



Czech Republic

## Trends, Recent Developments, “Feeding in” and “Feeding out”

A Study of National Policies

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## Summary

The National implementation report provides some relevant information to most recommendations by the EC and areas to watch. The overall assessment of progress is mixed: while progress in some areas is apparent, development in the area of pension and health care system reforms, modernisation of employment protection and measures to improve human capital and training is only rather modest.

The new government adopted measures to lower the public finance deficit. Some steps to increase co-financing of health care were taken by the Parliament in August 2007 in connection with the 'social system reform', and proposal of parametric changes in pension system was submitted by government to negotiations in Parliamentary group. The new Labour Code from 2006 brought more flexibility in the labour market by enabling flexible working time arrangements and by allowing more freedom concerning labour contracts. Similarly, the tax-benefit reforms from 2006 increased conditionality of social benefits and brought better financial incentives for transition from welfare to work. No arrangements have been made to make part-time or low-wage employment more attractive for employers. Two major steps were taken to improve the link between the basic and further education system: in 2006 'The Act on Recognition of Results of Further Education' was adopted, and the 'Life-long learning strategy' was approved by the government in July 2007 and is to be elaborated further. No measures have been adopted to increase incentives for training and/or for further education.

Integration of disadvantaged groups into the labour market improved slightly thanks to the advantageous economic environment and to the somewhat increasing scope of active labour market policies attributable to projects financed under the ESF. However, the targeting of labour market training to disadvantaged groups is still rather weak. Conditions for reconciliation between family and work improved thanks to the raising of the parental benefit in 2006 and are expected to improve again in result of a new arrangement which will enable families to choose from three different combinations of the level and duration of provision of the parental benefit. On the other hand, no progress has been achieved concerning the provision of child care facilities for children of 0-3 years (these had nearly disappeared in the country), and no will to improve the situation is noticeable as far as the government is concerned, either. Similarly, no measures have been adopted to tackle the gender pay gap. A new Active ageing strategy was prepared during 2006-07 and should be negotiated by the government in November 2007.

The link between the National Reform Programme and the OMC (Social Inclusion Agenda) is weak. Measures to promote human capital in all segments of the labour force are generally the most promising instruments encouraging economic growth in the long term. However, emphasis on this aspect is rather weak in the Implementation report 2007 on the NRP, in terms of the recognition of these policies' relevance not only for economic growth but also for active inclusion, active ageing, gender equality, the pursuit of quality jobs, and flexicurity.

Some gaps remain in the monitoring and assessment of the expected and/or factual impact of policies under the NRP. Involvement of stakeholders in the preparation and implementation of the NRP and NRSPSI is mediated through special interministerial bodies that do not, however, possess decision-making authority. New legislation (Act on Social Services) now obliges regional

authorities to elaborate medium-term plans on the development of social services within their territory, which represent the significant segment of the social inclusion strategy.

Recent reforms of the social system adopted in 2007 represent a certain risk for some vulnerable groups of the population already affected by poverty and social exclusion, such as the unemployed, single-parent families with children, large families with children, disabled people or excluded communities of the Roma a.o. if their impacts are not carefully monitored. We must note that even during past years the living minimum (the minimum standard of living) has declined in relation to the development of wages. A similar development has taken place in the case of the family-related benefit package, while housing costs were on the increase. Recent SILC 2005 data shows an increasing at-risk-of poverty rate, child poverty in particular, resulting from the above-described trends. These indications make the '*social protection aspect*' of the implemented reforms a crucial issue that needs to be reconsidered. The 'Roma problem' is well known, although only partially addressed in policies. Another problem is the less visible form of social exclusion of migrant workers, which should be tackled with more vigour.

## Part 1: Feeding in and feeding out of social exclusion in the NRP Implementation report

### 1. Lisbon recommendations and areas to watch in the NRP Implementation report 2007

#### 1.1. Introduction

In this part we assess how recommendations of the European Commission to the Czech Republic from 2006 (Communication 2006) have been addressed during the 2006-2007 period.

In general, the Czech Implementation report provides some relevant information to most recommendations and areas to watch. Sometimes it is descriptive rather than analytical and the assessment of trends in policies and their impact is not convincing. This is typically the case when different specific activities/projects are reported in terms of expenditure, number of projects, and number of participants, without any reference to broader context (i.e. total or previous expenditure on the specific activity or other similar activities, and/or contribution in terms of the proportion of affected population of total population etc.). For example, no analytical overview is provided of activities/projects under the European structural funds. We attempt to overcome such omissions by using other sources where possible, bearing in mind limitations regarding data availability.

Overall, assessment of progress in meeting the recommendations by the Commission from December 2006 is mixed: while progress in some areas is apparent - like simplification of administrative burden for entrepreneurs, increase in R&D investments, improvement of education and training systems -, development in the area of pension and health care system reforms, modernisation of employment protection and measures to improve life-long training is rather modest.

### 1.1.1. EC recommendations

The specific EC recommendations have been met as follows:

**To take steps to implement the reforms of the pension and healthcare systems with a view to improving the long-term sustainability of public finances.**

The new government adopted measures to lower the public finance deficit from the expected 3.4% in 2007 to 3% in 2008, 2.6% in 2009 and 2.3% in 2010. These measures reinforce the binding character of medium-term expenditure ceilings and aim to cut social expenditure. Due to the results of elections in June 2006, whose winner - the right-wing (or centre-right) Civic Democratic party ('ODS') - could not, with its coalition partners, gain majority support in the Parliament for months after the elections, it was not until January 2007 that the new government stabilised its position and could act effectively in connection with these strategic issues. In January it adopted a decision to renew political negotiations of the pension reform and these negotiations started in June 2007. In June 2007, the government adopted a decision to establish an expert commission on the assessment of health care reform proposals (the role should be similar to the former expert group on the pension reform).

Parametric changes concerning pensions were proposed by the new government and discussion of them started within the Political group for pension reform. The proposals include the following: to continue increasing the legal retirement age to 65 years by 2030/2045 from the current 63 years for men/59-62 for women, to raise the required employment record to 35 years (from the current 25 years) and to exclude years of studies from the calculation of a person's insurance record. In the second and third step of the reforms, the government aims to support private pension funds by increasing participation of employers and providing incentives for higher contributions, and subsequently by allowing opting-out from the public pension scheme.

The measures to increase direct co-payments in health care were taken by the Parliament in August 2007 in connection with the 'social system reform', by introducing new fees starting in 2008: 30 CZK (approx. 1 EUR) for each appointment with a doctor or each drug prescription, 60 CZK for one day in hospital and 90 CZK in the case of emergency check-up by a doctor.

To sum up, progress concerning this key agenda is limited. In the long-term, it is clear that system reforms concerning pensions and healthcare are crucial for stabilising public finances. However, the steps which have been taken only just initiated the process of preparation of relevant proposals. Nevertheless, it is also possible that the reforms proceed fast if political decisions and compromises are successfully negotiated.

**To strengthen reforms to improve collaboration between business and public R&D institutions, while keeping up the pace of the increasing public R&D investments.**

The government increased expenditure on R&D from 0.57% of GDP in 2006 to 0.62% in 2007 and plans to maintain this level until 2010, while contribution by the EU funds is expected to raise public expenditure to 1% of GDP in 2010. Private investments grew from 0.77 to 0.89% of GDP in 2007. If this growth continues, the 2010 target of 2.06 % of GDP may be met. On the other hand, private investments represent a decisive element. It is interesting that assessment of the tax incentive implemented in 2005 shows that in 2006 only 0.17 % of subjects declaring tax revenues used this instrument. The explanation provided in the Implementation report that most projects

financed under the EU funds had already been started is not sufficient since it is not clear how many subjects have received support from the EU funds and why the other subjects have not used the instrument. There should be better evidence on whether the incentive is weak or not, in order that improvements could be proposed if necessary.

It should be noted that more and more emphasis is being placed on assessing the outcomes of investment into research: the Board for Science and Research established by the government elaborates an annual assessment based on quantified indicators of achieved results. These results are used as a tool for allocating financial resources to research and science.

The Implementation report also mentions the need to improve the age structure of researchers and to create conditions for career development in research. Several projects financed under the EU structural funds are referred to in the text. It would have been useful to give evidence about the general working conditions provided to researchers and about the attractiveness of research positions. Experience shows that salaries offered by universities or research institutes to young staff are hardly at the level of average salary in the country.

#### To modernise employment protection including legislation and tax and benefit systems.

The new Labour Code from 2006 has brought more flexibility in the labour market by enabling flexible working time arrangements, including work accounts and homework/telework. Also more freedom is now provided to employers and employees with respect to the contents of labour contracts. The Labour Code has also recognised agency work, introduced by the Employment Act in 2004. About 1,950 job agencies currently operate in the country and contribute to effective job matching (<http://portal.mpsv.cz/portal/page>, 23/10/2007). The amendment to the Labour Code adopted in August 2007 solves the compatibility between the new Labour Code and other recent legislative arrangements and removes the requirement of short working hours for young people of 16-18 years.

Several measures were adopted to increase incentives to work and wage flexibility. The tax-benefit reforms from 2006 have increased the conditionality of welfare/social assistance benefits (by implementing activation plans and by distinguishing between the subsistence minimum (*existenční minimum*) and living minimum (minimum standard of living, *životní minimum*), have improved financial incentives for the transition from welfare to work and have reduced METR for low earners (only 70% of earnings are counted as reference income when assessing entitlements to social assistance benefits; since 2006 the tax rate for lower income brackets has been set at 12% and 19% instead of 15% and 20%, and more advantageous tax bonuses for adults and children have replaced deductions from the tax base).

The new 'social system reform' continues this direction. Tax bonuses and the conditionality of social benefits should be promoted, while some social benefits should be cut and the automatic revaluation of the subsistence and living minimum should be removed. The new reform has also introduced a ceiling on social security payments, at the level of four times the average wage, and has thus reduced non-wage labour costs. Yet another measure was planned to decrease non-wage labour costs since 2007 – that is a decrease in sickness insurance contributions paid by employers from 3.3% to 1.4%, combined with the obligation imposed on employers to pay benefits to employees during the first 14 days of sickness. The respective act was postponed by the new government by one year in 2006, and in the new 'social system reforms' proposal passed

in August it was postponed by another year to 2009. The main reasons for postponement were the measure's negative consequences for the government budget revenues and potential problems in terms of additional costs for employers, although one of the main reasons for accepting the act was the argument that both employees and employers have been frequently misusing the system.

Measures of *flexicurity*, aimed to improve the position of employees in non-standard jobs, like temporary or part-time jobs, by providing entitlements to training, better social security or reduced non-wage labour costs, did not appear. However, the government has recently declared an intention to implement additional measures into the Labour Code, with reference to the Danish model of flexicurity – see article by the minister of labour and social affairs (Nečas 2007). Firstly, the notice period to terminate a labour contract should be shorter - one month instead of two - both for employees and employers (with compensation for an increased severance pay), a system of quality vocational training should be implemented, together with an increased conditionality of social benefits (obligation to undergo training), milder rules should govern employment of foreigners. No analysis is currently available of the impact of the implemented measures on wage flexibility and/or on working time flexibility and employment. Data shows that unemployment has decreased but this is due to several factors, above all the fast economic growth and job creation. Under support from the EU structural funds, the Labour Market Institute launched a project in June 2006 aimed to enlarge and improve the quality and overall capacity of Public Employment Services. While the Implementation report from 2006 pays attention to this arrangement, the new report from 2007 does not. Instead, the report refers to the planned institutional unification of employment and social administration aiming to increase the effectiveness of these two systems, in the sense of avoiding overlapping administrative tasks. This might signal that the reform planned for 2009 might facilitate the emergence of 'one stop shops'.

To improve the system of education and training and provide incentives to invest in training, particularly for older workers and low-skilled people.

Curricular reforms at primary and secondary schools have continued, aiming particularly at improving the quality of the educational system (by focusing on key competences and implementing relevant standards and teaching methods). Some preparations of education programmes were carried out, together with training for teachers. Many pilot projects are underway in the country, supported largely from the EU structural funds.

The number of students at universities has continued to grow (to 328,000 in 2007), similarly as in

- last several years (in 2002, the number of university students was 236,000). Cooperation
- between universities and employers is supported by national schemes and is expected to be
- boosted through the EU Operational Programme 'Education for Competitiveness' since 2008. The report provides examples of good practice with respect to the development of tertiary education and cooperation with the business sector.

Two major steps were taken to improve the link between basic and further education that are of great relevance for social inclusion: in 2006 'The Act on Recognition of Results of Further Education' was adopted and came into effect in August 2007. In addition to 'full qualifications', this act introduces and recognises also 'partial qualifications' and establishes procedures for the recognition of informal training. 'Partial qualifications', which are to be certified, do not necessarily have to be part of 'full qualifications' and may be achieved through informal education. Preparations of some parts of the National Qualification System are currently moving ahead and should constitute a basic tool to implement the fore mentioned Act.

Secondly, a 'Life-long learning strategy' was approved by the government in July 2007 (Strategie 2007) and should be elaborated further. This is also a crucial step, relevant for social inclusion of vulnerable groups like low-skilled people, older workers etc. Translation of this strategy into legislation and practice should become a priority. A low participation in further education in companies, associated with a lack of life-long learning possibilities, is one of the weaknesses of the Czech Republic. It is obvious from the report that the EU funds are widely used to provide support to the interested parties in this field and this trend will continue. However, it is not clear whether these resources will suffice to fill the existing large gap or whether adequate measures should be adopted to increase incentives for training and further education, in line with the adopted strategy of life-long learning, with a special focus on most neglected groups, like older workers and low-skilled people.

#### *1.1.3. Addressing the areas to watch*

The areas to watch have also been addressed with rather mixed results.

**To improve the system of patenting and protection of intellectual property rights.**

A new 'Act on Enforcement of Industrial Property Rights' was adopted in 2006 and measures were taken to improve awareness of the importance of patenting and protection of intellectual property rights. A new system of electronic submission of applications was implemented in 2006. A training project for public administration employees responsible for this area was started in September 2007. Some minor impacts in terms of an increased number of patent applications is apparent, however, only the period to come will show how effective the adopted measures will be.

**To speed up progress in the ICT area, among other things by creating and monitoring a fully enabling legal environment for e-Government.**

Progress in the ICT area is supported mainly by investments in infrastructure. These are dependent above all on private resources. Besides, the EU structural funds are used to support areas of low private investment returns. It is not assessed in the Implementation report what extent of expected investment would suffice should it improve the position of the Czech Republic in comparison with other European countries. The government has been preparing an eGovernment Act (expected to come into effect in 2009) and has started e-learning courses through the Public Administration Portal.

### To meet the target to reduce administrative burden imposed on enterprises.

The process of simplifying administration related to setting up and running a business has continued. One-stop shops for registering small businesses were established in August 2006 and some increase in the number of registered businesses was reported in the first half of 2007 compared to 2006. Despite a delay in negotiating the material 'Analysis of the administrative burden for businesses' prepared in February 2006, the government obliged relevant ministries in July 2007 to analyse the impact of specified norms which generate most administrative burden. Proposals for improvement are to be submitted in March 2008.

A proposed amendment to the Act on setting up and running businesses is now being negotiated in the Parliament and should come into effect in January 2008. It will simplify administration related to businesses by easing requirements concerning qualification (years of practice would not be required in specified businesses) and by simplifying some formal procedures. This measure may affect social inclusion since it improves access of disadvantaged groups to self-employment.

### To improve access to financing for innovative companies.

Substantial support has been provided since 2007 under the EU Operational programme 'Entrepreneurship and innovation' – one of the largest Operational programmes that aims to improve entrepreneurial environment and transfer of research results into practice. The Implementation report provides an example of good practice ('Fund of micro loans'). However, no measures such as tax relieves were implemented to support investment in risk capital, although the level remains low in the Czech Republic. The recommendation To introduce entrepreneurship education into curricula was addressed by specific projects supported under the EU funds, mainly by increasing cooperation between businesses and universities. No measures were adopted to develop links between foreign-owned and domestic companies.

### To better integrate disadvantaged groups into the labour market.

The situation in this respect improved slightly thanks to fast economic growth. In addition, the increased scope of active labour market policies boosted by projects financed under the ESF played a role. The registered unemployment rate fell from 7.7% in December 2006 to 6.2% in September 2007, while the number of registered vacancies increased from 93,200 to 137,400. This improvement touched all categories of the unemployed. However, the proportion of long-term unemployed people still remains high - 41%, the proportion of low-skilled people dropped from 32% to 31%, that of disabled people grew from 15.8% to 18% and that of unemployed people over 50 grew from 27.1% to 29.2% (own computations based on data by the MLSA - <http://portal.mpsv.cz/sz>).

The impact of labour market policies increased from about 97,800 participants in 2005 to 141,200 participants in 2006 (MLSA 2007: 54), which was about one third of the unemployment stock, with a significant contribution of the ESF projects (27,200 participants in 2006). The number of participants seems to continue increasing in 2007: 111,400 participants by August 30 (out of whom 26,400 participated in the ESF projects). Analysis shows that if we compare participants in vocational training programmes in 2006 and 2007 (by September) their proportion is identical –

13.2% of the unemployment stock, which indicates an increase in the number of participants in training in 2007. On the other hand, the targeting of labour market training to the disadvantaged groups is still rather weak, according to our analysis based on data by the Public Employment Service. When measured as a proportion of participants within a specific group of the unemployed, it remains significantly low in the case of disabled people, where it even dropped from 7.5% to 7% in 2007. In the case of low-skilled people it is the same as in 2006 - 7%, which also applies to the unemployed over 50 - 8,4%. In the case of the long-term unemployed it increased slightly from 8.5 to 9.3% - see table 3 in Appendix (own computations based on data by the MLSA - <http://portal.mpsv.cz/sz>). It is interesting that although the proportion of requalification programmes financed under the ESF has doubled since 2006 from 28 % to 55 %, this has had no effect on better targeting of the programmes at the disadvantaged groups, despite that the ESF programmes are supposed to contribute primarily to labour market integration of these groups. To sum up, further improvements are needed both in terms of scope of active labour market policy and targeting at the disadvantaged groups, including the targeting of measures implemented through the ESF projects.

#### To reduce regional employment disparities.

Regional disparities diminished in 2007 as a result of fast economic growth and increasing scope of active measures in the affected regions, including special measures for disadvantaged regions (e.g. investment incentives). In general, the most affected districts profited from decreasing unemployment: for example, when we look at districts with the highest unemployment rate, unemployment fell from 19.5 to 16.6 % in the district of Most, from 15.7% to 12% in the district of Teplice, from 16.9 % to 14.3 % in the district of Karvina, and from 14.7 % to 9.5% in the district of Jeseník.

#### Reconciling family and work.

The situation of families with children has improved thanks to the increased parental benefit and is expected to improve further due to a new arrangement which will enable families to choose from three different combinations of the level and duration of parental benefit. Also a new possibility will be available to parents under a new Act on sickness insurance to take turns in caring for their sick child. The act was adopted but its implementation was postponed until 2009.

On the other hand, no progress has been achieved concerning the provision of child care facilities for children aged 0-3 years (these had nearly disappeared in the country), and no will to improve the situation is noticeable as far as the government is concerned, either. In 2006, there were 48 facilities for children aged 0-3 years in the country, with 1,567 available places (<http://www.uzis.cz>). There is also a possibility to place children in a kindergarten if this facility meets required standards, such as the child to staff ratio. The cost of nursery care is relatively high, ranging between 2 and 7.5 thousand CZK (10-30% of average wage). Thus only half a percent of the relevant cohort of children attend nurseries. On the other hand, about 25 % of children in the cohort between 2 and 3 years of age attend a kindergarten, which indicates a sufficient demand for services for children at this age. All in all, about 8 – 9 % of children below 3 years of age attend childcare facilities. Since 2005, children at their pre-school year (5-6 years of age) are guaranteed a free of charge placement in a pre-school facility, which implies capacity and accessibility problems (Kuchařová, Svobodová 2006). In consequence of the combination of

low availability of facilities for children aged 0-3 years and a long parental leave in the Czech Republic, we can observe the highest impact of parenthood on employment of women with children aged 0-6, which is 40% in the Czech Republic, while the EU average is 13% (Indicators 2007). The data also shows considerably higher unemployment risks for women with children than for men (Kulhavý, Sirovátka 2006).

#### To tackle the gender pay gap.

The gender pay gap is above the average in the EU (19 % compared to the average of 15 %; see Indicators 2007). It is associated with several factors, with gender segmentation of the labour market being probably the most important one. No measures were adopted to tackle this gap.

#### The active ageing strategy.

There exists a National Programme of Preparations for Ageing 2003-2007. It is regularly evaluated by the government and includes a broad range of measures in the field of social protection and services for the elderly, labour market inclusion, life-long learning, and protection against discrimination etc. These are, however, formulated at a rather general level (see <http://www.mpsv.cz/cs/1057>). A new Active ageing strategy has been prepared during 2006-2007 and it is planned to be negotiated in the government soon. In recent years, the employment rate of older workers increased significantly (from 36.1% in 2000 to 45.2% in 2006). The main reason of such an increase in the group aged 55-64 was the raised legislative age of retirement combined with the increased reduction of percentage assessment for early retirement and increase in the percentage assessment for deferred retirement implemented into the pension system in 2001. Restrictions imposed on working pensioners were removed and it was made possible to combine part of pension with work, thus earning higher future pension entitlements. Together with the increasing retirement age and increasing employment rates we also observe an increasing proportion of the elderly in unemployment (people over 50 years of age represent nearly 30%) and it seems that implementation of the life-long learning strategy into practice will be a crucial condition to improve their position in the labour market.

## **2. Assessment of the Implementation report from the perspective of social inclusion**

In this second part we assess the policies of the NRP from the perspective of social inclusion, taking both the 'feeding-out' and 'feeding-in' aspects into consideration. We then also discuss recent challenges that are relevant from the perspective of social exclusion/inclusion.

Basically, the explicit link between the National Reform Programme and the OMC (Social Inclusion agenda) is weak. The Implementation report on the NRP neither explicitly mentions nor reflects the social inclusion perspective. No evidence of how the process and strategy of social inclusion might be affected by the measures of the NRP or what social impacts might emerge from these measures is provided.

## 2.1. Feeding-out

### 2.1.1. *The emphasized aspects of feeding-out*

#### To link economic growth and social cohesion.

No consideration is given in the Implementation report to the link between economic growth and social cohesion. Although the country experienced a relatively rapid economic growth in past years, which promoted job creation and reduced unemployment in 2007, we do not observe any efforts concerning the objective to promote both social cohesion and economic growth as interlinked and mutually supportive objectives. The key problem hindering greater concern for social inclusion aspects is probably the public finances deficit which is expected to grow in 2007 from 3% to 3.4%. This situation produces calls for social expenditure cuts since social expenditure was identified as the main source of the deficit.

In general, there is an underlying belief in the Implementation report that economic growth combined with low taxation and flexible labour market will generate jobs and employment and – if the existing disincentives to work are removed from the social system – unemployment, as well as poverty and social exclusion, would decline. Such an approach to social inclusion and social cohesion agenda is not new; a similar assumption is present in the NRSPSI 2006-2008. It is difficult to assess whether the right-centre orientation of the current government has even strengthened this tendency. Nevertheless, the content of the Government Declaration from January provides support for this assumption as the declaration does not address social cohesion and social inclusion at all.

Nevertheless, there is an implicit correspondence between some objectives and measures of the NRP and NRSPSI. This is apparent particularly with regards to core principles of both the strategy to tackle poverty and social exclusion of the NRSPSI and the strategy to increase effective labour supply and employment of the NRP. Both strategies use a broader spectrum of measures aimed to improve work incentives and make work pay. Some measures came into effect in January 2007 (based on legislation adopted in the first half of 2006): the 'existence' minimum (set at a lower level compared to the subsistence minimum, and targeted at 'passive' recipients), increased conditionality of social assistance benefits, greater discretion given to local social administration in deciding about reimbursement of housing costs etc.

#### To provide adequate income from work.

This objective is supported by a new rule under which only 70% of earnings are considered when determining subsistence minimum entitlements - this is a strong incentive. The measures adopted in connection with the recent 'social system reform' proposal from August 2007 decrease certain social benefits provided to lower income groups as well. On the other hand, they increase tax bonuses – although the overall effect of these changes for low income groups seems only minor in terms of total income, it increases income from work in relation to benefits.

## To support labour market inclusion of vulnerable groups and address territorial differences

This is again a common objective of both the NRSPSI and NRP. As already mentioned in the first part, this support is increasing in scope thanks to the ESF resources. For example, contracted support under the Operational Programme Human Resources Development, Priority 1 'Active Labour Market Policy', had reached nearly 3,9 bill CZK by January 1<sup>st</sup>, 2007, which is approximately the same amount as was spent on active labour market policies in 2005; and we need to be aware that some measures supporting labour market inclusion are also financed through Priority 2 'Social integration and equal opportunities' (data is available at <http://www.mmr.cz>).

Support from the ESF has been strong since 2006 when the resources from the ESF represented 1,278 mil CZK, which increased resources for active labour market policies from 4,028 mil CZK to 5,301 mil CZK in 2006. The number of participants in ALMP then rose from 97,797 to 146,741, out of whom 27,227 (i.e. 19%) were supported through the ESF projects (data of the MLSA 2007). By the end of August, the number of participants in 2007 was 111,382, out of whom 26,370 were supported through the ESF (24%). In measures concerning vocational training more than half the participants are supported through the ESF. On the other hand, this data indicates that the scope of active labour market policies has not been growing very fast during 2007; the measures financed from the ESF have been replacing measures of the national ALMP. This might act to fix ALMP measures at a level which belongs among the lowest in Europe and might hamper effective inclusion of vulnerable groups into the labour market. Moreover, there are indications that vulnerable groups are underrepresented in job creation measures: it is only in sheltered jobs and public works that groups such as disabled people, unskilled and older workers are sufficiently represented with respect to their proportion of the unemployed; as regards job creation measures in private sector their proportion is lower than their proportion of the unemployed (Sirovátka et al. 2006, Kulhavý 2007 forthcoming). Finally, the main deficit can be seen in measures concerning vocational training, where these groups are heavily underrepresented (especially in the case of handicapped and older workers). We have identified yet another deficit in the field of preventive measures aimed primarily at the young unemployed (<25): Individual action plans affected in fact very low numbers of clients in 2006, and their impact is decreasing, which is likely due to a lack of capacities of employment offices for individual work. In 2004, when IAPs were implemented at all Employment Offices, the proportion of the unemployed registered at EO who were using this instrument was 8.7%, in 2005 it was 7.4% and in 2006 (January – August) it dropped to 3.8 % of the relevant cohort of the unemployed registered at Employment Offices (MLSA 2007: 40). In summary, the targeting of job creation and other measures at vulnerable groups is not sufficient and this policy deficit helps explain (together with other factors) the relatively high proportion of long-term unemployment, persisting in spite of economic growth, job creation or improving work incentives. The results are better when we look at the diminishing territorial disparities (see above), which probably follow from both economic growth and greater emphasis on active measures, including special measures such as investment stimuli etc. A more thorough assessment is needed.

The impacts of the NRP measures on the social protection system are not assessed in a systematic way. The main point of reference is the impact on social expenditure and public finances, no analysis has been carried out of real impacts of the implemented measures on work incentives and on adequate protection of the living standard. There exists research focusing on the effectiveness of social transfers in reducing poverty, showing good general results but lower

effectiveness in the case of specific groups like unemployed people, lone parents, and large families (Trbola, Sirovátka 2006), which is consistent with data by the EC (Joint Report 2007).

**Addressing the contribution of fiscal policies** This is a crucial aspect of feeding-out since the core objective of the NRP is to stabilise public finances and to reduce public deficit with the help of fiscal policies in the short-term horizon, and through more systematic reforms in the long run. Since the measures include restrictions on entitlements to welfare benefits and cuts in benefit levels, among other things in line with the strategy of making work pay, considerations about the balance between economic incentives and adequate social protection are crucial from the perspective of social inclusion and have been emphasized in many EC documents, most recently in the Communication (2007) 620 final. The implementation report on the NRP does not pay much attention to this feeding-out aspect of social inclusion, except for a general remark in the sense that the social system reforms decided in August 2007 are designed *'to prevent the overall effects of changes to the fiscal and welfare system from harming the interests of any social group, except for those citizens who have grown accustomed to living on social benefits, have no motivation to adopt a more proactive approach in their search for employment and would continue trying to abuse the welfare system at the expense of others.'* However, protection of the living standard of those who don't have any income from work will greatly depend on how the subsistence and living minimum is reevaluated. We must note that even during past years the subsistence minimum dropped remarkably when compared to the development of wages (see Večerník 2007, and table 1 in Appendix). A similar development applies to family-related benefit package: the real value of child-related benefits paid per child dropped by 16% between 2000 and 2005 and continues to decline (Jahoda, Kofroň 2007, forthcoming), while housing costs were on the increase. Recent SILC 2005 data shows an increasing at-risk-of poverty rate, child poverty in particular (18%), as a consequence of the above described trends. Similarly, the at-risk-of poverty rate is considerably high among the unemployed (51%). These indications make the *'social protection aspect'* of the reforms a crucial issue which should be considered with caution.

#### 2.1.2. *Brief examination of policy responses to outlined recommendations and 'points-to-watch' relevant for social inclusion*

- Pension and health care reforms: although progress in this crucial area has been modest, we can see a low emphasis on the feeding-out perspective. For example, co-payments introduced in health care include fees for children (even for children and parents in maternity hospitals) without consideration for possible impacts on child poverty.
- Flexicurity in the labour market: there are certain 'promises' for the future – for example, the planned administrative reform may possibly establish 'one-stop shops' for the unemployed. Also, the Ministry of Labour and Social Affairs expressed an inclination towards the Danish flexicurity model; on the other hand, there are no promises of increasing the staff of Employment Offices and other services that require individual treatment, and measures have not been adopted to address labour market segmentation, such as increasing security related to non-standard contracts, better targeting of labour market training or implementation of life-long learning in practice.
- Education and training systems, incentives to invest in training: there have been some positive developments in this field. Curricular reforms continue with support from the EU structural funds. 'The Act on Recognition of Results of Further Education' was adopted

and came into effect in August 2007; the 'Life-long learning strategy' was approved by the government in July 2007. However, implementation of the above documents is slow. No incentives have been adopted to increase investment to life-long learning. This is a crucial deficit from the feeding-out perspective: not only that participation in life-long learning is low in the Czech Republic (5.5%) but it is even four times lower (0.9%) compared to the EU average in the case of the low-skilled (Indicators 2007).

Segregation of Roma children in the educational system is addressed only in a limited extent. For this reason, the system of special education has repeatedly been criticised. An analytical material by the League for Human Rights (Liga 2007) states that *'at many schools, directors do not distinguish between Roma and other pupils and refuse to employ teacher assistants since they consider such an approach to be favouring one selected group of children over another and to be a form of positive discrimination.'* While the Roma represent less than 5% of pupils at primary schools, they represent about half the pupils in special classes, and the government estimates that about 75% of Roma children are enrolled in these special classes. In its Concluding observation from March 1-2, 2007, on the Czech report on the issue of discrimination, the UN Committee on the Elimination of All Forms of Racial Discrimination states that *'the State party does not seem to fully acknowledge this problem'*, and recommends that the methodological tools used in determining whether children should be enrolled in special schools should be reviewed.

- To simplify administration related to setting up and running businesses  
The proposed amendment to the Act on Setting up and Running Businesses will simplify business-related administration by reducing requirements concerning qualifications – this is a promising step for social inclusion of the disadvantaged groups through self-employment.
- Integration of disadvantaged groups into the labour market has improved slightly thanks to the increasing scope of active labour market policies encouraged through the ESF. Yet it is a problematic point since targeting has not improved and the scope of vocational training and life-long learning is not yet sufficient (see above).
- Some measures to support the reconciliation of family and work life were implemented: the increased parental benefit (2006) is to be redesigned under a new arrangement which will enable families to choose from three different combinations of the level and duration of the parental benefit. On the other hand, no progress has been achieved in the provision of child care facilities for children aged 0-3.

In summary, the recommendations by the EC have been met with mixed results and the progress made is rather limited. The social inclusion perspective of feeding-out is weak in practice and signals of improvement are rare.

## 2.2. Feeding-in

The Joint Report on Social Protection and Social Exclusion (2007) has identified a broad range of challenges for the Czech Republic, especially: implementation of social inclusion at the local and regional level, improvement of the situation of vulnerable groups, e.g. the Roma, as well as the situation of affected regions, implementation of the pension reform aiming at financial sustainability of the pension system combined with pension adequacy, job creation for older workers, emphasis on primary health care and lower dependency on specialists, better coordination of health and social care.

Obviously, some of these challenges are relevant from the perspective of feeding-in. The pension reform in particular is expected to stabilize public finances and to contribute to economic growth. Similarly, better coordination of primary health care should contribute to lower absence from work and increase labour productivity per worker. Improvement of the overall situation of vulnerable groups (the Roma in the first place) in education, vocational training, life-long learning and in the labour market should allow better use of human resources, reduce unemployment rates and welfare dependency, thus contributing to economic growth.

On the one hand, the Implementation report on the NRP refers explicitly neither to these challenges emphasised in the JRSPSI, nor to the NRSPSI 2006-08. On the other hand, both these documents are interlinked at least in two respects: they overlap in terms of the overall strategy – i.e. to reform the pension system and achieve sustainability in the long run, to promote work incentives and labour market participation in general, to support equal access to education and life-long learning. It then follows that there is also an overlap in terms of some measures proposed in these documents. Consequently, some of the challenges mentioned above are also implicitly present in the Implementation report on the NRP.

Firstly, the reforms of the social system and modernisation of employment protection and employment services are expected to stabilise public finances and accelerate economic and employment growth. The government decision to start negotiations of the pension system and the health care reform is consistent with the crucial challenges addressed by the Commission to the Czech Republic. On the other hand, real progress is, as mentioned above, rather modest. For this reason it is not possible to assess whether the specific recommendations, with respect to these systems (financial sustainability, pension adequacy, promotion of the role of primary health care, coordination of health and social care), would be fully taken into consideration.

Secondly, the objective to improve the situation of vulnerable groups and that of disadvantaged regions is reflected in the Implementation report on the NRP as one of its objectives. The NRP aims to improve the position of the vulnerable groups in the labour market, access to labour market training and life-long learning. However, as we have seen, vulnerable groups are not fully prioritised in policies and the achievements so far are not satisfactory.

The social inclusion aspect is rather weak in the Implementation report 2007 on the NRP, in terms of the recognition of links between social inclusion policies and economic growth. The NRP does not fully recognise the relevance of active inclusion, active ageing, gender equality, the pursuit of quality jobs, flexicurity for economic growth and job creation. Two examples may be mentioned here. The first one is the issue of child poverty and intergenerational transmission of social disadvantage which calls for a stronger policy response (Večerník 2007, Sirovátka 2007).

This problem is omitted in the Implementation report, although some of the measures adopted in the framework of the social system reform may affect it in a negative way. Another example is social integration of migrants. The Implementation report focuses on the proposal to implement a system of 'Green cards' for the selection and better use of foreign work-force, while the pressing problem of social integration of migrants (see Večerník 2007) has not so far been addressed although some basic measures have been adopted and are regularly monitored (Aktualizovaná koncepce 2006).

### 2.3. Governance

Interaction between the revised Lisbon objectives and the OMC (social inclusion) is not much developed. The main integrative mechanisms of coordination and joining up of economic, employment and social policies are above all the general preferences of the Czech government and public administration which influence the objectives and measures of both strategies. Specifically, identical guiding objectives were outlined, including the sustainability of social expenditure in the context of the public finances debt, incentives to work, flexibility of the labour market, inclusion of vulnerable groups into the labour market etc. This kind of coordination is limited to general principles (guidelines) since both documents lack formulation of quantified or operationalised targets and/or specification of available resources.

Another mechanism is the involvement of stakeholders in preparing and implementing the NRP, which is mediated through a special interministerial body in participation with social partners and representatives of NGOs. The same principle was applied in the case of the Social Inclusion agenda, i.e. in the preparation of the NRSPSI. The role of the bodies is to coordinate the preparation of groundwork materials and draft documents, they are not granted decision making competences. Both bodies work in fact independently. These circumstances do not ensure a strong link between the agendas.

Coordination between the local and regional level and the national level in the area of the social inclusion agenda is only just being developed (see table 6 – enclosure). The new Act on Social Services has obliged regional authorities to elaborate the Regional Plans on Development of Social Services which will coordinate more effectively different levels of policy making in social services. Similarly, coordination of employment and education policies at the regional level is in the hands of Regional Boards on Human Resources Development and Regional Employment Offices. The mutual link between employment and education policies and the social inclusion agenda at the regional level is not institutionalised.

From the perspective of social inclusion, direct involvement of people with experience of social exclusion is still insufficient, yet there is no formal mechanism to engage them in the process, although some representatives of NGOs (i.e. groups of disabled citizens) participate in the commissions on the elaboration of the NRP and NRSPSI.

Due to the governance context characterised above, it is no surprise that the Implementation report does not provide examples of an integrated approach or 'joined-up' policies. There are only three examples of good practice in the report, all taken from other policy areas - two of them concern the area of creating better and more innovative entrepreneurial environment, one example focuses on improvement of curricula at the bachelor degree level in cooperation with businesses.

There remain certain gaps in the monitoring and assessment of the expected and factual impact of policies of the NRP and NPSPSI. In this respect, the expert commission's report assessing the pension reform proposals submitted by political parties from 2005 represents in fact an exception. The assessment of social reform proposals from 2007 focused solely on the macroeconomic impacts even though these proposals call for elaborating models of the expected micro-social impacts. Similarly, the monitoring of the contribution of projects financed from the EU structural funds does not go beyond simple descriptive information on the number of projects, finances, and participants.

The use of indicators of the NRP and NPSPSI and related supportive statistical documents has brought substantial progress in the monitoring of policies and their context since it has obliged and mobilized the competent national bodies to provide new packages of information. Similarly, the implementation of SILC has facilitated great progress in the monitoring of poverty and social exclusion. This also helps develop research in this field.

## Part 2: Overview of changes in relevant key trends and new reforms since 2006

### 1. Changes in baseline policy situation and related trends

The policy situation in 2006-2007 has been influenced mainly by the overall economic and political development. The country experiences a fast economic growth (in 2005-2006 it was about 6.5% and it continued the same pace in the first half of 2007), generated largely by increased labour productivity (nearly a 5% growth per annum). Labour demand increased in 2007 and the number of vacancies registered by Employment Offices grew by a third in comparison with 2006. Unemployment consequently declined. On the other hand, the public finances deficit increased from 1.9% of GDP in 2005 to 3% in 2006 and is expected to grow further to 3.4% in 2007, producing a strong impetus for austerity measures concerning social expenditure (in spite of the fact that expenditure on social protection is not high, clearly below the EU average - about 19% in the Czech Republic compared to 26% of the EU average, see JRSPSI 2007, Annex: 158).

The major policy trends emerged from the political cycle. Three phases of development may be distinguished in this period. Firstly, a package of social legislation was adopted in the first half of 2006 (and came into effect in January 2007). The package included first of all the Act on the Subsistence and Living Minimum (which implemented the lower level of entitlements for benefit recipients passive in job-search, changed the assessment of housing costs etc.), and Act on Assistance in Cases of Material Need. Both acts have increased the conditionality of social benefits, and provided stronger incentives for low earners to work. The Act on Social Services has redirected financial flows to social services towards the clients themselves and has implemented the planning of social services. These changes had been prepared for a long time as strategic reforms of the social system. Secondly, in the first half of 2006, before elections (June), certain measures were adopted, with a universal support by political parties, which increased some benefits targeted at families: the parental benefit was increased approximately by a half, as well as the birth grant. Thirdly, new reform steps were taken in the second half of 2007. After elections that resulted in an equality of votes on the right-left axis the winner (Civic Democratic party) needed about half a year to win the support of the Parliament. It was not until

January 2007 that the new government finally stabilised its position. The reform of the social system aiming at a short-term as well as long-term sustainability of public finances and a tax reform based on the introduction of flat tax are among top priorities of the new right-centre government. The first proposals were adopted by the Parliament in August 2007.

## 2. Changes in the economic, social and demographic context

The changed context - fast economic growth and improved work incentives boosted by reforms - has influenced developments in the labour market. Data from the Labour Force Survey shows that between the second quarter of 2006 and the second quarter of 2007 unemployment rate dropped from 7.1% to 5.3%. In the 15-24 age group it dropped from 16.9 to 10.3% and among low-skilled people from 24.6% to 20.1%. Remarkable improvement can be observed in regions most affected by unemployment – in Moravskoslezsky region the decline was from 12.7% to 8.2%, and in Ustecky region from 13.7% to 10.1%. The long-term unemployment rate decreased from 4.0% to 2.9%. Similarly, the registered unemployment rate dropped from 7.9 % to 6.4 % in September, with the most affected districts profiting most. However, labour market inclusion of some vulnerable groups remains to be a problem. In spite of the economic growth the increasing public finances deficit calls both for short-term cuts in social expenditure and, in the long term, for the reform of the pension and health care system, since Czech society is one of the most rapidly ageing societies in Europe.

## 3. Major new trends and challenges, new risk factors, new groups at risk

Although in the long term, the reforms of the pension and health care systems present a major challenge, the steps which have been taken in this field are rather modest and slow. The delays represent an increasing risk concerning public finances stability and the pace of economic growth, as well as sufficient resources for other parts of the social system in the next years. Yet, although the short-term changes as well as systematic reforms of the social system are inevitable for the stabilisation of public finances, these reforms implicitly represent a risk for vulnerable groups of the population, unless the risks are sufficiently provided for during the reforms.

We regard some new trends and challenges as acute – especially those that emerge from increasing social polarisation and other trends like migration, labour market segmentation etc.: child poverty, labour market exclusion of vulnerable groups, exclusion of the Roma and exclusion of a part of migrant population.

- Child poverty

According to SILC 2005 data, the child at-risk-of poverty rate is 1.8 times as high as the at-risk-of poverty rate for the whole population. We also take into consideration that the income indicator does not mirror all the dimensions of material deprivation and evidence exists that the degree of material deprivation in the Czech Republic is higher than the relatively lower indices of income poverty (see table 2 in Appendix). The Czech Statistical Office monitors the situation of income and expenditure of the population; among other things, it focuses on the situation of 'families with children and minimum incomes' (i.e. incomes lower than 1.4 times the legal subsistence minimum). Data shows that in 2006 real incomes in this group increased only to 103.1% of the level in 1992, while in the category of employees the increase was to 122.5%. The proportion of housing costs in the household's total expenditure

increased from 19% in 2000 to 26% in 2006 in the category of households with children and minimum incomes due to the general increase in the housing costs (rent and bills), while in the case of employees this proportion remained the same (around 17%) (Basic Indicators 2007). All this indicates that the position of young families with children becomes ever more complicated due to several factors (income differentiation, decreasing level of family-related benefits, rising housing costs, lack of social housing etc.).

The previously implemented and recently adopted changes in the social system may have negative impacts on child poverty if not carefully assessed. For example, the legal living minimum (minimum standard of living) was reconstructed in 2007 and a lot depends on how the social departments assess individual client's entitlements to the housing benefit, in the situation when rent deregulation is underway and prices of energies are increasing. Available data shows that the legal living minimum is below the at-risk-of poverty rate by about 10-15% in the case of families with children, which means that hard poverty is being effectively prevented. Specifically, net income of social assistance recipients represents about 86% of the at-risk-of-poverty rate for couples with two children, while only in 5 EU countries out of 16 the ratio of social assistance to the poverty threshold is higher. In the case of lone parents with two children the social assistance income comes to 89% of the poverty threshold (however, it is higher in 9 countries out of 16), and in the case of single persons it represents 67% of the poverty line and is higher in 12 countries out of 16 (see Annex to JRSPSI 2007: 163). Similarly, when we compare average replacement rates of benefits to average wages in long-term unemployment for four types of families (a single person, a couple, a lone parent + two children, a couple + two children), in 22 OECD countries (OECD 2006 and own computations) and in the income group of 67 % of APW, then the replacement rate in the Czech Republic is 52.1 %, while the average in 22 OECD countries is 54.8 %. It is lower only in Poland, Spain, Slovakia, Hungary, and significantly lower in Greece and Italy.

The decision to cancel the rule of timely revaluation of the living minimum may affect the living standard of low income groups, those with children in the first place. This concern seems to be of more significance than the redistributive impacts of the social reforms from August 2007. According to our computations, the new social reform will not greatly affect families (apart from increasing incentives to work). When we calculate the overall impact of the changed social benefits, income taxes and VAT on working families and when we compare the current situation with the situation after the reform, it seems that families with below-average earnings without children or those with one child are likely to lose 2% of their income at most, have the same income, or, in some cases gain up to 1% of income. Families with two and more children are likely to gain up to 2% of income. Average income groups will live approximately on the same income, while families with earnings three times as high as the average will gain up to 4% of their previous income (figures are based on CMKOS 2007 and own calculations).

In families where one member of the household is unemployed, the loss for low-income groups is likely to be between 1.5-4%, and minor losses of about 1-1.5% will probably affect all households except the highest income brackets. In families where both partners are unemployed the loss is about 10-17% for the lowest income brackets, and the higher the previous income, the lower the loss, up to zero or 3-4% at most at the level of average income (figures are based on CMKOS 2007 and own calculations).

- Vulnerable groups and their exclusion from the labour market

As we have already explained, the situation in the labour market improved and unemployment decreased in 2006-2007. However, the gains in the form of growth, job creation and improved work incentives do not fully translate in a more inclusive labour market. The proportion of long-term unemployment remains high and the proportion of some vulnerable groups among the unemployed has even increased. The scope of active labour market policies increased, but this is not a substantial change, and the targeting at vulnerable groups remains rather weak – this is especially the case of labour market training (see table 3 in Appendix). Similarly, in the case of life-long training only 0.9 % of the low-educated labour force and only 2 % of older workers (55-64) participate, while the average is 5.6% (only about a half of the European standard). The new reform from August 2007 has brought restrictions concerning measures facilitating employment of disabled people: a maximum ceiling was imposed on the contribution provided to employers who employ more than 50% of disabled staff and the consequent use of this contribution with support on job creation for the disabled has been excluded (the argument was that this measure had been misused in about 30% of cases, as estimated by the MLSA).

- Social exclusion of the Roma

The 'Roma problem' is well known, although only partially tackled by policies. The emerging 'concentration effect' of excluded communities of the Roma has recently been better recognised, as well as the quality of social space as a factor of social exclusion. Gabal (2006) has identified 330 socially excluded Roma communities in the country, of different types and size. About 90% of them have emerged during the past ten years and the growth of about 60% of them has been negatively influenced by local authorities who tended to deliberately displace and concentrate the Roma in these areas. Unemployment in these areas comes to 90-100%, substandard housing is to be found in 80% of these localities, access to education is inadequate. In order to address this problem, the government adopted a plan in 2007 to establish a special agency to tackle the problems of socially excluded Roma communities with the help of the EU structural funds. Fieldwork projects in Roma communities and school assistance continued in 2006-2007, but are still insufficient considering the scope and intensity of the problem.

- Social exclusion of some segments of migrant population

Another problem is the less visible form of social exclusion of migrant workers, both illegal and also legal ones (from the Ukraine and other countries) and the need of social integration of the migrant population in general. Their exclusion results, among other (individual and social) factors, from the institutional factors, like rather restrictive nature of the 'Foreigner's Act', in combination with a lacking comprehensive integration strategy and an absence of public administration bodies that would deal with the problems of these communities. Existing research identifies several barriers to integration of migrants. Several of them are of individual or socio-cultural background (language incompetence, attitudes of the public, incorrect approach by employers and other parties, illegal practices in hiring foreign workers that are not effectively inhibited by the state administration). Although the Act on the

Residence of Aliens in the Territory of the Czech Republic regulates along the lines of similar legislation in other EU member States, still, some of the barriers emerge from deficiencies of the institutional system such as legislation regulating residence and work permit, lack of information on migrants' rights, etc. (e.g. Tollarová et al. 2006).

The project of 'green cards' for foreign workers, which is referred to in the Implementation report, will improve the flexibility of the labour market and the position of the specific segment of foreign labour force by simplifying administrative procedures related to work and residence permit for qualified workers (a high and medium qualification). On the other hand, it is also necessary to integrate the already existing and socially excluded minorities of migrants. Some research projects about this phenomenon were started in 2006-2007 and are supported from the government budget.

#### 4. New legislation and policy development

Several important policy developments in the period 2006-2007 deserve attention with respect to social inclusion. Firstly, a series of acts was adopted in the first half of 2006 which come into effect in 2007 and which positively influence work incentives and adequate income from work. The reforms have also increased discretion given to social workers in assessing households' situation and housing costs and the conditionality of social assistance benefits. Some benefits provided to families have been improved. The Act on Social Services established conditions for such developments of these services that would correspond to the needs of clients and to the standards of quality (see table 4, Appendix).

Secondly, in August 2007, the first steps of the social system reform proposed by the new government were approved by the Parliament and would come into effect in 2008. These measures bring cuts in several family-related benefits (while, on the other hand, tax bonuses will increase). Besides, they remove the revaluation of the subsistence minimum, flexibilise parental leave, increase co-payments in health care by introducing new regular fees (see table 5 in Appendix).

Third, the scope of active labour market policies expanded at least by a quarter thanks to the ESF projects. These measures contributed, in combination with the fast economic growth and improved work incentives, to the rapid decline in unemployment rates, including long-term unemployment rate. However, the development in 2007 suggests that the ESF projects serve to replace the already existing active measures, instead of improving the targeting towards vulnerable groups. Correspondingly, the proportion of disabled and elderly people in unemployment is growing.

Fourthly, initial steps have been taken to create conditions for life-long learning. The Act on Recognition of Further Education was adopted in 2006 and also the Strategy of life-long learning has recently been adopted by the government. However, further action should soon take place in order that these intentions become a reality.

Fifthly, some measures were adopted in the field of inclusion of the Roma minority, although the policy response is still not adequate to the scope of the problem. Fieldwork projects in Roma communities continue but the number of field workers is too low considering the need. Similarly, school assistance is provided to Roma children in the form of preparatory classes and teacher

assistants. The number of preparatory classes has grown from 123 to 146 in 2006 and the number of participating children from 1,441 to 1,713.

In 2006, there were 330 teacher assistants working with Roma children in the country. However, out of 65 elementary schools where more than half the children are Roma, 25 did not have a teacher assistant at all (Agentura 2007: 19). It seems that the problem is often not recognised by school directors. The decision by the government to establish a special agency to tackle the problems of the Roma community with the support of the EU structural funds may bring positive outcomes in this field of policy.

Sixthly, the first steps to improve the situation of migrants were taken – i.e. the amendment to the 'Foreigner's Act' and the project of 'green cards' for qualified foreign labour force. In 2006, the amended 'Foreigner's Act' improved the situation in several respects (in line with the Directive 2003/109/EC), positively affecting especially EU citizens. It shortened the period required for applying for permanent residency from 10 to 5 years, entitled the EU residents to a three-month stay in the country and to a long-term residence permit. In contrast, the situation of non-EU migrants is still complicated in several respects (see also Večerník 2007). However, the new Act on Assistance in Cases of Material Need provides foreigners with entitlements to social assistance benefits and basic social counselling services to resolve or to prevent cases of material need.

In February 2007, the government adopted certain measures in connection with negotiations of the Report on the concept of integration of foreigners (this concept was updated in 2006). The key implementation mechanism of the strategy is financial support to NGOs active in this field. The government allocated 25 mil. CZK for 2007, which is more than in the past years (about 20 mil. CZK), yet not even these resources are sufficient (see also Večerník 2007). The Ministry of Labour and Social Affairs contributed to better information and awareness of migrants' rights (this is one of four streams in the concept of integration policy) by preparing and distributing the 'Information publication for foreigners' in December 2006 and a reprint in September 2007.

Lastly, in 2007, the Ministry of Regional Development announced four programs in the field of housing that are financed under the 'State Fund for Housing Development'. Among them is support provided to municipalities for the construction of social rent housing, conditioned by the requirement to secure other needed social services for target groups. The programme is targeted at low income brackets and distinguishes among the following forms of social housing: sheltered housing (for disabled persons), half-way housing (for persons with low social skills) and entry housing (for persons leaving institutions). This support typically amounts to over half a million CZK (200,000 EUR per one apartment). We notice that some municipalities take steps to build social housing in order to provide mainly young, low income families with 'starting housing'.

In summary, the progress concerning implementation of the social inclusion strand of the NRSPSI in decision making may be perceived as minor and, similarly, the mainstreaming of the social inclusion policy in other areas of decision-making is weak. The Implementation report on the NRP 2006-08 gives no reference to social inclusion. Data from the research on Mainstreaming social inclusion (mid-2006) illustrate a generally low legitimacy of the agenda of social inclusion in policy making (see Table 7 in Appendix). The Ministry of Labour and Social Affairs developed a series of activities promoting social inclusion mainstreaming, often in cooperation with NGOs. For example, in 2006-2007, several conferences were organized either on social inclusion or on

developing social services. The general awareness of social inclusion, at least in the field of social services, is becoming more widespread among the involved parties.

Policies to tackle the gender dimension are not part of the regular public policy agenda. Instead, we can find some rare 'manifestations' of this dimension in some specific activities. For example, the Implementation report on the NRP refers to some projects financed from the EU structural funds that focus on equal opportunities from the perspective of gender.

Some progress has been achieved in better linking the national and regional/local social inclusion policies in the field of social services thanks to the new Act on Social Services which obliged the regional authorities to elaborate and to implement the Regional plans of development of social services in participation with other partners, NGOs in particular. There are several examples of good practice not only at the regional level, but also municipality level - some municipalities elaborated such plans with a focus on the complexity of policies.

We have also registered positive influence of the modified governance framework in connection with implementation of EU projects in the field of employment, education, social services and social inclusion: the resources available to local actors, including NGOs, help mobilize local partnerships and local activities and other community resources and boost the process of bottom-up policy making in this field, which has a potential to bring substantial gains in future.

## 5. Progress in relation to country-specific challenges identified in the 2007 JRSPSI

We have registered partial progress in relation to the challenges identified in the 2007 JRSPSI: some initial steps were taken in support of implementation of social inclusion at the regional and local level, mainly in social services, but also in employment projects and in social inclusion in a broader meaning of the word. The planning of social services development was embedded in legislation and is supported through the ESF. This contributes also to the improvement of the situation of vulnerable groups like the Roma and others. However, as we have already explained, progress is only partial: the policies have to some degree contributed to a decline in unemployment, including long-term unemployment - but policy deficits are still apparent, and the outcome could have been better considering the fast economic growth. Similarly, policies aimed at the Roma community bring only partial improvements and should be promoted further.

Support to disadvantaged regions has been more successful but if the measures to improve the situation of vulnerable groups were more effective there would also be more progress in the disadvantaged regions. The pension reform and promotion of job creation and job take-up for older workers aiming at achieving financial sustainability and pension adequacy: as we have said, the proposal of parametric pension reforms has been submitted recently by government and negotiations started. However, since the legal retirement age has been increasing, the employment rate of older workers increases remarkably. Measures are envisaged to improve the equity of financing and financial sustainability of funds in the next step of the social reform.

Improving efficiency and using resources more sensibly (by focusing on PHC), while reducing dependency on specialist and hospital inpatient care and by adjusting staff numbers remain among challenges for the future. Between 2005-2006 the situation in health care did not change much: between 2005-2006/7 the number of hospitals dropped from 195 to 193 (mid 2007), the number of beds in hospitals dropped from 65 thousand to 64,2 thousand, and

the number of physicians in hospitals rose slightly from 40,8 thousand to 41 thousand (<http://www.uzis.cz>). Similarly, the number of physicians in out-patient care remains constant (29,5 thousand compared to 29,7 thousand). Nevertheless, the first steps have been taken to assess different alternatives of the health care reform and the Ministry of Health assesses various options of reorganising the health care establishment network. Enhancing coordination between health and social care and between different stakeholders and improving access to long-term care services is slowly progressing, owing to the planning of development of social services at the regional and local level. The number of home care and community services as an alternative to residential care increases very slowly (<http://www.czso.cz>).

## List of abbreviations:

APW – average production wage  
GDP – gross domestic product  
ESF – European Social Fund  
EC – European Commission  
EU – European Union  
METR – marginal effective tax rate  
NGOs – non-governmental organisations  
NRP – National Reform Programme  
NRSPSI – National Report on Social Protection and Social Inclusion  
OMC – open method of coordination  
R&D – research and development  
SILC – survey on income and living conditions  
VAT – value added tax

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<http://www.cizinci.cz> – website about foreigners

<http://www.cmkos.cz> - Czech-Moravian Chambre of Trade Unions (CMCTU)

<http://www.czso.cz> – Czech Statistical Office

<http://www.europa.eu.int> - EU

<http://www.llp.cz> - League of Human Rights, Programme for the legal protection of children

<http://www.mmr.cz> – Ministry for Regional Development (MRD)

<http://www.mpsv.cz> – Ministry of Labour and Social Affairs (MLSA)

<http://www.msmt.cz> – Ministry of Education, Youth and Sports (MEYS)

<http://www.oecd.org> - OECD

<http://www.portal.mpsv.cz/sz> – Ministry of Labour and Social Affairs – Public Employment Service (MLSA-PES)

<http://www.sfrd.cz> – State Fund for Housing Development (SFHD)

<http://www.uzis.cz> - Institute for Information and Statistics on Health (ÚZIS)

<http://vlada.cz> – Government of the Czech Republic

<http://www.vupsv.cz> – Research Institute of Labour and Social Affairs (RILSA)

## Annex

### 1. New legislation

Act no 107/2006 on Unilateral Rent-Increase (approved by the Parliament in March 2006, in force as of January 2007)

Act no 108/2006 on Social Services (approved by the Parliament in March 2006, in force as of January 2007)

Act no 110/2006 on the Subsistence Minimum and Living Minimum (approved by the Parliament in March 2006, in force as of January 2007)

Act no 111/2006 on Assistance in Cases of Material Need (approved by the Parliament in March 2006, in force as of January 2007)

Act no 161/2006 – amendment of the Act no 326/1999 on Foreigners (approved by the Parliament in March 2006, in force as of April 2006)

Act no 179/2006 on Recognition of Results of Further Education (approved by the Parliament in May 2006, in force as of August 2007)

Act No 182/2006 on Insolvency and Methods to Tackle It ('Insolvency Act'), (approved by the Parliament in March 2006, in force as of July 2007)

Act no 187/2006 on Sickness Insurance (approved by the Parliament in March 2006, in force as of January 2009)

Act no 221/2006 on Enforcement of Industrial Property Rights (approved by the Parliament in April 2006, in force as of May 2006)

Act no 261/2007 on Stabilization of Public Budgets (approved by the Parliament in August, in force as of January 2008)

Act no 262/2006 New Labour Code (approved by the Parliament in April 2006, in force as of January 2007), amendment brought forward by the government and accepted by all parties in the Parliament in August 2007

Act on Equal Treatment and on Legal Instruments of Protection against Discrimination (Anti-Discrimination Act). The Act was rejected by the Parliament in May 2006 and is currently being negotiated in the Parliamentary commission for equal opportunities.

## 2. Tables

Table 1. Wage and benefit levels (CZK per month and percentage of the average wage)

Indicator	1991	1996 **	2000 **	2002	2003	2004	2005	2006 **
<i>In CZK per month:</i>								
Gross average wage	3792	9825	13614	15866	16917	18041	18985	20211
Net average wage	3087	7654	10660	12439	13212	14036	14366	15628
Minimum wage	2000	2500	4250	5700	6200	6700	7185	7763
Unemployment benefit	1562	2275	2781	3164	3324	3562	4215	4527
Minimum living standard for single adult	1700	2718	3685	4100	4100	4100	4300	4420
Minimum living standard for family of four*	5600	8623	10988	11980	11980	11980	12400	12680
Average pension benefit	1777	4213	5962	6830	7071	7256	7728	8173
<i>In percent of the net (gross) average wage:***</i>								
Minimum wage	52.7	25.4	31.2	35.9	36.6	37.1	37.8	38.4
Unemployment benefit	50.6	28.6	26.1	25.4	25.2	25.4	29.3	30.0
Minimum living standard for single adult	55.1	35.5	34.6	33.0	31.0	29.2	29.9	28.3
Minimum living standard for family of four***	181.4	112.7	103.1	96.3	90.7	85.4	86.3	81.1
Average pension benefit	57.6	55.0	55.9	54.9	53.5	51.7	53.8	52.3

Sources: *Večerník 2007* for 1991- 2005, and *Research Institute of Labour and Social Affairs, Ministry of Labour and Social Affairs, CZSO* for 2006.

\*Two adults and two children 10-15 years old.

\*\* The weighted value used for the adjustment of the minimum living standard or minimum wage during the year.

\*\*\* Only the minimum wage is related to gross average wage, all other items are related to the estimated net wage. The estimate is based on family expenditure data by the Ministry of Labour and Social Affairs.

**Table 2. Indicators of deprivation in 2005: Czech Republic in international comparison**  
Proportion of deprived people, for each item, in total population (individuals), in %

	CZ	AT	BE	DK	EE	ES	FR	GR	PT	SE
<b>Economic strain</b> the household is unable to pay scheduled rent, utility bills or hire purchase instalments	5	3	7	5	15	7	13	30	8	10
<i>What the household cannot afford:</i>										
a week's annual holiday away from home	42	25	29	9	71	44	33	47	61	14
keeping its home adequately warm	10	2	6	10	5	9	24	17	41	1
eating meat, chicken or fish every second day	19	9	4	2	16	2	8	8	4	3
facing unexpected expenses	44	20	28	18	8	38	34	35	20	13
<b>Durables</b> <i>Enforced lack of:</i>										
Colour TV	1	0	1	1	2	0	0	1	1	0
Telephone	2	1	1	0	4	1	1	1	4	0
Personal car	17	5	7	9	31	6	4	12	12	5
Washing machine	1	1	2	2	7	0	8	2	4	2
<b>Housing conditions</b> <i>Does the dwelling have problems with:</i>										
Indoor flushing toilet	3	2	1	1	19	0	1	4	4	0
Bath or shower	2	1	1	1	21	0	1	2	4	0
Leaky roof, rot in window frames, damp walls, etc.	20	10	14	8	29	20	15	20	23	5
The accommodation is too dark	6	6	11	4	9	13	9	7	22	3

Source: *Living Conditions 2005 (CZSO 2007 and Guio, Museux 2007, Annex)*.

Table 3. Unemployed people in vocational training as a percentage of the specific category

	2006 (Dec 31)		
	1 Unemployed	2 Participants in vocational training	2/1 in %
Unemployed in total	448,545	59,048	13.2
women	238,713	35,882	15.0
disabled	71,318	5,314	7.5
> 50 years	121,609	10,949	8.3
< 25 years	78,500	14,640	18.7
Unskilled	140,919	9,926	7.0
> 12 months	184,909	15,638	8.5
	2007 (Sept 30)		
	1 Unemployed	2 Participants in vocational training	2/1 in %
Unemployed in total	364,978	48,275	13.2
women	203,556	30,226	14.9
disabled	65,798	4,603	7.0
> 50 years	106,555	8,978	8.4
< 25 years	67,406	10,014	14.9
Unskilled	121,796	8,421	6.9
> 12 months	148,335	13,874	9.3

Notes: 1 – by the end of the period; 2 – enrolled during the period

Data: Ministry of Labour and Social Affairs (<http://portal.mpsv.cz>), own computations

Table 4. Changes in the social security system adopted in the first half of 2006, in effect since January 2007

Act no	Contents	Main changes
Act no 110/2006,  Act no 111/2006	Act on the subsistence and living minimum  Act on assistance in material need	Only personal needs are covered by the national living minimum, contributions towards housing costs are at discretion of municipalities, in relation to real costs of housing. 'Subsistence minimum' was implemented, about 2/3 of the living minimum for a single person.  Adult children and parents sharing accommodation are considered a household when testing means of subsistence. Only 70 % of income from work and 80 % of income from sickness and unemployment benefits is taken into account when testing means of subsistence. An activation plan should be elaborated for those who are welfare dependent for more than 6 months, and a plan of individual motivation for those whose situation requires immediate assistance. Subsistence minimum instead of living minimum applied in cases where willingness to work or cooperation on improving income is lacking (but parents caring about children exempted). A possibility of in kind benefits or benefits to a 'substitute' recipient in cases of misconduct.
Act no 108/2006	Social services	Right to free basic social counselling available to everyone Care allowance for personal assistance services was implemented, to be paid to those entitled to care/ assistance services, amounting to 2,000 - 11,000 CZK, according to the degree of dependency. Social services were defined (including socially activating services and social fieldwork), as well as professional requirements of service providers. Regional governments have been obliged to elaborate Middle-term plans of social services development. Institute of Inspection of Social Services was established.
Act no 112/2006	Parental benefit	Parental benefit nearly doubled, to 40% of the public sector average wage (7,582 CZK).
Act no 113/2006	Birth grant, school needs supplement	Birth grant more than doubled to 11.1times the subsistence minimum for a child (17,760 CZK) and 16.6times the subsistence minimum for subsequent children in the case of multiple births.
<i>Act 187/2006</i> <i>Date of coming into force postponed to 2009</i>	<i>Sick pay, maternity and care benefit</i>  <i>(further negotiations expected)</i>	<i>Sickness insurance contribution by employers decreased from 3.3% of wage to 1.1% but employers pay for the first two weeks of sickness.</i> <i>Parents are allowed to take turns in caring for a sick child (a period of 9 days) while receiving the care benefit.</i>

Source: relevant legislation, website of the Ministry of Labour and Social Affairs (<http://www.mpsv.cz>)

**Table 5. Main changes in the social security system approved by the Parliament in August 2007**

type of benefit	main change	current conditions	expected impact
Subsistence minimum and living minimum	Automatic revaluation mechanism removed, revaluation at discretion of the government	Obligation to reevaluate when CPI increases by 5 %	To prevent growth of social expenditure, to support incentives to work.
Assistance in material need	Supplement for special cases abolished.	After one year recipients who require special support in job-mediation are entitled for a supplement of 600 CZK to social assistance benefit (living minimum)	To increase incentives to job-search, equal entitlements for benefits
Child benefit	Entitlement limited to families with income lower than 2.4 times the living minimum. Benefit differentiated only by the child's age: 500 CZK (0-6), 610 CZK (6-15) and 700 (15-26). Automatic revaluation mechanism removed, revaluation at discretion of the government.	Entitlement only to families with income lower than 4.0 times the living minimum. Three levels of benefit, depending on family income and the child's age (the highest when income is low)	To prevent growth of social expenditure, to create a better targeted system of benefits, to support incentives to work. Savings of 2.7 bill CZK out of the estimated 10.3 bill CZK expenditure in 2008.
Social supplement benefit	Entitlement limited to families with income lower than 2.0 times the living minimum.	Entitlement granted to families with income lower than 2.2 times the living minimum.	Savings of 0.48 bill CZK out of the estimated 4.7 bill CZK expenditure in 2008.
Parental benefit (available after 28 weeks of maternity leave)	Three options available (to be decided when the child is 18 months old): <ul style="list-style-type: none"> <li>- fast track, 11,400 CZK, until the child is 24 months old</li> <li>- middle track, 7,600 CZK, until the child is 36 months old</li> <li>- slow track, 3,800 CZK, until the child is 48 months old.</li> </ul> Fast track available under the condition that allowance during maternity leave (paid from social insurance) was at least 360 CZK per day.	Parental benefit amounting to 40% of the average public sector wage (7,582 CZK) paid until the child is 48 months old.	To prevent growth of social expenditure, to create room for individual choice in reconciling work and family. Savings of 4.4 bill CZK out of the estimated 31.3 bill CZK expenditure in 2008
Birth grant	Amounting to 15,000 CZK for the first child and 13,000 CZK	Amounting to 17,760 CZK (11.1 times the subsistence	Savings of 0.4 bill. CZK out of the estimated 1.8

	for subsequent children. Automatic revaluation mechanism removed, revaluation at discretion of the government.	minimum for a child), 53,120 for twins, 79,680 for triplets.	bill CZK expenditure in 2008.
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(Table 5 continued)

type of benefit	main change	current conditions	expected impact
Contribution towards school needs of children	Cancelled	1,000 CZK per year, universal	Savings of 0.084 bill CZK
Funeral grant	Cancelled, only in special cases	5,000 CZK per year, universal	Savings of 0.43 bill CZK out of the estimated 0.53 bill CZK.
Contribution towards school needs of children	Cancelled	1,000 CZK per year, universal	Savings of 0.084 bill CZK
Funeral grant	Cancelled, only in special cases	5,000 CZK per year, universal	Savings of 0.43 bill CZK out of the estimated 0.53 bill CZK.
Sickness benefit	First 3 days – no benefit 4-30th day – 60 % of accountable income, 31-60th day 66 %, and from 61st day 72 %, 60 % in the case of care benefit (a sick child or family member)	First three days 25 % of accountable income ('base amount'), then 69 %	To prevent growth of social expenditure, To prevent misuse of benefit.
Unemployment benefit	Entitlement cut in the case of those who were fired from their last job due to misconduct	Entitlement cut upon refusal to accept a suitable job or due to lacking cooperation	To prevent misuse
Maximum accountable income (base amount) for social insurance	Ceiling of 48times the average monthly salary per year	No ceiling for employees, only for self-employed persons	More equity in the system
Child credit (bonus)	Increased to 10,400 CZK	6,000 CZK	Making work pay + increased support to families with children
Health care	Co-financing of 30 CZK per prescription and per appointment with a doctor 60 CZK per day in hospital 90 CZK per emergency service	Free of charge health care services (co-pay applies to medication and dental care)	To reduce excess of demand over supply
Taxation	15 % flat rate income tax, but calculated using income before payroll, which corresponds to a tax rate of 23 % on average, and from 2009 a tax rate of 12.5 %. Joint taxation cancelled The lower level of VAT increased from 5% to 9%	Progressive taxation between 12 – 32 % A lower level of VAT imposed on certain goods and services (i.e. food, restaurants, housing, medication).	To increase incentives to work

Source: relevant legislation, website of the Ministry of Labour and Social Affairs (<http://www.mpsv.cz>)

**Table 6. Various items characterizing the implementation of the social inclusion agenda**

Answer: *'to a (very) great extent'*, responses by respondents-experts involved in the area of social inclusion, N in parentheses, in %

	Coordination of policies against poverty and social exclusion			Resources for governmental policies	Influence of excluded persons	Influence of NGOs	Impact of the NAPSI
	National government	Regional level	Local level				
United Kingdom	19.0 (110)	18.4 (98)	15.6 (96)	21.4 (113)	8.8 (114)	13.3 (106)	13.6 (81)
Ireland	23.1 (91)	6.4 (78)	23.6 (85)	16.3 (86)	17.5 (86)	32.6 (84)	30.6 (85)
France	16.9 (70)	28.6 (70)	23.5 (68)	7.4 (68)	8.8 (68)	18.8 (69)	7.8 (66)
Portugal	33.7 (86)	28.6 (108)	15.4 (104)	11.4 (87)	25.8 (81)	35.9 (78)	20.1 (80)
Bulgaria	68.5 (118)	41.4 (104)	60.0 (108)	38.6 (122)	33.0 (115)	35.9(105)	75.2 (109)
Average for 9 countries	28.8 (663)	20.1 (494)	25.8 (614)	19.8 (681)	16.0 (656)	27.6(634)	28.3 (605)
Czech Republic	12.8 (102)	11.2 (108)	15.4 (104)	18.0 (117)	10.3 (107)	21.3(108)	22.2 (108)

Source: Data - the Mainstreaming of Social Inclusion survey (O'Kelly 2006), own computations

**Table 7. 'Are the policies against poverty and social exclusion a key political priority?'**

Answer: *'to a (very) great extent'*, selected countries, responses by respondents-experts involved in the area of social inclusion, N in parentheses, in %

	At the national level	At the regional level	At the local level
United Kingdom	65.6 (116)	46.5 (114)	39.4 (114)
Ireland	48.4 (91)	27.8 (90)	17.7 (90)
France	18.6 (70)	31.4 (68)	26.5 (68)
Portugal	40.9 (88)	-	43.0 (86)
Bulgaria	62.8 (121)	41.5 (121)	56.6 (122)
Average for 9 countries	46.3 (702)	29.5 (573)	35.1 (700)

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Czech Republic	35.4 (121)	11.1 (125)	11.0 (125)
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Source: Data - the Mainstreaming of Social Inclusion survey (O'Kelly 2006), own computations