

HoPES Note
on
Criteria for sustainable wage subsidies

October 2013

*A response from the European network of
Heads of Public Employment Services (HoPES)
to calls for action agreed at the Berlin Conference on
Youth Employment on 3rd July 2013*



Supported by the European Commission

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The proposed [Council Recommendation](#) on establishing a Youth Guarantee recommends the use of targeted and well-designed wage and recruitment subsidies to encourage employers to create new employment and training opportunities for young people. The [HoPES concept paper](#) also identifies wage subsidies as important measures to facilitate career entry and transfer.

It is important, however, to ensure that the positions created through public support in this way are sustainable and result in the long-term integration of young people.

In the concluding statement to the Youth Conference (Berlin, 3rd of July 2013) HoPES was asked to support the labour ministers in defining sustainable criteria for wage subsidies to ensure effective use of funds.

According to the PES assessment "**conditionality**" and "**systematic monitoring and evaluation**", followed by **targeting of subsidies**, are the most relevant criteria to ensure the effectiveness of wage subsidies. Many PES also consider "**follow up of youth at risk after placement**" very relevant.

Table 1 – PES assessment of the relevance of criteria for sustainable temporary wage subsidies

Rank	Criteria	Average score (0-5)	Relevance of criteria			
			High (4-5)	Medium (3)	Low (1-2)	None (0)
1	Conditionality of subsidies.	3.9	23	4	2	1
2	Systematic monitoring and evaluation of the outcomes of subsidised placements.	3.9	24	1	3	1
3	Targeting of subsidies to compensate for clearly defined productivity deficits.	3.8	19	6	5	0
4	Follow-up of participants.	3.3	16	6	6	2
5	Phasing out of subsidies in relation to the progress of the subsidised young employee/trainee.	2.7	10	7	8	4

Number of responses varies between 29 & 30

Conditionality and systematic monitoring/evaluation considered most important

PES consider that conditionality and systematic monitoring and evaluation are the two most important factors in ensuring that temporary wage subsidies lead to sustainable integration for young people. Four out of five PES rate these two factors as very important (score 4/5) and 90% score 3 or above.

Conditionality refers to regulations that require employers to keep the young person employed for some period after the end of the subsidy period except when clear specific, clearly defined reasons are given. This is clearly a straightforward way to ensure that placements last beyond the subsidy period whilst the extent of conditions applied needs to be balanced with a potential disincentive effect.

Systematic monitoring and evaluation of wage subsidy measures is crucial to understand their impact, to see that they are delivered effectively to the right targets and appropriate employers, and to ensure value for money.

Targeting to compensate for productivity deficits also important

Slightly behind the first two criteria, two-thirds of PES consider productivity-related targeting to be an important factor and 80% score 3 or more.

The use of higher subsidies for young jobseekers with clear productivity deficits is designed to incentivise employers to take on young people who might otherwise be rejected as not suitable because of a lack of work experience, specific skills capacity or personal issues and long-term unemployment. Further comments by PES suggest that careful attention to individual needs and problems (i.e. through profiling) is required in order to ensure appropriate targeting. Further, analysis of patterns of youth unemployment is needed in order to target the weakest market segments and those with the most difficult labour market positions. Depending on the national labour market situation these may in many cases be low-skilled, but in other cases also high-skilled jobseekers.

Follow-up considered very relevant by more than half of the PES

Follow-up of participants after a placement has ended is ranked fourth. Around half of PES consider it of high importance and two thirds score 3 or more.

Follow-up support for employers and placed young people is generally implemented for higher risk jobseeker clients to ensure that placements are working for both, and to try and ensure that the placement is either sustained or that the young person does not drop out of the system after it has ended.

Progressive phasing out of subsidies considered less important

On average, PES assess the phasing out of subsidies in relation to the progress of the young employee/trainee to be less relevant to the effective implementation of temporary wage subsidy measures (average score 2.7) than other criteria. The idea is that subsidies can be reduced once the young person being placed has attained a certain level of competence. One reason might be that this could be difficult to define unless it is linked to the duration of experience or specific qualifications.

Other relevant criteria recommended by PES

Around three-quarters of responding PES provided indications of additional criteria that can contribute to sustainable integration through the use of wage subsidies. Suggestions fall into two main categories:

a) *Targeting: analysis of individual needs and the wider economic context.*

- Analysis of the job creation potentials of selected sectors is stressed. Social partners can also be involved to help identify new areas of job creation.
- Need to take more account of employer needs. Cutting social security costs can be important.
- Important to safeguard the needs of other workers and avoid displacement of existing employees

b) *Measure design.*

- Tailor subsidies to particular types of contract (open-ended, temporary...)
- Characteristics of the subsidy: no longer than 2 years; phased over time, paid in cash, etc.
- Other forms of conditionality: enrolment in specific training schemes; only employment covered by the social security system; payment of minimum wage, etc.
- Invest more in training prior to or during the period of support, as well as in mentoring activities.
- Need to avoid deadweight effects
- Employer's contribution to remuneration of the young person should be linked to the progress and productivity achieved (motivational effect for young people).

Divergences in interpreting the impact of wage subsidies

PES were asked to indicate, on the basis of past experience, for which groups of young people wage subsidies have had the most positive impact in terms of sustainable integration. A number of PES noted that they were unable to answer the question as the management of wage subsidy measures is not a PES competence, there was no systematic study or due to insufficient experience with subsidies.

PES able to respond fell into two groups of similar size but with opposite answers, reporting that subsidies are most effective for:

- High skilled young people (university graduates)
- Low or unskilled young people

There is probably no generally applicable rule and the most appropriate targets for temporary wage subsidy measures will depend on the local labour market conditions. Two of the latter group refer to evaluation results. A number of PES also refer to subsidies being effective tools for placement of long-term unemployed and young people with disabilities.