of support. For example, the Agency for Social Inclusion in Excluded Localities has been implementing an extensive individual project (between January 1, 2010, and December 12, 2012) focusing on the support of social inclusion in selected Roma localities (32 localities). The project is designed as a tool for the verification of all potential arrangements at both the local and central level in the area of social inclusion. It aims to develop the methodology for the state's policy of social inclusion in Roma localities. Further funding for the field of active inclusion (among other places also in the aforementioned excluded localities) is received from other funds, for example, the Integrated Operational Programme (IOP), supporting improvement of the environment in problem suburbs, and the prevention of social decline, segregation and the formation of suburban ghettos of excluded people (on the basis of the criteria laid down in Article 47 of Commission Regulation (EC) No 1828/2006), particularly through the revitalisation of public spaces in selected problem suburbs and through the renovation and modernisation of buildings. On the whole, these are substantial sources of funding invested in suitably selected priority areas.

### 3.3 Monitoring and evaluation

Recent years have seen some positive developments in the area of monitoring and evaluation of active inclusion. The Ministry of Labour and Social Affairs has for a long time been monitoring various areas of social policy, including active inclusion, and these efforts are becoming ever more systematic, both in terms of statistical reporting and analytical efforts. The Ministry regularly publishes statistical reports on the levels of income, social benefits, social services, the labour market and active employment policy, as well as thematic analyses of developments in the sphere of income, the labour market, active employment policy, and social services (available on the MLSA website). In addition, the Ministry outsources thematic research studies on various aspects of active inclusion and related topics (specific target groups and problem issues), particularly from the Research Institute for Labour and Social Affairs (RILSA) and other research institutions such as the Institute of Sociology of the Academy of Sciences and universities. In connection with the need to evaluate specific problem fields or programmes (such as, for example, the situation concerning Roma integration), evaluation reports assessing the progress made are regularly submitted to the government.

Measures financed from the European structural funds involve, on the one hand, monitoring at the level of individual projects and, on the other, summary monitoring reports for individual programmes. Summary evaluation studies of the projects and programmes are not a general rule, but partial evaluation reports on specific programmes are sometimes prepared, for example, in the area of active employment policy and social services. Finally, under the framework of the ESF programmes, specific projects are supported which contain monitoring and evaluation as an integral part of their activities. One example is the project Support of Processes in Social Services which, on the one hand, develops indicators for examining social phenomena associated with social threats or social exclusion and, on the other, conducts evaluations at various levels (see above for an example of an evaluation study of medium-term regional plans for the development of social services).

It is also parties such as non-governmental organisations working with the target groups that increasingly more often take part in monitoring and evaluation, owing to the ESF projects in particular. An important recent project was the NAPSI Spolu/Together project, coordinated by the Roma non-governmental organisation IQ Roma Servis: the project involved the evaluation of the National Action Plan for Social Inclusion (NAPSI).

An 'umbrella' role in the monitoring of developments in active inclusion is being assumed by the National Reform Programme (NRP) and the National Strategic Reference Framework (NSRF) since these documents work with specific and quantified objectives and, at the same time, serve as a reference tool for various conceptions and programmes that concern social exclusion. In designing the NRP, NSRF and the Long-term Vision by the MLSA for Social Inclusion, the Ministry seeks to improve the standards of monitoring: among other things, it cooperates with RILSA on the project of national indicators to measure progress in social inclusion.

One main challenge to be tackled in the nearest future is the integration and coordination of monitoring and evaluation activities concerning active inclusion/social inclusion in such a way that the outcomes might be effectively utilised in developing an active inclusion strategy, and also in further expanding and better targeting monitoring and evaluation.

## 4. Recommendations

### ***Priority actions to strengthen the integrated comprehensive active inclusion strategy:***

1. The strategic materials, such as the Strategy of Social Inclusion for 2011-2015 and the National Reform Programme (in the field of social inclusion) should be implemented more consistently: a) elaborated into specific actions with set deadlines tied to operational goals b) backed by the necessary financial resources c) with due monitoring of implementation progress.
2. A suitable balance should be achieved among the three strands of active inclusion, with more emphasis on active employment policy and human resources development in the field of labour market inclusion, as well as on the adequacy of income and access to quality services.
3. More attention should be devoted to the issues of *governance* (i.e. the *interconnectivity among* individual departments, levels of management and participation of all stakeholders in the active inclusion strategy).

### ***Priority actions to strengthen policies/measures under each of the three strands of active inclusion:***

#### *Inclusive labour markets*

1. The scope of active employment policy should be extended and backed by increased resources, both national and from the European funds. These should be used a) to enhance the counselling capacities of public employment services required for individual work b) to expand the scope of measures suitable for unemployed people facing multiple barriers to inclusion in the labour market.
2. The capacities of childcare facilities for children of preschool age (including those for children under the age of three years) should be substantially increased, both in public establishments and in alternative care facilities, including company nurseries.

### *Adequate income support*

1. The legislative commitment should be restored to regular indexation of the living minimum reflecting the growth in prices (possibly also wages). The time limit imposed on the provision of benefits towards the costs of housing should be removed. Instead, individual social work and social housing possibilities should be developed in order to stimulate the adoption of housing corresponding to the family situation. .
2. Increased social assistance payments should be reconsidered which would reward participation in community service.

### *Access to quality services*

1. The concept of social housing should urgently be specified and the volume of construction of social housing should be radically increased, with the use of national resources and the European funds.
2. Suitable conditions should be created for taking actions towards the inclusion of children from socially excluded localities back into mainstream society, both in preschool facilities and at primary and secondary schools.

### ***Actions that could be taken at the EU level to reinforce the implementation of the active inclusion recommendation***

1. The use of EU funds should be more consistently tied to active inclusion measures and the allocation from the structural funds should be altered in favour of active inclusion.
2. In this context, the monitoring of quality, further developments and implementation of strategic documents concerning active inclusion should be advanced.

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Ministry for Local Development

<http://www.mmr.cz/>

National institute for professional education

<http://www.nuov.cz/>

Institute for information on education

<http://www.uiv.cz/>

Veřejný ochránce práv/Ombudsman

<http://www.ochrance.cz/>

Výzkumný ústav práce a sociálních věcí

<http://www.vupsv.cz/>

## Annex

**Table 1 Persons at-risk-of poverty 2007-2011**

	2007	2008	2009	2010	2011
Persons under at-risk-of-poverty threshold (thousand)	980,0	925,2	884,9	936,4	1, 022,3
At-risk-of poverty rate	9,6	9,0	8,6	9,0	9,8
Sex					
male	8,7	8,0	7,5	8,0	8,9
female	10,5	10,1	9,5	10,0	10,6
Age					
under 17	16,6	13,2	13,3	14,3	15,2
18-64	8,6	8,3	7,6	8,1	9,1
incl. 18-24	12,1	11,6	11,0	11,2	12,7
25-49	9,3	8,3	7,1	8,0	9,1
50-64	5,8	6,8	6,9	6,8	7,4
65 and over	5,5	7,4	7,2	6,8	6,6
Most frequent activity status (persons aged 16+)					
at work, total	3,3	3,6	3,2	3,7	4,0
unemployed	48,6	47,8	46,9	40,6	46,4
retired	6,3	8,0	7,1	6,6	6,7
other inactive	13,1	12,4	13,0	12,9	14,0
Accommodation tenure status					
owner and rent free	6,8	6,8	6,0	6,9	8,0
tenant	19,4	17,3	18,2	18,2	18,3
Type of household					
household without dependent children, total	5,7	6,9	6,4	6,5	7,1
one person household, total	15,9	18,5	19,5	18,0	18,2
incl. male	14,0	14,0	15,1	11,6	13,7
female	17,1	21,4	22,2	22,0	21,2
one person household, aged less than 65 years	18,1	19,1	19,2	17,4	19,0
one person household, aged 65 years and over	13,4	17,8	19,7	18,7	17,2
2 adults, at least one over 65 years or more	2,4	2,7	2,2	1,9	2,7
2 adults, both under 65 years	5,1	6,2	4,9	5,9	7,3
other households without dependent children	1,7	2,5	2,2	2,9	3,1
household with dependent children, total	13,2	11,1	10,5	11,4	12,4
single parent household, one or more dep. children	37,7	40,0	40,3	37,7	35,6
2 adults, one dependent child	6,9	6,4	4,6	7,9	6,8
2 adults, two dependent children	8,1	6,8	7,2	8,7	9,3
2 adults, three or more dependent children	29,9	19,0	23,1	20,9	23,9
other households with one or more dep. children	12,3	9,1	6,5	5,7	9,5

Source: Czech Statistical Office (SILC)

<http://www.czso.cz/csu/2012edicniplan.nsf/engp/3012-12>

## Summary tables

**Table 1**

To what extent has an integrated comprehensive active inclusion strategy been developed in your Member State?												
	Comprehensive policy design			Integrated implementation			Vertical policy coordination			Active participation of relevant actors		
	Yes	Somewhat	No	Yes	Somewhat	No	Yes	Somewhat	No	Yes	Somewhat	No
<b>For those who can work</b>		X			X			X			X	
<b>For those who cannot work</b>		X			X			X			X	

**Table 2**

To what extent have active inclusion policies/measures been strengthened, stayed much the same or weakened since 2008 in your Member State?									
	Adequate income support			Inclusive labour markets			Access to quality services		
	Strengthened	The same	Weakened	Strengthened	The same	Weakened	Strengthened	The same	Weakened
<b>For those who can work</b>			X			X			X
<b>For those who cannot work</b>			X			X			X

