

## Evaluation of the importance of employment pacts and the case study - Moravian-Silesian employment pact in the Czech Republic

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### **Abstract**

*This paper is focused on the evaluation of the effectiveness of a tool that is used in the world and Europe to a comprehensive and systematic solution of the employment at the regional level. These are the so-called employment pacts.*

*The theme is the more up-to-date due to the onset of the global economic crisis since 2008, which brought a deepening of socio-economic problems in the labour market, with negative implications upon an increasing rate of unemployment.*

*The Moravian-Silesian Employment Pact has been chosen for the case study. It was established as the first one of its kind in the Czech Republic, in the structurally affected region of Silesia.*

*The result is the finding that employment pacts are generally a useful tool to resolve problems in regional labor markets.*

### **Introduction**

The global economic crisis is a phenomenon of the contemporary world, every day used in connection with the search for the causes of the negative socio-economic development of both countries, but also regions, which until then had recorded more or less successful journey to a greater prosperity. Discussed topic is a significant increase in unemployment, which affects almost all of the world economies. Solutions are being sought to reverse this negative trend.

The paper is divided into two thematic parts. The first analyzes the principles of regional instruments of a comprehensive and systemic approach to resolve the labor market issues, which are then so-called employment pacts.

The second part focuses on the case study, which is the Moravian-Silesian Employment Pact, as well as the causes and impacts of its activities upon the social-economic development of the Czech region of Moravia-Silesia. In order to better understand the focus of the Moravian-Silesian Pact, a separate chapter under this section is devoted to the particularities of the labor market of this structurally affected region.

The aim of this paper is to evaluate the usefulness and effectiveness of the regional employment pacts as a tool to influence the local labor market.

The chosen theme and layout of the contribution correspond to the selected methodology. It is based on the content and statistical analysis.

### **1. Origin and significance of the employment pact in Europe and the World**

An increasing unemployment is a general phenomenon in developed countries not only in Europe but also worldwide. As regards the European countries, based on the Eurostat estimation of March 2012, a record 24.8 million people out of work were noted in the European Union, out of which 17.4 million in the eurozone. Annual increase in unemployment in the EU stood at 2.1 million, 1.7 million in the eurozone. The relative unemployment in the states of the monetary union was a record high and reached 10.9%.<sup>1</sup>

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Unemployment in the EU in March 2012	
Spain	24,1 %
Greece	21,7 %
Portugal	15,3 %
Lithuania	14,6 %
Ireland	14,5 %
Slovakia	14,3 %
Belgium	13,9 %
Hungary	11,2 %
Poland	10,1 %
France	10,0 %
Italy	9,8 %
Great Britain	8,2 %
Czech Republic	6,7 %
Germany	5,6 %
The Netherlands	5,0 %
Austria	4,0 %

The technical and technological levels of products and their production is growing, causing a permanent decline in the labour demand, or a transfer of this demand into other world locations with lower labor costs. The unemployment affects certain groups of people in particular. The most affected groups are women, youth, graduates, disabled groups, people approaching the retirement age, workers with lower levels of education and ultimately professions located in economically weak or declining regions.

Another negative phenomenon is undoubtedly seen in growing long-term unemployment (over 1 year), which is caused by the structural or cyclical unemployment, as well as by demographic factors (aging of population and extension of the working age) or the acceleration of the technological progress mentioned above.

The unemployment brings a number of negative phenomena, such as social exclusion, poverty, racial hatred and xenophobia, which can result in extreme negative manifestations in the form of individual and mass violence.

The current unemployment is qualitatively rather different from the previous developmental stages and is a natural result of the global economic and social development. Indeed, it is erroneous and dangerous to think that the vast majority of the unemployed have caused their status themselves, due to their inability and low flexibility in the competitive arena of the labor market. On the contrary, in the fierce environment brought by a rising unemployment, other "non-market" aspects get to the fore, which often decide on winning a job.

On the other hand, another, startling and unignorable knowledge has emerged from the empirical experience of daily life - persistent passivity and submissivity of people, which resulted in a reliance on social benefits, in other words, a complete transfer of personal responsibility to a "higher" institution, i.e. the State. In my judgment, it is a long term, and therefore deeply rooted phenomenon, which is due to European developments, with their emphasis on building a welfare state.

As previously mentioned, since it is a qualitatively new manifestation of unemployment, it is necessary to find a higher quality and especially long-term solution to the negative socio-economic phenomenon.

The unemployment has a regional dimension - the contemporary global problems beset the regions structurally affected and economically weak with greater intensity, preventing the convergence of those regions to the average of a respective country and, by extension, to a transnational body such as the

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For more details see Lidovky (May 2, 2012): Unemployment in the EU is a record high again. It unexpectedly grew also in Germany, citation of Aug 31, 2012. Available at [http://byznys.lidovsky.cz/nezamestnanost-v-eu-je-opet-rekordni-necekane-rostla-i-v-nemecku-p8u-/firmy-trhy.asp?c=A120502\\_124142\\_firmy-trhy\\_ase](http://byznys.lidovsky.cz/nezamestnanost-v-eu-je-opet-rekordni-necekane-rostla-i-v-nemecku-p8u-/firmy-trhy.asp?c=A120502_124142_firmy-trhy_ase).

European Union. One of the tools to deal with this current regionally burdensome problem is the so-called employment pacts, known from the world.

### **Employment pacts in Europe and in the world**

Employment pacts are spread throughout the world, as evidenced by the following cartogram.

Cartogram No. 1 Employment pacts in the world



(Resource: The Moravian-Silesian Employment Pact (2011): Pacts in the world, citation of Aug 31, 2012. Available at [www.mspakt.cz/co-je-pakt-zamestnanosti/pakty-ve-svete/](http://www.mspakt.cz/co-je-pakt-zamestnanosti/pakty-ve-svete/))

It is obvious that this kind of partnership is widely used in the world, for example in the USA, Canada and Australia. As for the European Union, "Territorial pacts have been officially recognized and supported by the European Union since 1997 as a partner and cross-functional tool to promote the European Employment

*Strategy*.<sup>2</sup> A legislative support for pacts and partnerships in the EU countries is available from the recommendations laid down in the document titled *The Vienna Action Statement on Partnerships* adopted at the 3rd annual meeting in Vienna on March 1- 2, so-called. OECD LEED Forum on Partnerships and Local Governance.<sup>3</sup>

The pacts and partnerships established so far have three strategic directions that usually are:

- Economic development
- Employment
- Social inclusion (i.e. focus on disadvantaged groups).

The pacts then differ depending on which direction or their combination individual countries have selected.

For example, in Canada, there are multi-functional partnerships that provide a wide range of advisory and business services to businesses and provide capital and access to funds.

In Belgian Flanders, the partnerships existing in this way fulfill their advisory role in the field of employment and economic development.

A more detailed description in this paper is devoted to Austria. This country has established nine TEPs (Territorial Employment Pacts) in each Austrian province. Individual TEPs coordinate projects and programs for the active employment policy. As Austria registers a relatively low unemployment rate (about 4%), they have a room to focus more on socially handicapped groups of people. In 2009, they had financial resources in the amount of € 820 million.<sup>4</sup>

The Austrian TEPs are contractual regional partnerships established to better interconnect the employment policy with other policies to increase the employment situation at the regional and local levels. The specific objectives of TEPs in Austria are as follows:

- Enhance the effectiveness and efficiency of the use of resources
- Improve the quality of support provided to selected target groups
- Protect and create jobs
- Obtain funding for the region

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<sup>2</sup> The Moravian-Silesian Employment Pact (2011): Pacts in the world, citation of Aug 31, 2012. Available at <http://www.mspakt.cz/co-je-pakt-zamestnanosti/pakty-ve-svete/>

<sup>3</sup> LEED Programme, citation of Aug 31, 2012. Available at [www <http://www.oecd.org/cfe/leedprogrammeloocaleconomicandemploymentdevelopment/viennaactionstatementonpartnerships.htmv>](http://www.oecd.org/cfe/leedprogrammeloocaleconomicandemploymentdevelopment/viennaactionstatementonpartnerships.htmv)

<sup>4</sup> For more see The Moravian-Silesian Employment Pact (2011): Pacts in the world, citation of Aug 31, 2012. Available at [www <http://www.mspakt.cz/co-je-pakt-zamestnanosti/pakty-ve-svete/>](http://www.mspakt.cz/co-je-pakt-zamestnanosti/pakty-ve-svete/)

Maintain a sustainable style of the region as a place to live.<sup>5</sup>

## **2. Case study – the Moravian-Silesian employment pact in the Czech Republic**

In terms of unemployment, the Czech Republic is not a country that would lead the top spots in Europe. Despite all its regions, except one, and that of the capital city of Prague, show the GDP production lower than 75% of the European average. And there are regions that are ranked, according to the European classification, among economically weak or handicapped regions affected with necessary restructuring of an unsatisfactory industry set-up.

Burdensome consequences of the global economic crisis beset these regions the more intensely.

One of these Czech regions is the Moravian-Silesian Region. Its actors have decided, as the first in the country, to establish an association that would deal with solving the labour market problems more comprehensively and systematically.

### **2.1 General characteristics of the Moravian-Silesian Region**

The Moravian-Silesian Region (hereinafter referred to as "MSK") located in the northeast of the Czech Republic and neighbouring with Slovakia to the east and Poland to the north.

#### **Historical Region Determination**

Is given by the discovery of rich deposits of coal, which has brought a significant source of livelihood not only the local population but also the whole Czech Republic. Leaving aside the older and younger Stone Age, when the use of coal as fuel was evidenced, then the period around 1763 is considered to be the first modern discovery of bituminous coal deposits. It has been the cause of major qualitative economic, social, cultural and natural changes - North Moravia and Silesia have become an industrial center of the country. In the 19th century, the region was already one-sidedly oriented to the industries of **mining, metallurgy and heavy engineering**. This one-sided industry focus was multiplied by the extensive development of the listed fields in the 1950s - 1980s. Moreover, its production was mainly focused on the needs of the former Comecon.

Along with the change of the political regime in 1989, the industry restructuring has occurred since then in the Region, leading to **significant decline in the industrial production**. The coal mining operations were limited

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<sup>5</sup> For more details see the Territorial Employment Pacts in Austria, citation of Aug 31, 2012. Available at [www.pakte.at/](http://www.pakte.at/)

and the industrial monsters like Nova Hut or Vitkovice were suppressed, which led to a massive increase in unemployment in the region.<sup>6</sup>

There is a study accurately assessing the impact of that period, titled *Study of impacts of the Hyundai investment to the Moravian-Silesian Region*<sup>7</sup>: a centrally controlled economic and social development caused problems, the consequences of which the region faces today. This has led to the establishment of:

- one-sided specialization of the local economy, which was not based on global demand in a free market environment,<sup>8</sup>
- specific educational and qualification structure of the population, whose distinguishing feature was (i) a lower level of education compared to the national average, and (ii) a very high proportion of blue-collar professions.<sup>9</sup> The most of local residents were exposed to paramilitary control regimes, which were essentially established to maintain the highest possible safety in a challenging work environment. Work habits were fixed in people from generation to generation in such a way, which were later incompatible with the new, market environment, requiring initiative, entrepreneurship, etc.

In this way the Moravian-Silesian Region has become one of the most structurally disadvantaged regions of the Czech Republic.

### Residential structure

There are two fundamentally different types of settlements in the region being assessed: firstly, large industrial agglomerations with a high concentration of population in the central Ostrava-Karvina basin, secondly agricultural, mountain and foothill areas with less dense settlements in the West and Southeast regions. This also corresponds to different values of the

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<sup>6</sup> For details see Vývoj podnikání v Moravskoslezském kraji. Historický vývoj, citation of October 20, 2012. Available at <http://podnikatel.kr-moravskoslezsky.cz/cz/podnikatel/vyvoj-podnikani-v-moravskoslezskem-kraji-6693/>.

<sup>7</sup> Agentura pro regionální rozvoj (Regional Development Agency), Berman Group (2007): Study of impacts of the Hyundai investment to the Moravian-Silesian Region, 22 pgs., citation of Aug 7, 2012. Available at [http://verejna-sprava.kr-moravskoslezsky.cz/assets/rozvoj\\_kraje/studie\\_hyundai.pdf](http://verejna-sprava.kr-moravskoslezsky.cz/assets/rozvoj_kraje/studie_hyundai.pdf).

<sup>8</sup> On the contrary, the extensive development of heavy industry was at variance with trends in the world economy, which has led to a more significant "damage" to the competitiveness of the regional economy than it was in other parts of the Czech Republic. These consequences are reflected mainly in the transition of a centrally planned economy to a market economy. For more see *ibid*.

<sup>9</sup> For details see Agentura pro regionální rozvoj (Regional Development Agency), Berman Group (2007): Study of impacts of the Hyundai investment to the Moravian-Silesian Region, 22 pgs., citation of Aug 7, 2012. Available at [http://verejna-sprava.kr-moravskoslezsky.cz/assets/rozvoj\\_kraje/studie\\_hyundai.pdf](http://verejna-sprava.kr-moravskoslezsky.cz/assets/rozvoj_kraje/studie_hyundai.pdf).

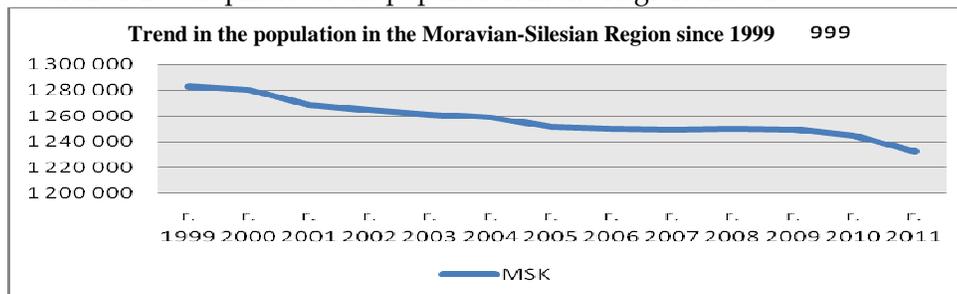
population density. However, the average population density of the Moravian-Silesian Region in 2010 ranks the region in a long-term to the second highest place in the Czech Republic (after Prague).<sup>10</sup>

### Population

The Moravian-Silesian Region is the third most populous region in the Czech Republic. At the end of 2011 there were 1,231,000 inhabitants.

Demographic trends by age in the Region are not identical in all aspects of development in the Czech Republic. In contrast to the trend seen nationwide, the **number of the population** of the Moravian-Silesian Region was **permanently decreasing** during the monitored period:

Chart 1 Development of the population in the Region since 1999



(Resource: Czech Statistic Office (2012): Time series, Moravian-Silesian Region/CSO in Ostrava, citation of Aug 20, 2012. Available at [www: http://www.czso.cz/xt/redakce.nsf/i/casove\\_rady\\_regionalni](http://www.czso.cz/xt/redakce.nsf/i/casove_rady_regionalni))

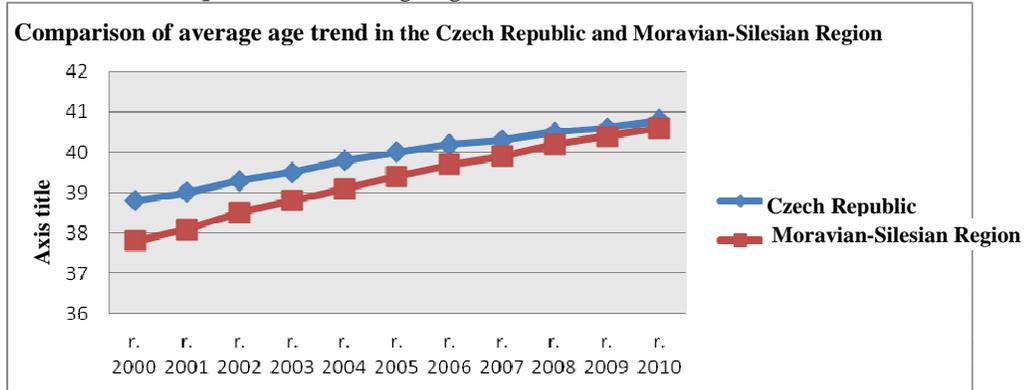
Currently the Region has reached its historically lowest population. A migration loss has contributed to its reduction after 2009 to the largest extent<sup>11</sup>.

**The average age** of the Region population, as well as in the Czech Republic, has increased, but in a somewhat different quantity.

<sup>10</sup> Czech Statistic Office (2012): Interesting facts about the Region, citation of Aug 7, 2012. Available at [www: http://www.czso.cz/xt/redakce.nsf/i/110221\\_krajina](http://www.czso.cz/xt/redakce.nsf/i/110221_krajina).

<sup>11</sup> For details see Agentura pro regionální rozvoj (Regional Development Agency), Berman Group (2007): Study of impacts of the Hyundai investment to the Moravian-Silesian Region, 4 pgs., citation of Aug 7, 2012. Available at [http://verejna-sprava.kr-moravskoslezsky.cz/assets/rozvoj\\_kraje/studie\\_hyundai.pdf](http://verejna-sprava.kr-moravskoslezsky.cz/assets/rozvoj_kraje/studie_hyundai.pdf).

Chart 2: Comparison of average age trends

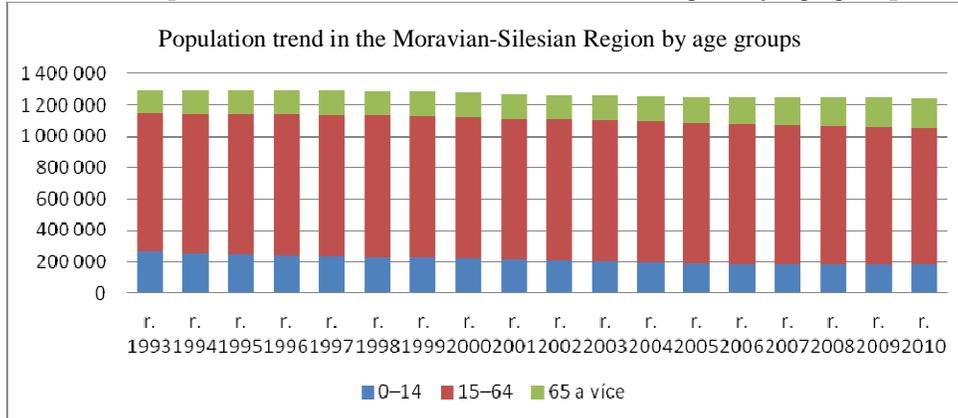


(Resource: proprietary chart, based on data from the Czech Statistical Office: Publishing. Demographic Yearbook of Towns (2001 to 2011). Tab. 05, citation of Apr 14, 2012. Available at [www: http://www.czso.cz/csu/2011edicniplan.nsf/p/4018-11](http://www.czso.cz/csu/2011edicniplan.nsf/p/4018-11))

The chart shows that the average age has increased by about two years in the Czech Republic in the observed ten years. An increasing trend has also been recorded in the Moravian-Silesian Region, but compared to the nation-wide trend, the population in the Moravian-Silesian Region was one year younger in the initial year 2000, while in 2010, the average age reached almost the same values as in the whole Czech Republic.

A similar situation can be seen from the comparison of the **age index** indicator. The age index indicates whether or not there are more children (under 14 years) than seniors (over 65 years) in an observed geographical territory.

Chart 3 Population trend in the Moravian-Silesian Region by age groups



(Resource: proprietary chart, based on data from the Czech Statistical Office Publishing, Demographic Yearbook of Regions (2001 to 2010). Tab. 14, citation of *65 and more*. Available at [www.czso.cz/csu/2011edicniplan.nsf/p/4027-11](http://www.czso.cz/csu/2011edicniplan.nsf/p/4027-11))

Until 2005, the Czech Republic had recorded a greater number of children than the elderly, starting in 2006, the situation has turned in favour of the elderly and the trend continues. As regards the Moravian-Silesian Region, the age index at the end of 2010 showed still more favourable values than in other regions of the Czech Republic. However, this is due to the fact that, historically, thanks to immigration of young people for work, the age index in the Region was initially much lower. However, the overall development in the last ten years shows a very **significant aging of the Moravian-Silesian population**. Besides the general phenomenon of the growth in the quality of life and thereby lengthening the average age, this also occurs due to a **gradual decline of the working age population, young people and those with a higher education**. In the period 2000 - 2010, more than 25,000 people went to other regions, in the last three years even 40,000 people, mostly young, of working age and with a higher education.

If we compare the development of groups in pre- and post-productive ages, then there were nearly by 41,000 less children under 14 living in the Moravian-Silesian Region in 2010, compared to the elderly aged over 65 years in the same period, whom there are by more than 31,000 more than in 2000:

### Regional classification

As stated in the publication titled *Úvod do regionálních věd a veřejné správy* (Introduction to Regional Science and Public Administration), according to the Czech Government Resolution No. 707/1998, the Moravian-Silesian Region

represents the statistical unit NUTS 3 – as well as the statistical unit NUTS 2 – Moravia-Silesia Cohesion Region.<sup>12</sup>

The transformation process in the early 1990s caused a widening of differences in the economic development of each region, measured by basic indicators such as unemployment rates, gross domestic product per capita 1, volume of foreign direct investment, average wage. For this reason, cohesion regions have been classified according to the level of socio-economic development to allow focused attention on the areas of concern. In this five-level classification, Moravia-Silesia was situated to the weakest category: „5) *Declining regions, i.e. regions showing unsatisfactory economic results, which moreover do not improve.*<sup>13</sup>

## **2.2. Special features of the labour market in terms of quantifiable indicators**

In order to capture the characteristics of the defining trends of the economic and social development of the Region under review, I've chosen the following main characteristics:

- Gross Domestic Product,
- Gross Domestic Product per capita
- registered unemployment rate.

I've done a comparison of these indicators for the Czech Republic and the Region in the long period of time (since 1993 and 1995 respectively - depending on the availability of values of these indicators at public information portals). Furthermore, I mention another important indicator, which is the state of the environment.

### **Gross Domestic Product and Gross Domestic Product per capita**

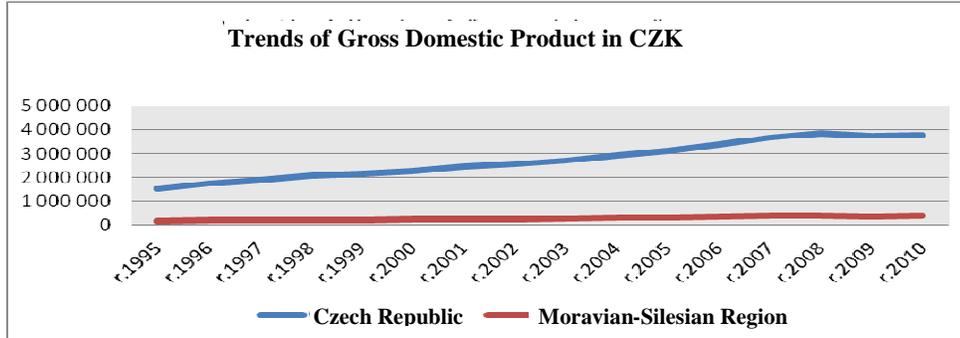
The chart below shows that the volume of **Gross Domestic Product** (hereinafter referred to as "GDP") of both the Czech Republic as well as the Moravian-Silesian Region in the reporting timeframe grew. The growth rate, however, was in the MSR significantly lower than in the Czech Republic: The growth index in the period 1995 - 2010 for the Czech Republic was 2.46, for the Moravian-Silesian Region only 2.19.

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<sup>12</sup> For details, see Group of Authors (2008): Introduction to regional science and public administration. 5. extended edition. Plzeň: Aleš Čeněk, s.r.o. pp. 81 - 85

<sup>13</sup> For more see *ibid.*

Chart 4: Gross Domestic Product in CZK

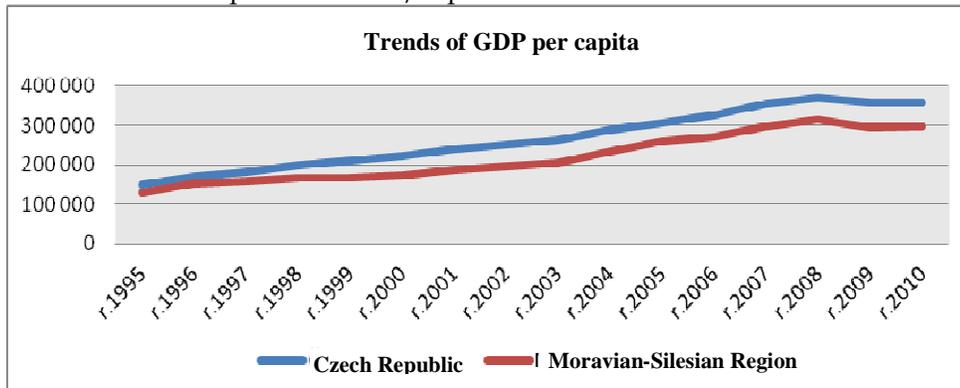


(Resource: Proprietary chart based on data from the Czech Statistical Office, the main indicators of regional accounts, citation of Aug 7, 2012. Available at <http://apl.czso.cz/pll/roценка/roценкаvyber.volba?titul=Hlavn%ED%20ukazatele%20region%E1n%EDch%20%FA%E8t%F9&mypriznak=RC&typ=2&proc=roценка.presmsocas&mylang=CZ&jak=4>)

It is very important to emphasize that in terms of GDP the Moravian-Silesian Region is still an important Czech region: **throughout the observed period, it permanently produces about one tenth of the total GDP and thus occupies the fourth place among the regions of the Czech Republic.**

**Gross Domestic Product converted to 1 inhabitant** (or GDP/capita) represents an indicator with a better predicative ability to show the country/region's economic potential and performance.

Chart 5: Development of GDP/capita



(Resource: Proprietary chart based on data from the Czech Statistical Office, the main indicators of regional accounts, citation of Aug 7, 2012. Available at <http://apl.czso.cz/pll/roценка/roценкаvyber.volba?titul=Hlavn%ED%20ukazatele%20region%E1n%EDch%20%FA%E8t%F9&mypriznak=RC&typ=2&proc=roценка.presmsocas&mylang=CZ&jak=4>)

The Moravian-Silesian Region entered into the period of transition to a market economy (after 1989) as one of the regions with the highest gross domestic product per capita. During those five years, the Moravian-Silesian Region dropped among the regions which, in terms of GDP per capita, showed the worst indicators, and this decline was significantly greater than in other regions of the Czech Republic and, in addition, it lasted a very long time. Then, however, (especially in 2004) an economic recovery in the Region occurred. In 2004, the Region recorded a twofold increase in real GDP, compared to the national average.<sup>14</sup> The onset of the economic crisis in 2008, however, negatively affected the values for both the Czech Republic as a whole and for the Moravian-Silesian Region. In 2010, the Moravian-Silesian Region reached 83% of the indicator value of the Czech Republic, which was 5% lower value in comparison with 1995. No convergence to the average for the Czech Republic has occurred yet. Recall that the number of inhabitants in the assessed region is permanently decreasing.

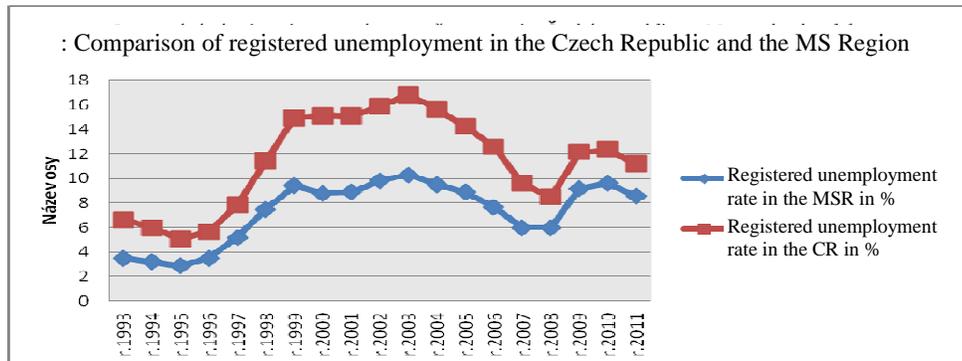
#### **Registered unemployment rate**

The described socio-economic development in the Region has negatively affected the local labour market. Already in the first years of the transition, the Moravian-Silesian Region had the highest unemployment rate among the regions of the Czech Republic and this ranking at the lower rungs among the regions of the Czech Republic could not be reversed. The chart below shows that trends in the registered unemployment rate in both MSK and in the Czech Republic are the same due to the same external economic conditions.

Chart 6: Comparison of registered unemployment in the Czech Republic and the MS Region

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<sup>14</sup> For details see Agentura pro regionální rozvoj (Regional Development Agency), Berman Group (2007): Study of impacts of the Hyundai investment to the Moravian-Silesian Region, 22 pgs., citation of Aug 7, 2012. Available at [www: http://verejna-sprava.kr-moravskoslezsky.cz/assets/rozvoj\\_kraje/studie\\_hyundai.pdf](http://verejna-sprava.kr-moravskoslezsky.cz/assets/rozvoj_kraje/studie_hyundai.pdf).



(Resource: Proprietary chart based on data from the Czech Statistical Office, citation of Aug 7, 2012. Available at [www: http://vdb.czso.cz/vdbvo/tabparam.jsp?voa=tabulka&cislatab=PRA1020CU&&kapitola\\_id=3](http://vdb.czso.cz/vdbvo/tabparam.jsp?voa=tabulka&cislatab=PRA1020CU&&kapitola_id=3) a <http://www.czso.cz/xt/redakce.nsf/i/c>)

Unemployment is proportionally associated with concomitant negative effects, which include loss of social status, reduced living standard or increased occurrence of socially pathological phenomena. If the unemployment takes a longer period of time, it brings deepening of the listed problems and also intensive physical, medical, social and psychological distress. It is true that the higher long-term unemployment, the economically weaker the respective territorial unit.<sup>15</sup>

For the Moravian-Silesian Region, a long-term unemployment (over one year) is another striking phenomenon. The long-term unemployment in the observed region is significantly higher than the national average.<sup>16</sup>

### State of the environment

The poor state of the environment is an often discussed topic, historically tightly tied with a view of the MS Region. It concerns mainly **air pollution** in the core area of the Ostrava-Karvina agglomeration due to prolonged interference with **heavy industries**, which greatly reduces the attractiveness of housing and is one of the factors causing the population exodus from the region.

In recent years, a local increase in the air pollution near busy roads due to **increasing traffic intensity has once again been becoming a fundamental problem.**

<sup>15</sup> For details see Agentura pro regionální rozvoj (Regional Development Agency) (2010): The proposed solution of socioeconomically disadvantaged areas of the Moravian-Silesian Region, Analytical part, 12-13 pp., citation of Aug 21, 2012. Available at [http://verejna-sprava.kr-moravskoslezsky.cz/assets/rozvoj\\_kraje/znevychodnene\\_oblasti\\_analyticka.pdf](http://verejna-sprava.kr-moravskoslezsky.cz/assets/rozvoj_kraje/znevychodnene_oblasti_analyticka.pdf).

<sup>16</sup> For more see *ibid.*

Another factor that significantly contributes to a poor air quality is **the emissions from local heating in family houses**, caused by the combustion of low-quality fuels and waste. Unlike the previous factors, this one relates more to rural areas.<sup>17</sup> Unfortunately, with the onset of the economic crisis, which causes an increase in unemployment and hence long-term unemployment and negatively affects the evolution of life, this phenomenon is increasingly deepening.

**Based on the above indicators, I have conducted a SWOT analysis highlighting the main aspects of socio-economic development in the Region:**

Table no. 1 SWOT analysis of the MS Region

Strengths	Weaknesses
Significant generation of GDP	High unemployment
Strong population base	Lack of job opportunities
Coordinated approach to the territorial development at the local level	Polluted environment
	Population decline due to the unattractiveness of the region, especially young people, people of working age and those with a higher education
	Low intensity of entrepreneurial activities
	Aging of population
Opportunities	Threats
Possibility of drawing funds from the European Union	Prolonged global economic problems negatively affecting the private, public sector and population
Cooperation of main actors of the Region to create new EU-funded projects	Continued migration of population
Increasing the educational level of the population, incl. their ability to run business	Further aging of population expected
	Depopulation of peripheral areas of the Region
	Further air pollution due to local heating

(Resource: Proprietary table, using the SWOT analysis in the document of Regional Development Agency (2010): *The proposed solution of socioeconomically disadvantaged areas of the Region, analytical part*, pp.

<sup>17</sup> For details see Agentura pro regionální rozvoj (Regional Development Agency) (2010): *The proposed solution of socioeconomically disadvantaged areas of the Moravian-Silesian Region, Analytical part*, 19 p., citation of Aug 23, 2012. Available at [www: http://verejna-sprava.kr-moravskoslezsky.cz/assets/rozvoj\\_kraje/znevychodnene\\_oblasti\\_analyticka.pdf](http://verejna-sprava.kr-moravskoslezsky.cz/assets/rozvoj_kraje/znevychodnene_oblasti_analyticka.pdf).

38-39, citation of Aug 26, 2012. Available at [www: http://verejna-sprava.kr-moravskoslezsky.cz/assets/rozvoj\\_kraje/znevuhodnene\\_oblasti\\_analyticka.pdf](http://verejna-sprava.kr-moravskoslezsky.cz/assets/rozvoj_kraje/znevuhodnene_oblasti_analyticka.pdf)

#### **2.4. Moravian-Silesian Employment Pact**

It is necessary to positively evaluate the Moravian-Silesian actors who actively took up the idea to create a grouping of individuals, companies, public institutions, school personnel, who would address long-term problems associated with increasing unemployment under specific conditions of the assessed structurally affected region, in a sophisticated manner and at a higher level of cooperation.

As stated at the official website of the Moravian-Silesian Employment Pact, it is a "*... strategic partnership of dozens of businesses, schools and other institutions in the Region, which in turn originated in 2010 and was crowned by the official signing of the document on the Pact conclusion on the 24th February 2011 in Ostrava between the Moravian-Silesian Region, the Association for the Development of the Moravian-Silesian Region, the Regional Chamber MSK and the Regional Council of the Moravia Silesia Cohesion Region*". *The MSPact aims at providing a significant contribution to change the long-term lasting adverse situation on the local labour market ....*"<sup>18</sup>

At their founding, the MSPact formulated two specific objectives. These are (i) achieving an average employment rate in comparison with other regions of the Czech Republic in 2016, (ii) exceeding the average rate of employment and inclusion among the top 5 regions in the Czech Republic until 2020.<sup>19</sup>

The fact that a very ambitious goal was set is indicated by the fact that the Moravian-Silesian region has always showed a below-average employment rate (in the first quarter of 2012 it was 51.1%, while the average employment rate in the Czech Republic amounted to 53.9%) and, in the longer, term it occupies the last two positions among the regions of the Czech Republic.

I see the cause of setting a highly ambitious goals of the MSPact in positive developments in the employment rate in 2008, which until then successfully converged to the average of the Czech Republic - see Chart 7.

The global economic crisis, breaking out at the end of 2008, negatively affected the socio-economic development in all regions and all the more it amplified the specific problems of the economically weak and structurally affected regions. Achieving the MSPact's goals requires the implementation of rapid, qualitative and step changes, set in the external stable economic environment, which does not seem real to me in the near future. However, in my opinion, it is not a priority to set relatively short timescale for ambitious

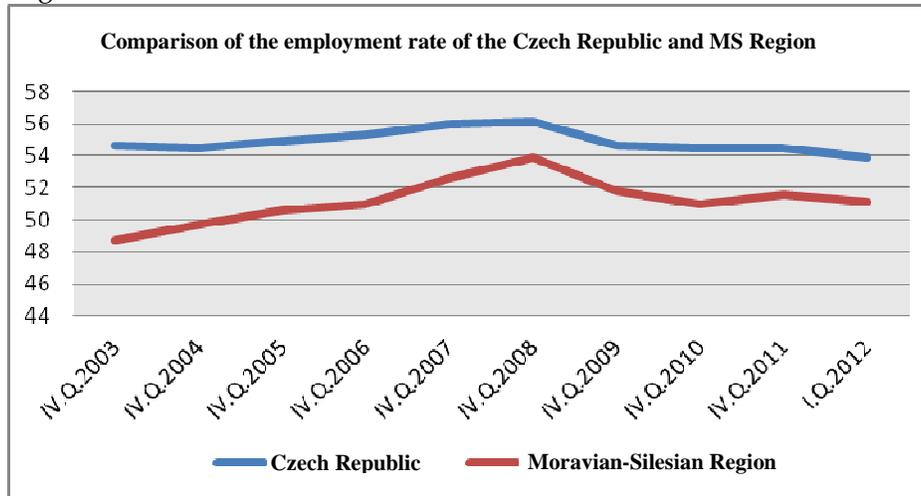
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<sup>18</sup> The Moravian-Silesian Employment Pact (2011), citation of Aug 31, 2012. Available at <http://www.mspakt.cz>

<sup>19</sup> For details see The Moravian-Silesian Employment Pact (2011), citation of Sep 2, 2012. Available at [www: http://www.mspakt.cz/wp-content/uploads/2011/02/MSPakt-dohoda.pdf](http://www.mspakt.cz/wp-content/uploads/2011/02/MSPakt-dohoda.pdf)

targets, but rather to focus on finding and adoption of such measures that would have a long-term positive impact upon the development of the socio-economic situation in the Moravian-Silesian Region.

Chart 7: Comparison of the employment rate of the Czech Republic and MS Region



(Resource: Proprietary chart based on data from the Czech Statistical Office, citation of Sep 2, 2012. Available at [www: http://vdb.czso.cz/odbvo/tabdetail.jsp?kapitola\\_id=15&potord=Zobrazit+tabulku&cas\\_1\\_21=20121&go\\_zobraz=1&cislotab=VSPS+509\\_1&voa=tabulka&str=tabdetail.jsp](http://vdb.czso.cz/odbvo/tabdetail.jsp?kapitola_id=15&potord=Zobrazit+tabulku&cas_1_21=20121&go_zobraz=1&cislotab=VSPS+509_1&voa=tabulka&str=tabdetail.jsp))

The MSPact has set 5 strategic priorities through which the goals set in the field of employment are to be achieved:

### 1. More and better jobs

It is obvious that in the field of job creation, the association can not directly influence the demand side. It finds its role in providing support by "... a suitable combination of national and regional incentives and services, both for investors and employers. It also includes making the labor market more flexible through changes to the legislation."<sup>20</sup>

### 2. Technical and craft excellence

The Moravian-Silesian Region has built a tradition of the industrialized region over several centuries and this tradition should not be abandoned according to MSPact actors, but on the contrary developed. In today's

<sup>20</sup> For details see The Moravian-Silesian Employment Pact (2011), citation of Sep 2, 2012. Available at [www: http://www.mspakt.cz/wp-content/uploads/2011/02/MSPakt-dohoda.pdf](http://www.mspakt.cz/wp-content/uploads/2011/02/MSPakt-dohoda.pdf)

globalized era, crafts and technical fields are unfortunately losing their attractiveness in the eyes of young people, and it is a mistake that the Czech education does not support the interest in apprenticeships of young people through increasing practical teaching in primary schools or better equipment level of practical workshops. In my opinion, a major negative step was made when the apprenticeships were cancelled about 10 years ago and the damage to its credibility in the minds of people.

### **3. Quality services**

Improvement and extension of services to a standard European level is a prerequisite for maintaining young and educated people in the Region, but creating jobs is still the crucial factor. Long-term unemployed people simply can not afford to massively purchase a wide range of quality services, which can not endure long naturally, even if incurred thanks to a one-time support from financial incentives from European or national and regional funds.

### **4. Entrepreneurship and creativity**

This priority goes along with the other mentioned one directly to the heart of the problem. As is evident from the cited document, "*... successful business and innovation are key factors of competitiveness.*"<sup>21</sup>The contemporary Czech education system encourages an employee's culture rather than educates future entrepreneurs who can independently manage and develop their business in order to support themselves, their family and several other individuals.

What is in my opinion the most important on business, is the ability to create long-term jobs for more people who will find their work mission in it and maybe even life's mission. With high respect, therefore, I look up to, for example, Steve Jobs or Bill Gates, who have built companies with a capacity of thousands of jobs, through their work, skills and inventions. It is certainly no exaggeration to deliberately educate children and young people, not only in the Region, by providing such similar examples.

### **5. Employment for all (who want)**

First, to the phrase in parentheses. It is evident that in every society and every time there is a group of the population for whom work is not a natural part of their lives and they rather make every effort to avoid work and live at the expense of others - from social benefits, from sickness, disability pensions, etc. It is then a matter of public administration and legislation setting and subsequent rigorous checking whether these systems systemically allow such

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<sup>21</sup> Moravian-Silesian Employment Pact (2011), citation of Sep 2., 2012. Available at [www.mspakt.cz/wp-content/uploads/2011/02/MSPakt-dohoda.pdf](http://www.mspakt.cz/wp-content/uploads/2011/02/MSPakt-dohoda.pdf)

an abuse. The emerging threat of this phenomenon is the fact that this way of life is being passed down from generation to generation, children innocently walking in the footsteps of their parents, knowing that "living on welfare," as used colloquially, is a very convenient, standard way of life.

Thus, the above postscript determines that the activity leading to a success on the labour market and seeking to responsibly provide resources for your life and mostly your family's ones should primarily come from each individual. Only when an individual is handicapped physically, by age, gender, race or economic problems of global nature, then the State should play its role, either directly or through indirect instruments. And as I mentioned earlier, we find ourselves in a period when unemployment is caused mainly due to demographic and economic developments. Regional specific features such as structural handicap just multiply all aspects mentioned.

Through this priority, the MSPact aims at "*improving conditions for the entry of unemployed people to the labour market within the said three main sectors – trades and technical professions, services and business.*"<sup>22</sup> It also does not forget a group of disabled people. Very positively I appreciate the fact that the MSPact sees a long-term solution of the unemployment issue in the need to coordinate the actions of employers, educators, government, trade unions and the public sector, and the involvement of labour offices, regional authorities and other actors in the labour market. Among others, it is clear from this point of view that the application of the subsidiarity principle in the analyzed issues just at the regional level is in order: who can know better than the above mentioned actors the needs of the population in the region, in terms of their mentality or historical development, and find possible solutions to specific problems based on almost tactile experience, highlighting the potential negative trends and foreshadowing further socio-economic development.

After meeting these regional challenges, however, effective coordination of activities with a supra-regional institutions must follow. At this point, the MSPact aims at "*better aligning the strategic objectives of the Region with the policy of the Ministry of Labour and Social Affairs with the activities of employment agencies.*"<sup>23</sup>

### **MSPact after one year of activity**

In April 2012, a meeting was held on the anniversary of the signing of the Moravian-Silesian Employment Pact, with the task to evaluate their operation

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<sup>22</sup> Moravian-Silesian Employment Pact (2011), citation of Sep 2, 2012. Available at [www.mspakt.cz/wp-content/uploads/2011/02/MSPakt-dohoda.pdf](http://www.mspakt.cz/wp-content/uploads/2011/02/MSPakt-dohoda.pdf)

<sup>23</sup> Moravian-Silesian Employment Pact (2011), citation of Sep 2., 2012. Available at [www.mspakt.cz/wp-content/uploads/2011/02/MSPakt-dohoda.pdf](http://www.mspakt.cz/wp-content/uploads/2011/02/MSPakt-dohoda.pdf)

after the first year of existence. The fact the MSPact groups major Region's stakeholders to achieve system solutions of employment was identified as one of MSPact contributions. Currently – in September of this year - a new collaboration has been concluded with a major player, the Labour Office.

The MSPact's goal is to harmonize the needs and ideas of the main actors in the labour market, agree on priorities and provide them with **financial resources**. In particular this means a more efficient use of EU subsidies, as new projects are coordinated in order to create a comprehensive system (not fragmented requirements) that would be able to meet the needs of the Region.

After the first year of MSPact operation, first projects, mostly of "soft" nature, were prepared. However, the goal is to realize mainly so-called "hard projects". This has failed so far due to a low linkage to the existing operational programs, whether European or national or regional sources.

Therefore, the MSPact focuses on achieving consistency of the already prepared *MSR Development Strategy to 2020*<sup>24</sup>, with legislative proposals for cohesion policy direction, prepared by the European Commission for the forthcoming seven-year period 2014 to 2020. Specifically, for the purposes of the MSPact, the so-called *Joint Action Plan* (hereinafter also referred to as "JAP") seems to be the most appropriate.

As stated by the Director of the Office of the Regional Council of the Moravia Silesia David Sventek<sup>25</sup>, JAP "includes a group of projects, for the implementation of which specific recipients of financial assistance under the operational program will be responsible, which must be only a public entity. It will be possible to fund the plan both from the European Social Fund and the European Fund for Regional Development."<sup>26</sup> As the JAP may include one or more operational programs, according to David Sventek it will become an effective instrument of several funds aimed at a common goal.

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<sup>24</sup> Agency for Regional Development (2010): *MSR Development Strategy for the period 2009 - 2020, Annex 1 Executive Summary*, 3 p et seq., citation of Aug 26, 2012. Available at [http://verejna-sprava.kr-moravskoslezsky.cz/assets/rozvoj\\_kraje/priloha\\_1\\_manazersky\\_souhrn.pdf](http://verejna-sprava.kr-moravskoslezsky.cz/assets/rozvoj_kraje/priloha_1_manazersky_souhrn.pdf)

<sup>25</sup> Sventek, D.(2012): *European Cohesion Policy 2014 - 2020, What role can the Moravian-Silesian Employment Pact play?*, citation of Sep 2, 2012. Available at <http://www.mspakt.cz/wp-content/uploads/2012/04/MSPakt-a-pl%C3%A1novac%C3%AD-obdob%C3%AD-EU-2014-2020-Sventek.pdf>

<sup>26</sup> Good Advice (2012): *The Joint Action Plan will be allocated among the new tools in the programming period 2014 - 2020 in the MS Region*, citation of Sep 2, 2012. Available at <http://www.rr-moravskoslezsko.cz/eu2014/spolecny-akcni-plan-se-zaradi-mezi-nove-nastroje-v>

Last but not least, it is important to mention the fact that the founders of the MSPact as the creators of the first, pilot employment pact in the Czech Republic, are able and willing to share their experience with other regions as well. Other Czech regions showed their interest in the establishment of a similar pact, so a birth of two other Czech employment pacts is on the way.

To conclude this chapter I recap the strong points as well as the week points, which have emerged from the above made description of the MSPact principles, vision and activities up to now:

**Strong points:**

- Tools to solve specific regional problems, caused by high levels of unemployment
- Integration of diverse actors from the region and their cooperation
- Contractual cooperation with relevant ministers
- Comprehensible vision, goals and priorities
- Obvious intention of obtaining financial resources from national and primarily supranational funds
- Pilot project as a source of experience for the newly formed employment pacts within the Czech Republic

**Week points:**

- Non-fulfillment of the increasing employment objectives
- Existing failure to implement any „hard“ project as a result of the insufficient linkage to the current operational programs conditions.

**Conclusion**

The increasing rate of unemployment, and especially long-term unemployment, is a phenomenon of developed countries in Europe and in the world, whose tendencies showed up particularly markedly after the onset of the global economic crisis in 2008. It turned out that the socio-economic impacts were evident in economically weak regions or structurally affected ones.

One of the tools within the region, which is increasingly being used for a more comprehensive and systematic approach to the solution on the labour market, is the employment pacts. They are spread all over the world, and since 1997 have been recognized as a regular tool also in the European Union.

Although the Czech Republic is not placed in the top positions within EU in terms of the unemployment rate, almost all its regions produce less than 75% of the EU average GDP, and these regions also include economically weak and structurally affected, whose unemployment rate is above 15%. One of these regions is Moravia-Silesia, which has been historically focused on heavy industry. That was attenuated 20 years ago and the Region had to go through

necessary restructuring. Today, the Region faces all the negative socio-economic impacts that a lack of job opportunities produces: The Region has become unattractive for life, particularly of young people, of working age and people with a higher education who leave the Region to a worrying extent.

Investigations have confirmed that a number of MSR players play a very active role and apply their regional patriotism to fight for reversing the negative trend in this Region. For this reason, the so-called Moravian-Silesian Employment Pact was established in early 2011 as the first pilot pact in the Czech Republic. To achieve this goal, the Pact has established five strategic priorities. To the first place I put the priority to create new jobs, especially in technical and craft sectors, which have a deeply rooted historical background in this Region. Equal priority is given to the efforts to increase entrepreneurship and creativity of the population, an integral part of which is - in my opinion - education for a greater individual responsibility for all aspects of personal and social life.

It is evident from the result of the analysis carried out that the MSPact actors realize a unique opportunity to use the financial resources from the EU funds. It's almost unique opportunity in the history of the Czech state, and we can not expect it to repeat anytime soon. And here I see the essence of the work Moravian-Silesian Employment Pact: focus on the borrowing of funds not only from the European Union, but also from other national and international funds, and consistently apply the principle of long-term effectiveness when drawing on them. This means, for example, not to crumble the obtained funds to many small projects, often duplicating each other, and especially ensure that the implemented investment projects have created new jobs and produced a long-term value added.

It is obvious that the above-described MSPact's approach is implemented with all intensity and expertise. In the current economic situation, an isolated development cannot therefore be expected from regions. In my opinion, a political fight or a fight of opposites of different economic opinions is not a solution, but the unification of forces at the regional level and the establishment of a unified vision is one. Regions should then apply their demands to the State, whose task should be to take such legislative and systemic measures and setting the game rules, the realization of which is within neither the power nor competence of the regions.

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