



ESPN Thematic Report on Social Investment Czech Republic

2015

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and Ivan Malý
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ESPN Thematic Report on Social Investment

Czech Republic

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Directorate-General for Employment, Social Affairs and Inclusion

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Summary

The concept of a social investment approach is used neither in Czech public and policy discourse, nor in any of the numerous strategic documents by the Government. Since 2007, the Czech centre-right Governments have prioritised balancing public finances. The new centre-left Government coalition established in February 2014 was also limited by the already accepted Government bill for 2014. The new Government has, however, signalled a change in approach concerning some areas of social policy that are directly linked to social investment, although it is still strongly committed to keeping public deficit below 3%. The prioritised areas include active labour market policies (ALMPs), early child education and care (ECEC), social housing and others.

The Act on Child Group was finally approved by the new Parliament in June 2014. Under this Act, any legal subject can provide childcare for groups of up to 24 children (who are at least 1 year old) in any facility meeting certain technical and hygienic standards (see Act 247/2014 Coll.) or even in a home setting. In the case of children of 3 years and older, certain professional standards are also required. The fees charged to parents cannot exceed the real costs. The expenditure on company pre-school facilities has been made tax-deductible, and tax relief has been granted to parents who use the services of children's groups.

Under the central-right Governments there were a series of cuts in family-related benefits. This effect was counterbalanced by the considerably increased tax deductions for tax payers and their dependent family members. The new Government, established in 2014, adopted minor improvements concerning eligibility and generosity concerning birth grants and tax deduction for the second child and subsequent children.

During the crisis, some restrictive measures were introduced in the UB scheme. Due to the strict eligibility criteria concerning unemployment benefits and the relatively large proportion of long-term unemployed, the coverage has consistently been low. The minimum income scheme is based on a general minimum income guarantee. The generosity is slightly above average compared to the OECD standards, while also establishing some work incentives. A new proposal is currently being prepared aiming to improve positive work incentives within the Public Service scheme.

In the Czech Republic expenditure and participants in ALMPs have been traditionally low. Data show that, between 2010 and 2012, the ALMPs were reduced by half in terms of the numbers of participants and dropped to one fourth in terms of expenditure. There was however a partial reversal in 2013 and the number of participants in ALMPs reached the 2010 levels in 2014. In particular, job creation measures are on the increase, including on-the-job experience for the youth. New initiatives by the Government include, among other measures, the Youth Guarantee Scheme.

A significant improvement has been made in terms of access to 'balneal' (thermal) care, both for adults and children. The Government passed a draft law that allows longer thermal and spa treatment under public health insurance, extended from 21 to 28 days. Repeated treatments are now also allowed. Children are allowed to extend the treatment without limit, according to a physician's recommendation. The current Government has abolished the so called regulatory fees for a medical appointment and for medical prescriptions as of 2015. The only fee that remains is an emergency care charge.

The social housing programme is currently behind what is needed. The Ministry of Labour and Social Affairs (MPSV/MLSA) started the preparation of the new Act on Social Housing in May 2014. The draft Act is expected in the second quarter of 2016 with possible implementation from 2017.

Altogether, during 2014, signs of an increasing emphasis on social investments were visible. Until now, however, only slight changes in policy effort and investments have been observed. However, in ECEC, social housing, ALMPs, family support and

healthcare more social investments are expected due to the adopted or planned measures.

The recommendations emerging from the assessment are as follows: it is needed to increase, substantially and promptly, the capacity of public ECEC, while strengthening the inclusiveness of ECEC with respect to Roma children; it is needed to continue improve the scope, accessibility and quality of public employment services and active labour market policies with a focus on sufficient personnel capacity for case work; increased support for social housing would also be beneficial.

1 Assessment of overall approach to social investment

Since 2007, the Czech centre-right Governments have prioritised balancing public finances. This effort intensified after the impact of the crisis in 2009-2010, when the Government deficit increased to 4.9% (2009) and 4% of GDP (2010), and after the re-election of the centre-right Government in 2010. Thus the commitment to social investments was minimal in the period 2007-2013. The cuts in public expenditures did not impact as much on mandatory measures (benefits) as they did on social investment. The caretaker Government, in power between October 2013 and February 2014, did not change this since it was bound by the accepted Government bill, as well as restricted by the short-term nature of their mission. Similarly, the new centre-left Government coalition established in February 2014 was also limited by the already accepted Government bill for 2014.

The concept of a social investment approach is used neither in Czech public and policy discourse, nor in any of the numerous strategic documents by the Government. The new Government has, however, signalled a change in approach concerning some areas of social policy that are directly linked to social investment, although it is still strongly committed to keeping public deficit below 3%. These prioritised areas include active labour market policies (ALMPs), early childhood education and care (ECEC), social housing, and social inclusion measures in excluded (Roma) localities. Among the new priorities of the Government are the following: job creation with an emphasis on disadvantaged groups and problem regions, and effective help to people living in material need. Furthermore, the commitment has been made to develop quality and universally accessible public services in education, healthcare, welfare, transport and security, and to provide support for education, science, culture and sports (Programové/Government 2014).

As regards specific departmental tasks, the Government promised to provide sufficient funding to social services and to develop active labour policy with an emphasis on vulnerable groups such as women with small children, young people (below 30 years), low-skilled workers, older workers and people with disabilities. Further, it promised to provide systemic support for pre-school education with the help of EU funds and a new national fund, resources will be available to municipalities to secure sufficient places in kindergartens and primary schools. The last year of pre-school education will be made compulsory.

Within the field of social inclusion and poverty alleviation it has been promised that social field work in excluded localities will be strengthened, an Act on social housing will be prepared, and social flats built with the help of EU funds (Programové/Government 2014). Considering the fiscal consolidation targets, there are, however, serious limitations to achieving these commitments, as these would require substantial increases in specific public expenditure items, while recent years have seen a decline in these expenditures.

The weak implementation of the social investment approach is not, however, too harmful, in the short term, for the country's performance in terms of figures on social exclusion and poverty risks and unemployment. Nevertheless, the obvious challenges are concentration of social exclusion and labour market marginalisation within rather narrow groups of the population, a strong mechanism of intergenerational transmission of social exclusion in these groups, and a high child employment penalty. All of these problems may become harmful to economic growth and employment growth, as well as to social inclusion. These challenges were well recognised in the EU Country Specific Recommendations to the National Reform Programme 2013 and 2014.

2 Assessment of specific policy areas and measures/instruments

2.1 Support for early childhood development

2.1.1 Early childhood education and care

The lack of ECEC facilities for children aged 0-3 years was strongly and repeatedly criticised by the Council (2014). According to the EC, the spending on childcare in the Czech Republic was the lowest in the EU (along with Croatia) in 2012 (Bouget et al. (2015), Annex 3, Table A1.1), while the enrolment rate was only 3% (absolutely lowest, see Bouget et al. (2015), Annex 3, Table A 3.1.).¹ There exist 31 such facilities in the country with a total capacity of less than 1,000 children (UZIS 2014).

The situation is better in the case of children from 3 years up to school age of whom 75% participate in pre-school education, which is, however, below the average of the EU (Bouget et al. (2015), Annex 3, Table A3.2). The facilities for children from 3 up to school age are becoming a problem too as each year more than 100,000 new applications for kindergarten are submitted (kindergartens accept children aged 3-5 years and, in theory, also children aged 2 years), while more than 60,000 of the applications were refused in the school year 2013/2014 (MŠMT 2014a). The total capacity isn't growing fast enough. There were 5,085 kindergartens in the school year 2013/2014, 74 more than in the previous year (CSI 2014). MŠMT (2014c: 78-79) also informs that in 2013/2014 there were 49,560 more children in kindergarten than in 2009/10, and 9,228 more children than in 2012/13. However, this represents only a slight increase in the proportion of enrolled children in the corresponding age cohorts between the years 2012/13 and 2013/14: from 26.7% to 30.3% (two-year-olds), from 75.2% to 77.2% (three-year-olds), from 86.9% to 87.4% (four-year-olds), and from 88.2% to 90.4% (five-year-olds).

This challenge particularly concerns Roma children living in excluded localities, of whom only 28% participate in ECEC (FRA and UNDP 2012; also Vláška 2013), the main reason for this being the poor financial and spatial accessibility of ECEC in these areas. In the Czech Republic, parents have to pay enrolment fees (except for their children in the last year before primary school), and also meals have to be paid for.² The fees in nurseries are considerably higher. Other reasons for the low enrolment of Roma children (under conditions where there is already scarcity of places) include the selection criteria for admission to kindergarten (such as having a permanent address in the municipality and whether the parents are employed) and the insufficient definition of social disadvantage which discriminates against Roma children. This has been criticised by the Ombudsman (Vláška 2013). Besides, no monitoring of children who do not enrol in kindergarten is in place. There is also no community work with parents of these children (Vláška 2014).

In general, financial accessibility of childcare is, on average, better than in the EU. In the case of two-year-old children, childcare cost is 18% of the average wage compared to 23% of the EU average (Bouget et al. (2015), Annex 3, Table B.7). Kindergarten fees (concerning children from 3 years up to school age) are much lower but still a problem for poor families.

¹ However, this figure needs to be corrected. In the opinion of the authors, these data neglect children in the age of 0-3 years enrolled in kindergartens (these are designed for children from 3 years up to school age, but can, under certain conditions, accept children at the age of 2). The reported enrolment rate of Czech children under 3 years in pre-school facilities was about 7% of all children in this age group in 2010 (see UNECE database <http://w3.unece.org/pxweb/dialog/Saveshow.asp?lang=1>). This figure seems to be closer to the reality, as the national statistics indicate: about 33,000 children between 2 and 3 years were enrolled in kindergartens in 2013/2014 (according to school statistics), while the number of children of 0-3 years was 363,000 in 2012 (demographic statistics by the Czech Statistical Office). Similarly, data show that children of 2-3 years actually represent 9% of the total enrolment in kindergartens (CSI, 2014).

² We also have to note that there is a high unemployment rate among Roma, which means that they don't see enrolment in kindergarten as necessary for their children, especially if they have to pay for it.

After long preparations, which had started under the central-right Government from 2010, the Act on children's groups was finally approved by the new Parliament in June 2014. Under this Act, any legal subject can provide childcare in groups of up to 24 children (of at least 1 year of age). In the case of children of 3 years and older certain professional standards are required. The fees charged to parents cannot exceed the real costs. The expenditure on company pre-school facilities has been made tax-deductible, and tax relief has been granted to parents who use the services of children's groups. The maximum tax relief should not exceed the level of one monthly minimum wage per year (about CZK 700 per month, which covers enrolment costs in public kindergartens, but only a minor part of the fees in private facilities or nurseries for children aged 0-2 years). The measure represents an expenditure of about CZK 1.5 billion, with about 300,000 children in pre-school care, aged between 3 to school age, benefiting from the measure. The distributional effect will be more evident in the middle and higher income brackets that use pre-school childcare services more often.³

Pre-school education expenditures represented 10.3% of total expenditures on education in 2013. They increased from CZK 16.9 billion in 2012 to CZK 17.8 billion in 2013. However, expenditures per pupil slightly decreased. The figures for 2014 are not known yet. We can expect similar levels – considering the approved expenditures on regional schools (kindergartens, grammar schools, secondary schools) in the central Government budget, where there was a CZK 1,426 million (1.67%) increase in 2014 compared to 2013 (MŠMT, 2014b). Although total expenditures on education in the 2015 central Government budget decreased (from CZK 137.3 billion in 2014 to CZK 135.9 billion in 2015), regional schools have received CZK 90.1 billion compared to CZK 86.8 billion in the previous year.

In July 2014, the Government announced a new initiative designed to establish a Governmental fund to support new public ECEC facilities. This fund will have CZK 1.5 billion for the period 2014-2021 and CZK 12 billion for the period 2015-2023, funded through EU programmes (MPSV 2014a). No specific measures are expected to improve the placement of Roma children in kindergartens.

The quality of pre-school education is rather good as indicated by the child to staff ratio (children aged 0-3 years), which is 11.6, comparable to Sweden or Germany and much better than in the UK (Bouquet et al. (2015), Annex 3, Table A4). Staff who care for children are required to have a qualification in nursery education. In public kindergartens and other kindergartens providing pre-school education, professional standards in education are required. Some problems of care quality are envisaged due to the softened standards for alternative care (children groups).

The deficient social inclusiveness of ECEC represents a problem that needs attention (see the reasons for low enrolment rates of Roma children discussed above). Several measures were suggested to address the problem including: to increase Roma parents' awareness of the positive impact of attending a kindergarten on children's educational chances, to provide financial incentives to low-income households and free access to ECEC, to support active parenting through assistance and complex community programmes (Vláda 2013) or to increase public investment into ECEC, to support work-family balance by tax and employment policy instruments, to introduce a standardised method for measuring children's abilities, and to support pre-school education of disadvantaged children by means of economic stimuli (Mejstřík et al. 2011). Nevertheless, none of these proposals have been implemented yet. The Government is only planning to make so-called 'preparatory classes' obligatory for children from 2016 and from September 2015 kindergartens should start to establish such classes.⁴ The extent of the problem deserves a more comprehensive action.

³ Own calculations.

⁴ Preparatory classes are considered to be an effective measure for children who are socially disadvantaged. However, between 2012 and 2013, the number of children in such classes dropped from 2,900 to 2,600 (Vláda 2014).

2.1.2 Family benefits (in cash and in kind)

Under the centre-right Governments there were a series of cuts in family-related benefits, as a consequence of which the spending on family benefits per inhabitant dropped from €158.16 to €120.30 between 2008 and 2012, while in the EU it slightly increased on average (Bouget et al. (2015), Annex 3, Table A2). This effect was counterbalanced by the considerably increased tax deductions for tax payers and their dependent family members. According to Večerník (2009) 16% of low earners were exempt from paying income tax in 2008.

The new Government established in 2014 adopted minor improvements concerning eligibility and generosity. Namely, in July 2014, the Parliament decided that the birth grant would be provided also for the second child in the case of families whose income was less than 2.7 times the subsistence minimum, with effect from January 2015 (until the end of 2014, only the first child was entitled and the family income threshold was less than 2.4 times the subsistence minimum). In this case, though, it would amount to only CZK 10,000, while in the case of the first child CZK 13,000 was granted.⁵ This may lead to a threefold increase in the number of entitled households, from 12,000 to about 35,000 (mainly in the 3rd through to the 7th decile bracket), and to an increase in expenditure from about CZK 156 million in 2014 to CZK 411 million in 2015.⁶

Next, the Government decided to increase the tax deduction for the 2nd child by CZK 2,400 (about €8 monthly) and for any subsequent children by CZK 3,600 (about €12 monthly) a year, with effect from 2015. This measure will increase tax expenditure by about CZK 2.2 billion from the current level of CZK 29.4 billion. Since this tax expenditure takes the form of negative income tax, it will be roughly equally distributed across income groups.⁷ However, child benefits have remained intact, income tested, and only families with income less than 2.4 times the subsistence minimum are entitled to these benefits.

Nevertheless, Czech social transfers (excluding pensions) seem to be effective in alleviating poverty (48% effectiveness in 2013, compared to the EU28 average of 35%). Combined with the extremely low pre-transfer poverty risk of 16.6% (easily the lowest in the EU, with the level being 20% and more in other countries and the average being 25.8%) the transfers contribute to the lowest poverty rate in the EU (8.6%).

2.1.3 Parenting services

Apart from family-related benefits, parental leaves and ECEC, foster care is an area guaranteed by the Government (MLSA). In the Czech Republic, high numbers of children live in institutional care. For this reason, the MLSA adopted measures aiming to increase the number of foster families and to improve the support for these families in several respects. The allowance for children in foster care was increased by more than 20% compared to January 2013, and the foster care allowance payable to foster parents was increased as well; in the case of care for one or two children it is about twice as high. In order to guarantee the quality of care, the Ministry provides counselling and educational programmes to foster families, as well as training for social workers in the field of Social and Legal Protection of Children.

The measures have brought improvements in the accessibility of foster care. In December 2013, there were 10,126 people registered as being in receipt of the foster care allowance; at the end of 2012 it was 9,000; in 2011 it was 8,300 people. There were 13,221 children in foster families at the end of 2013, 12,358 children in foster care in 2012, and 10,200 such children in 2010 (MPSV 2014c).

⁵ Up until 2010, the birth grant had amounted to CZK 13,000 and had been provided for each child, irrespective of the family incomes or the number of children in the family.

⁶ Own calculations.

⁷ Own calculations.

The Ministry of Labour and Social Affairs supports the providers of social services, including services for families with children and the youth. In 2013, CZK 44.5 million were provided to low-threshold facilities for children and the youth (of which about CZK 2.9 million went to socially excluded localities), and CZK 25.5 million were given to providers of social activation services for families with children – of which about CZK 8.1 million in socially excluded localities (Vláda 2014). The MLSA also supports the network of maternity centres run by an association of NGOs with the amount of about CZK 7.5 million per year.⁸

To sum up, early childhood development is not well facilitated in general, due to the lack of ECEC facilities, for children 0-3 in particular. The inclusiveness of ECEC is deficient, with a negative impact on Roma children. A comprehensive policy action is needed.

2.2 Supporting parents' labour market participation

2.2.1 Childcare

As already described in the section on ECEC, the capacity of childcare facilities, especially for children aged 0-3 years and for children from socially disadvantaged families, is not sufficient. In consequence, there is a high child employment penalty, which is the difference in the employment rate of women aged 20-49 years who have children aged 0-6 years and other women in this age bracket. In 2013, this difference was 40.5 percentage points (data by Eurostat), with women with children 0-6 having an employment rate of only 42.4% compared to 82.9% (for other women in this age bracket).

2.2.2 Long-term care

The final step towards decentralisation of funding in social services in general⁹ is a key change here, at least for non-medical services. Since 1st January 2015, regional Governments have been allocating financial resources to the providers instead of the MLSA. The law newly fixes each region's share of the total transfer from the central Government budget. The change should bring more stability into social services provision, as well as more efficiency, since the regions are trusted to know the local providers as well as local social needs better than the Ministry. The regions had to prepare a set of strategic and methodological documents to be ready to receive these subsidies in 2014. They also have to follow the priorities set by the Ministry. This decentralisation can truly have a positive effect on the transparency and effectiveness of social services expenditures (including long-term care).

The Ministry of Labour and Social Affairs is seeking to facilitate a broad discussion in the first half of 2015, with the aim of defining desirable changes in the funding of social services. The personal allowance for care will be at the centre of this discussion. According to the Ministry, the care allowance should be redefined so that access to good quality care for disabled persons can be improved. Three-quarters of the care allowance are retained by the recipients and not used for purchasing any services (Němec (2014)). There is indeed some potential for improving the efficiency of funding for care through a redesign of the allowance. However, it is now rather difficult to foresee which changes are going to be adopted. Different stakeholders declare different preferences and interests¹⁰. An increase in the highest allowance rate for those most in need is likely (this rate has not been raised since 2007).

However, the intention of the conceptual reforms, which is to facilitate "better co-operation between the healthcare system and social services, reduction of the

⁸ See http://www.materska-centra.cz/download.php?FNAME=1418548724.upl&ANAME=SitMC_vz2013.pdf

⁹ The policy has been set in the Act no. 108/2006 Coll. (§ 95g and §101a).

¹⁰ For instance, the Czech National Disability Council (NRZP) strongly opposes the idea of reducing the allowance in the case of those who do not use it for the purchase of services and keep it for the family (that provides necessary care instead of professional service providers).

administrative burden for providers and improvement of access to long-term care for those who need it”, as mentioned on the website of the Ministry of Health, remains as yet unfulfilled.

Insufficient funding¹¹ is another open important issue for the regions, which estimated the total funding requirement at CZK 10 billion. However, the total amount of the subsidy was CZK 7.4 billion in 2014, and no radical increase is expected (MLSA, 2014b).

2.2.3 Maternal/paternal/parental leave schemes

The Czech Republic provides very long family leaves: the full-rate equivalent of maternity leave if paid at the level of 100% of last earnings is 19.6 weeks, compared to the OECD average of 12.4 weeks, and an additional 39 weeks of parental leave are granted (compared to the OECD average of 14.5 weeks), which is the longest in OECD countries (Bouget et al. (2015), Annex 3, Table B6).

Maternity leave of 28 weeks is provided (in the case of twins and further children it is 37 weeks). Following the 7th week after birth, fathers are entitled to maternity/paternal leave under the condition that they will care for the child for at least 7 days. The amount of maternity/paternity leave benefit is wage related and corresponds to 70% of the daily assessment base. However, there are reduction thresholds: the first reduction threshold roughly corresponds to women’s average wage and 100% of wage below the threshold is considered; the second threshold is about 50% higher and 60% of wage above the threshold is considered; the third threshold is 150% higher and only 30% of wage is considered; no wage above the third threshold is considered.

In 2008, more flexibility was introduced in the parental benefit scheme (which theoretically covers the period until children reach the age of 4) and, in 2012, the scheme was made more flexible. Parents can now use the total benefit amount available (CZK 220,000) during the period of four years, deciding about the monthly amount of the benefit, while respecting the ceiling and the maximum duration of receiving the benefit set at the age of 4 years of their youngest child. Not only mothers but also fathers can receive the benefit. Until their child is 18 months old, the parents can choose among three options: the fast track (CZK 11,400 monthly, until their child is 2 years old), standard track (CZK 7,600, until the child is 3 years old) and slow track (CZK 7,600 until their child is 9 months and then CZK 3,800 until the child is 4 years old). The fast track is 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 (based on social insurance of at least 380 days). The parents can decide about the level of the benefit every 3 months. Until the end of 2011, working parents could place a child older than 3 years in a publicly supported pre-school facility for only 4 hours per day, while a child younger than 3 years could be placed in such a facility for a period of only 5 days per month. Since 2012, there has been no restriction for children older than 2 years, while children younger than 2 years may spend 46 hours per month in a publicly supported facility.

This more flexible parental scheme is beneficial for parents’ labour market participation options. However, the long family leave tends to hamper the labour market participation of women.

To conclude, although the parental leave has been made more flexible, it still represents only a potential contribution to the increase of parents’ participation (women’s participation in particular) in the labour market. The parental leave provides flat-rate benefits for a relatively long time period, especially in the case of parents who did not earn social insurance rights; there is no quota concerning fathers in the scheme. Such a design does not create many incentives for fathers to use their right to parental leave (fathers represent not more than 2% of the parents taking parental

¹¹ Figures are relevant for social services generally, including LTC.

leave). Another even more important reason for the high child employment penalty is the increasing gap between the demand and supply of ECEC facilities (see section 2.1) and insufficient support for part-time work. The design of the parental leave, in combination with the lack of childcare facilities and lack of support for part-time work results in low labour market participation of women with small children. The Czech Republic is only slowly reconsidering the negative impacts of the re-familialisation policies which were introduced during the 1990s.

2.3 Policy measures to address social and labour market exclusion

2.3.1 Unemployment benefits

During the crisis, some restrictive measures were introduced in the unemployment benefit (UB) scheme (an initiative of the re-elected centre-right Government in June 2010). Unemployment benefit was cut from 65% to 45% of previous earnings from the first month of unemployment.¹² In the case of voluntary termination of employment, unemployment benefit payments were cancelled during the period covered by severance pay.

In January 2012, a substantial change was introduced; after two months of unemployment, the unemployed person could be obliged to participate in the public service programme. If they refused, their entitlements to unemployment benefits would be lost. In November 2012, the Constitutional Court cancelled the institute of Public Service as a compulsory activity for the unemployed after a two month unemployment spell, accompanied with a punitive sanction (suspension of entitlement to unemployment benefits) in case of refusal.

Due to the strict eligibility criteria concerning unemployment benefits and the relatively large proportion of the long-term unemployed, the coverage has consistently been low: 19.3% of the unemployed in November 2012, 19.1% in November 2013 and 18.4% in November 2014 (own calculations based on data from the MLSA web portal).

2.3.2 Minimum income

The minimum income scheme (MIS), as it was redesigned in 2006, is based on a general minimum income guarantee (the generosity is slightly above average compared to the OECD standards, see Annex), while also establishing work incentives: these include a reduction of earnings from economic activity that count towards family reference incomes (by 70%) when assessing entitlements and volume of social assistance benefits. Another measure is a reduction of the minimum living level of a person not complying with job-search requirements to the level of merely the subsistence (existence) minimum, which is one third lower. The new Government, established in 2007, adopted additional measures (Act No. 382/2008 from September 2008), effective from January 2009. The entitlements to social assistance were automatically reduced to the subsistence (existence) minimum level after 6 months. Only those recipients who took part in a public service programme for at least 20 hours per month could have their benefits topped up to the minimum living level and if they worked for more than 30 hours per month they could get a bonus. As from January 2012, the bonuses for participation in public works were cancelled. A new proposal is currently being prepared, very similar to the design of the scheme in place before November 2012.

Thus the link between MIS, activation measures and ALMPs is weak. No evidence exists on how many MIS recipients participate in the public service programme or ALMPs. Nevertheless, there is a shared view that after the bonuses and the duty for

¹² Unemployment benefit is provided for the period of 5 months, 8 months (for people of 50 years of age) and 11 months (for people above 55 years of age). The replacement rate is 65% for the first 2 months, 50% for the following two months and 45% afterwards, with a ceiling of 0.58 times the average wage. During retraining programmes, the replacement rate is 60% (the ceiling is 0.65 times the average wage).

the unemployed to participate in the programmes had been cancelled, these numbers significantly dropped and may be considered marginal. This is why a new proposal is being prepared and why another new measure is to be implemented within ALMPs. This measure is the 'activating job opportunity', that is work for up to 40 hours per month for the period of three months where the pay cannot exceed half the minimum wage. In 2014, there were 1,570 participants in this measure.

2.3.3 Active labour market policies

Expenditure and participants in ALMPs have been traditionally low in the Czech Republic. Expenditure on ALMPs represented a mere 0.26% of GDP in 2012, with 0.15% being expenditure on Public Employment Services (PES) administration (benefits and job mediation are not included). The respective averages for the OECD countries were 0.57% and 0.43% (OECD 2014).

Data show that, between 2010 and 2012, the ALMPs were reduced by half in terms of numbers of participants and dropped to one-quarter in terms of expenditure. The change in policy made in 2013 brought about a partial improvement. The result is that number of participants in ALMPs went back to the 2010 levels in 2014 (see Appendix). In particular, job creation measures were on the increase, including on-the-job experience for the youth. On the other hand, labour market training measures were still lagging behind. In general, however, the availability of ALMPs has improved substantially since 2012 as the data on coverage indicate.

Since 2013, the Government (although limited by budgetary constraints) has undertaken a number of initiatives aiming to improve the accessibility and quality of the ALMP measures.

Accessibility. A new form of vocational training, implemented since 2012, is strongly supported by PES and seems to work well in terms of motivating the unemployed. This measure is 'requalification by choice'. 15,600 unemployed people used this scheme in 2014, which counts for about one third of all requalification programmes. Second, another new measure, the 'on-the-job training/practice for the youth', has brought good results with nearly 6,000 participants in 2014. In general, the accessibility of PES and ALMPs improved with the *Youth Guarantee Scheme* (MPVS 2014d) implemented at the beginning of 2014. After 4 months of unemployment, this plan provides all young people with a guarantee of an offer four options) which will either be a job offer (job mediation, counselling), track to education, vocational training, or job experience.

Quality of employment services and ALMP measures. Since 2013, measures have been taken which aim to improve the capacity of PES, as well as the methods of working, both with the unemployed and with employers, and thus to better match labour supply and demand. Due to the PES reform carried out by the previous centre-right Government during 2011 which negatively affected performance of PES in several respects, the number of PES employees was reduced from 8,136 to 6,237 (Úřad práce 2014). In 2011, the minimum income scheme/social assistance administration merged with the employment offices. The municipalities handed the minimum income scheme/social assistance agenda over to the employment offices, while only 1,953 of the original 3,642 staff members who had been handling the agenda at municipal social departments remained employed at employment offices after the merge. In March 2013, when it was apparent that the employment offices could not fulfil their tasks effectively, the decision was adopted by the Government to increase the personnel capacity of the employment offices by 250 permanent employees and 150 temporary employees, and engage these employees both in employment policy and in the Minimum income scheme/social assistance agenda (MPSV/MLSA 2013a). With the new temporary 'caretaker Government' established in July 2013, another more substantial decision was made: to accept 700 new employees (319 positions in 2013 and the rest in 2014) who would be clearly pro-client oriented (MPSV/MLSA 2013b). In spite of these measures, understaffing was still estimated at about 20% at the beginning of 2014 (Úřad práce 2014a), compared to the situation in 2011, prior to the reform. This was the reason why the Government decided in July to recruit another

600 employees to handle the agenda of non-contributory benefits and related field investigations (MPSV 2014e).

Then there are also ESF funded projects that aim to improve the methods and quality of the performance of PES. Between 2013 and June 2015, the project *Methods of Individual and Complex Work with the Clients of the Employment Office* is being implemented. It is currently at the final stage of piloting the proposed methods. The project also makes it possible to increase the deficient personnel capacity of PES by 252 employees. Another important initiative is the project *Development of Services in the Area of Vacancies*¹³, implemented between 2014 and mid-2015 (for more details see Úřad práce 2014b).

In spite of all these efforts, which are promising and moving in the right direction, some weaknesses can be identified. First, the scope/coverage of ALMPs is still rather weak when compared to the EU or OECD standards and mainly when considering the increasing long-term unemployment. Second, there is still a considerable need to improve staffing of the employment offices. Not only does the agenda of non-contributory benefits deserve attention but especially job mediation and counselling. The Individual Action Plans (IAPs), which are compulsory for the unemployed after 5 months of unemployment, are basically a good measure in terms of service accessibility; however, due to the overloading of job mediators/counsellors, the capacity devoted to the development and control of IAPs is often insufficient. An improvement in terms of adequate staffing could also have positive impacts in terms of good targeting (and adequacy) of the ALMP measures on the vulnerable groups, the long-term unemployed in particular.

2.3.4 Social Services

Healthcare services

We can find only one relevant (although rather marginal) example of a social investment measure in healthcare services. An improvement has been made in terms of access to balneal care, both for adults and children. The Government passed a draft law that allows longer thermal treatment under public health insurance, extended from 21 to 28 days. Children are allowed to extend the treatment without limit.

Costs of balneal care covered by public health insurance dropped down from CZK 3,182 million in 2009 to less than half that (CZK 1,579 million) in 2013. The new policy can significantly improve equity of access to this slightly marginal segment of medical care (total medical expenditures in the CR represented CZK 291 billion in 2013) since the largest groups of beneficiaries are going to be the elderly, families with children and some other low-income groups.

The current Government has abolished the so called regulatory fees for a medical appointment and for medical prescriptions as from 2015. The only fee that remains is an emergency care charge. The expected revenue shortfall, with which health facilities will subsequently be faced, represents roughly CZK 5 billion. This will be compensated for by a slight increase in the state budget contributions towards the public health insurance scheme.

Support to housing

The main tools to support housing for low-income households in the Czech Republic are housing-related benefits including the housing benefit ("příspěvek na bydlení") and the housing supplement ("doplatek na bydlení"). The former is income-tested and the latter is means-tested. Among the challenges in this area is that municipalities do not own sufficient housing stock (it has largely been privatised) to meet the demand for accessible rental housing. According to the 2011 Census, the state or municipalities own only 2.7% of the total housing supply. The social housing programme under the

¹³ This is not an entirely new initiative: the first wave of new employees in 2013 was to improve labour market monitoring and consultations with employers and thus to increase the pool of vacancies available to PES.

Ministry of Regional Development and the Government Housing Fund support, at most, several hundred new social flats per year (MMR 2014: 80-81). This is well behind what is needed considering that, on average, more than 65,000 households a month received the housing supplement within the minimum income scheme in 2013 (MPSV 2014a). A new document titled *Integrated Regional Operational Programme for 2014-2020* was approved in July 2014 and included, among other measures, support for accessible social housing for people in need. At least 5,000 new flats should be the outcome of investments supported through the IROP; the resources may be increased depending on the absorption capacity. The calls for projects should be open in the second half of 2015 (MPSV 2014e).

In 2011, the Czech Government approved the *Housing Strategy to 2020* aiming to implement measures supporting social housing. The MLSA started the preparation of the new Act on Social Housing in May 2014. The draft Act is expected in the second quarter of 2016 with possible implementation from 2017.

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Appendix

Table 1: Net replacement rates of the total of social benefits for the long-term unemployed (60th month of unemployment)

persons	67% of average wage						100% of average wage					
	Without children			2 children			Without children			2 children		
	1	2 1 EA	2 2 EA	1	2 1 EA	2 2 EA	1	2 1 EA	2 2 EA	1	2 1 EA	2 2 EA
2008	42	66	56	67	77	61	30	47	47	53	57	52
2009	45	64	56	65	75	62	32	46	47	51	55	52
2010	48	64	56	64	74	61	36	46	47	51	57	52
2011	49	63	57	64	74	62	36	45	47	50	57	52
2012	49	65	57	65	76	62	37	47	47	51	59	52
2012 EU	48	57	54	62	69	62	35	42	44	48	53	51

Source: OECD 2014: Benefits and wages: tax-benefit OECD model

Note: EA = economically active (working)

Table 2: Active labour market policy in 2010-2014 (PES register data)

	2010	2011	2012	2013 June	2013	2014 June	2014
Unemployed (end of year)	561 551	508 451	545 311	540 473	596 833	537 179	541 914
ALMP participants:							
Public works	22 882	21 322	12 833	16 341	21 839	17 000	22 967
Job creation in private sector	25 882	13 410	11 380	9 077	21 716	14 446	33 091
Sheltered workshops – creation	1 640	1 405	817	351	768	468	1 132
Sheltered workshops – maintenance	10 076	14 620	1 514	81	92	95	6 105
Work rehabilitation	120	72	55	21	133
Local projects	459	643	522	714	3 301	1 390	3 994
Vocational training (out of which ESF)	65 453	45 521	25 199	21 513	41 438	24 981	46 454
ESF projects – job experience for people under 30 years						2 901	5 944
Other						4 148	1 882
Total ALMP participants	126 512	96 993	52 320	48 555	89 287	65 429	121 369
as % of the unemployed	22.5	19.1	9.6	9.0	15.0	12.2	22.4
ALMP expenditure (thousand CZK)	6 171 493	3 815 886	2 595 049	1 475 229	4 285 714	3 151 551	..
out of which ESF	4 175 475	2 156 359	1 502 859	1 101 259	3 232 952	2 552 412	..
out of which ESF in %	67.6	56.5	68.0	74.7	75.4	81.0%	..

Note: Other (in 2014) includes activation, vacancies available to disadvantaged people made redundant by their employers, etc.

Source: MLSA web portal

Distribution aspects of three selected changes in the tax and benefit system

Methodology

In the following, we evaluate the impact of the three selected changes to the tax and benefit system that came into force at the beginning of 2015. These are: the change of the birth grant, introduction of tax relief on childcare costs associated with pre-school care and increase in the tax relief for the second and subsequent children. These selected changes in taxes and benefits were described in the main body of this report, here we only show their distributional impacts.

We quantified the changes using data of the Czech part of EU-SILC from 2013. The method used was microsimulation modelling. Distributional impacts are presented primarily with the help of the decile distribution of Czech households. The sorting mechanism used was equalised disposable income. We analysed the distribution of beneficiaries before and after the reform and the distribution of amounts paid or distribution of the change in the amount paid. Secondary recipients and corresponding amounts are classified by indicators that shape the reform.

Birth Grant

The following table shows that the change in the birth grant rules causes an increase in the number of beneficiaries to about 3 times the original volume in 2015. This also implies a nearly proportional increment of the total amount to be paid out. The increase in the number of recipients is evenly distributed between the easing of the eligibility rules concerning the second child in the family and the raising of the maximum value of the reference income for entitlement to benefit. Despite the substantial increase in the amount to be paid, the birth grant constitutes quite a negligible proportion of total social spending.

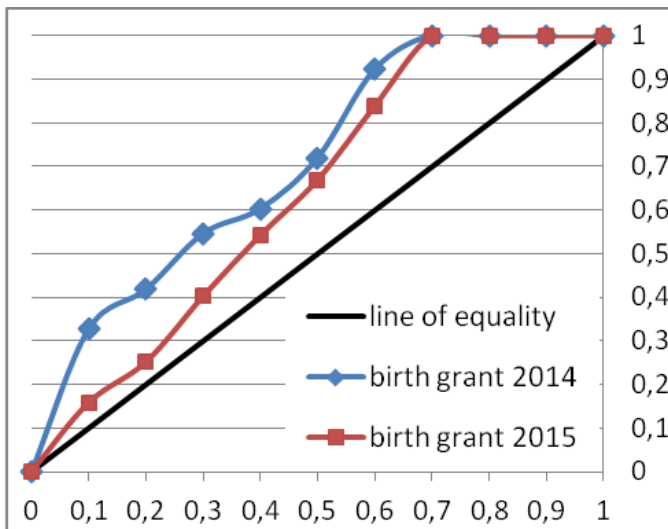
Table 3: Distribution of birth grant recipients and the birth grant budget according to family type

N. of children in household	N. of newborns	Eligible only in 2014	2015 increase due to		Eligible in 2015	Estimated cost in 2014 [mil. CZK]	Estimated cost in 2015 [mil. CZK]
			extension to second child	change in the reference income			
1	1	11 171	-	5 113	16 284	145.2	211.7
2	twins	553	-	782	1 335	10.8	30.7
2	1	-	11 113	5 781	16 894	0	168.9
3	twins	-	0	0	0	0	0
Total		11 724	11 113	11 676	34513	156.0	411.3

Source: own simulation based on SILC 2013 data

The following chart shows that, due to the income test, the birth grant budget (vertical axis) was mainly distributed among households in the lower income deciles (horizontal axis) in 2014. Since the reform increased the value of the income test, among other things, the birth grant will be distributed more evenly in 2015. However, it is still the case that households from the highest decile groups are not entitled to this benefit.

Chart 1: Distribution of the amount paid across society (pseudo-Lorenz Curve)

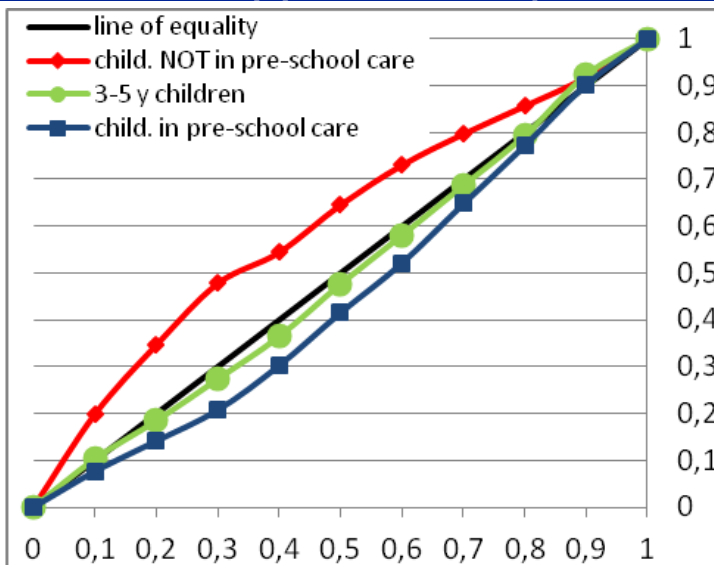


Source: own simulation based on SILC 2013 data

Tax relief on childcare costs associated with pre-school care

The following chart shows the distribution of children according to whether they use the services of pre-school care or not. The chart is complemented by the distribution of children at age typical for pre-school care. According to our calculations, 292,000 preschool children use this service in the Czech Republic. These children are more or less equally distributed across society, with slightly weaker representation within the lowest income deciles. Similar information is then presented in terms of the distribution of children who do not use pre-school care (69,000). It seems that the reason behind this might be insufficient funds to pay for this care among low-income families. Thus, in a static view, the households in the lowest deciles will not benefit from the newly introduced tax relief. But we can also assume (a dynamic view) that due to the introduction of this tool, barriers to the use of these services will be reduced among these households and that this may positively impact incentives to labour market participation.

Chart 2: Distribution of (1) children aged 3 to 5 years, (2) children in pre-school care and (3) children not in pre-school care (pseudo-Lorenz curve)

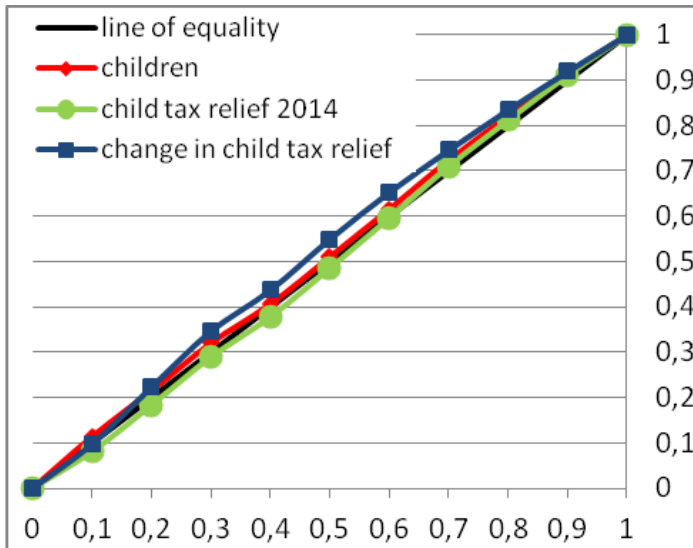


Source: own simulation based on SILC 2013 data

Increase in the child tax relief for the second and subsequent children

The last chart shows that both the child tax relief and its increase are almost evenly distributed across Czech society. This is due to the fact that the tax instrument has the character of a negative income tax. That is why even low-income households will equally benefit from this tax change, which has a fairly substantial budgetary implication of CZK 2.2 billion per year. This change will benefit particularly families with two (65%) and three children (26%).

Chart 3: Distribution of (1) children, (2) child tax relief in 2014 and (3) the change in the child tax relief from 2015 (pseudo-Lorenz curve)



Source: own simulation based on SILC 2013 data

