



# European Employment Observatory Review: **Spring 2009**



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## **Review:** Spring 2009

**European Commission**

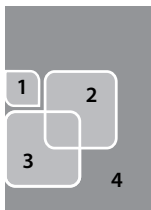
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# Acronyms

|             |                                    |
|-------------|------------------------------------|
| <b>ALMP</b> | active labour market policies      |
| <b>ESF</b>  | European Social Fund               |
| <b>EU</b>   | European Union                     |
| <b>ILO</b>  | International Labour Organisation  |
| <b>LFS</b>  | labour force survey                |
| <b>LLL</b>  | lifelong learning                  |
| <b>PES</b>  | Public Employment Service          |
| <b>SMEs</b> | small and medium-sized enterprises |



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# Introduction

The *European Employment Observatory Review: Spring 2009* provides an overview of innovative labour market policies and practices across the 30 European countries covered by the European Employment Observatory (27 European Union Member States, plus candidate countries Croatia and Turkey and EEA country Norway).

In the context of the global economic and financial crisis, the countries covered by the European Employment Observatory were seriously hit, with serious consequences to their labour market situation and performance. Countries responded differently according to their main priorities and possibilities.

The European Commission has responded with a recovery package including simplifying access to funding, to help the Member States design and implement the economic recovery plans.

The review articles, written by the national System experts, discuss and analyse a variety of selected innovative national labour market practices and policies, across a wide range of employment policies developed and implemented in the countries covered by the Observatory in this context. An underlying theme for policies reviewed in this EEO publication is the response of employment policies to the global economic and financial crisis, confronting them to the employment guidelines, related indicators and European Commission priorities.

The *European Employment Observatory Review: Spring 2009* can be found in the Document Centre of the EEO website (<http://www.eu-employment-observatory.net/>).



National articles on innovative  
policies and practices  
in the context of the crisis



# Belgium

## Anti-crisis measures — temporary short-time working arrangements

### 1. Introduction

The confirmation and worsening of the economic recession has led the Employment Minister, Joelle Milquet, to propose a package of measures specifically intended to limit job losses resulting from the crisis. The purpose of these measures is to preserve the employment contracts (and hence the jobs) of employees who may be required to work fewer hours due to a company's declining volume of business.

Three temporary measures, valid until 31 December 2009, have been agreed upon, following consultation with social partners: firstly, a temporary reduction in working time, either collective or individual, and, secondly, a temporary suspension of the employment contract. The first two measures, be they collective or individual, cover both white-collar and blue-collar workers, whose contractual working hours are reduced by 50, 25 or 20%. Individual reductions in working time have similarities with the time credit system from the point of view of earnings compensation, but they neither replace that system nor restrict the right of access to it.

The third measure is specific to white-collar workers, whose contracts of employment — unlike those of blue-collar workers — made it impossible, previously, for them to be declared temporarily unemployed for economic reasons when the company's volume of business declined. Yet white-collar workers account for a large proportion of wage earners, especially in the sectors hardest hit by the recession (Table 1).

**Table 1: Breakdown of employees by status and branch of economic activity in the private sector as at 30 September 2008**

| Branch of economic activity        | White-collar | Blue-collar | TOTAL     |
|------------------------------------|--------------|-------------|-----------|
| Manufacturing industry             | 361 200      | 187 961     | 549 161   |
| Construction                       | 177 960      | 36 111      | 214 071   |
| Commerce car and motorcycle repair | 121 245      | 357 398     | 478 643   |
| Financial and insurance activities | 1 860        | 129 014     | 130 874   |
|                                    |              |             |           |
| TOTAL (all sectors combined)       | 1 229 165    | 1 437 292   | 2 666 457 |
| Proportion of total                | 46.10%       | 53.90%      | 100.00%   |

Source: ONSS (Office National de sécurité sociale — National Social Security Office).

Given the scale of the recession, temporary unemployment for economic reasons rose considerably during the first few months of 2009, owing to a sharp slowdown in industrial activity (Table 2).

**Table 2: Temporary unemployment (physical units)**

|        | Federal | Flanders | Wallonia | Brussels |
|--------|---------|----------|----------|----------|
| Oct-08 | 118 318 | 76 244   | 37 917   | 4 157    |
| Nov-08 | 176 332 | 115 296  | 55 484   | 5 552    |
| Dec-08 | 153 947 | 99 296   | 49 882   | 4 769    |
| Jan-09 | 236 347 | 156 275  | 73 363   | 6 709    |
| Feb-09 | 289 381 | 193 294  | 86 715   | 9 372    |
| Mar-09 | 313 200 | 210 544  | 92 825   | 9 831    |
| Apr-09 | 214 417 | 146 442  | 61 584   | 6 391    |

Source: ONEm (Office national de l'emploi — National Employment Office).

As a result of this growth in temporary unemployment, many employers have argued in favour of extending the temporary unemployment scheme to white-collar workers so as to avoid having to dismiss them: the advantage of this scheme is that the contract of employment is maintained while remuneration is suspended. This proposal has not received backing from trade union organisations, since in their opinion it calls into question the very nature of the employment contract. The three measures adopted therefore represent a compromise between the social partners — the temporary nature of the measures ensures compliance with the employment contract and the adoption of measures which reduce working time for both white-collar and blue-collar workers ensures the protection, income and job security of both groups. Moreover, all three means of adjusting working time must form part of a sectoral or company-level collective agreement. This entire debate must be seen in connection with the more general debate about the possibility of harmonising the employment status and contracts of white-collar and blue-collar workers.

This set of three measures supplements the provisions — adopted at the beginning of the year at federal and regional levels — relating to the protection of workers in the event of restructuring and those relating to improving the conditions for compensation, payable in the event of unemployment for economic or other reasons.

The new measures are specific anti-crisis measures, and as such have priority status. They also contribute to flexicurity, since the resulting working time and work organisation simultaneously guarantee that the employment contract is maintained and allow a partial shutdown of business where required by economic circumstances.

The measures proposed by Milquet correspond to several of the guidelines contained in the 2005 reform of the Lisbon strategy:

- implement employment policies aimed at achieving full employment, improving quality and productivity at work, and strengthening social and territorial cohesion; attract and retain more people in employment, increase labour supply (guideline 17);
- promote flexibility combined with employment security and reduce labour market segmentation, having due regard to the role of the social partners, through: the adaptation of employment legislation, reviewing where necessary the different contractual and working time arrangements; better anticipation and positive management of change [...] so as to minimise their social costs (guideline 21);

- ensure employment-friendly labour cost developments and wage setting mechanisms by reviewing the impact on employment of non-wage labour costs and where appropriate adjust their structure and level, especially to reduce the tax burden on low-paid people (guideline 22).

The May 2009 EU employment summit proposed a number of specific measures to respond to the crisis. At the same time, the European Commission released EUR 19 billion for the European Social Fund.

One of the measures put forward at the May summit concerned temporary short-time working arrangements, which would minimise the growing risk of job losses caused by the economic crisis. The Commission nevertheless warned the Member States of the risks inherent in applying this kind of measure on a long-term basis. The arrangements must remain temporary, or else they could make it difficult to clearly differentiate between cyclical and structural problems.

Such arrangements could be combined with training, for instance via the European Social Fund, in order to make them even more effective.

## 2. Description of the measures

Table 3 provides a detailed description of the anti-crisis measures put forward.

**Table 3: Detailed description of the measures**

| <b>Crisis-induced temporary adjustment of working time</b>   | <b>Individual, temporary reduction in work done</b>   | <b>Temporary, collective scheme totally or partially suspending application of employment contract</b>   |
|--|---|--|
| <b>Measure</b>   | <b>Measure</b>  | <b>Measure</b>   |
| A temporary, collective reduction in working time by <b>one fifth or one fourth</b> , applying to all workers in the company or to a specific category of its workers. This reduction may be combined with the introduction of a four-day week.<br>The employer is granted an ONSS 'target group' reduction of EUR 600 for a one-fifth time reduction or EUR 750 for one-fourth time (these sums are increased by EUR 400 if the four-day week is also introduced). Most of these funds will serve to compensate workers for their loss of earnings (see below). | A temporary, individual reduction in working time by <b>one fifth or half</b> , applying to one or more workers in the company by agreement with them. This measure is entirely separate from the time credit and career break schemes.   | A total or partial (working time reduced by at least two days per week) suspension of the application of the employment contract, covering a certain number of the company's white-collar workers because of a shortage of work.   |
| <b>Employers</b>   | <b>Employers</b>  | <b>Employers</b>   |
| This measure concerns private-sector employers and autonomous public undertakings, whether or not in difficulty.   | Only for private-sector firms in difficulty, i.e. ones facing either a 20% fall in turnover (one quarter compared with the same quarter in the previous year) or in output, or else 20% of economic unemployment among blue-collar workers as compared with the total number of hours (blue-collar and white-collar staff) counted for ONSS purposes, or else a 20% drop in orders.                 | Only for private-sector firms in difficulty, i.e. ones facing either a 20% fall in turnover (one quarter compared with the same quarter in the previous year) or in output, or else 20% of economic unemployment among blue-collar workers as compared with the total number of hours (blue-collar and white-collar staff) counted for ONSS purposes, or else a 20% drop in orders.                        |
| <b>Workers</b>   | <b>Workers</b>  | <b>Workers</b>   |
| Blue-collar and white-collar workers employed full-time.   | Blue-collar and white-collar workers employed full-time.  | White-collar workers employed full-time or part-time.  |
| <b>Conditions</b>  | <b>Conditions</b>   | <b>Conditions</b>  |
| <ul style="list-style-type: none"> <li>• Worker's individual agreement not required.</li> <li>• A company-level collective agreement.</li> </ul>   | <ul style="list-style-type: none"> <li>• Worker's individual agreement required (agreement signed between employer and worker).</li> <li>• A sectoral collective agreement. If no sectoral agreement is filed in the week following the law's entry into force, a company-level collective agreement or company plan (for companies without a trade union delegation) must be concluded.</li> </ul> | <ul style="list-style-type: none"> <li>• Worker's individual agreement not required.</li> <li>• A sectoral collective agreement. If no sectoral agreement is filed in the week following the law's entry into force, a company-level collective agreement or company plan (for companies without a trade union delegation) must be concluded.</li> </ul>   |
| <b>Duration</b>  | <b>Duration</b>   | <b>Duration</b>  |
| Applicable from 25 June to 31 December 2009; may be extended until 30 June 2010, after consultation of the National Labour Council, if justified by the economic situation.  | Minimum one month and maximum six months. This period is renewable but only up to the date below.<br>The scheme ceases to apply on 31 December 2009. It may be extended until 30 June 2010 if so decided by the government after consultation of the National Labour Council.   | Minimum one week and maximum 16 weeks in the event of total suspension. Minimum two weeks and maximum 26 weeks in the event of partial suspension.<br>The worker and the ONEm must be informed at least seven days in advance.<br>The scheme ceases to apply on 31 December 2009. It may be extended until 30 June 2010 if so decided by the government after consultation of the National Labour Council. |

| <b>Crisis-induced temporary adjustment of working time</b>   | <b>Individual, temporary reduction in work done</b>   | <b>Temporary, collective scheme totally or partially suspending application of employment contract</b>   |
|--|---|--|
| <b>Financial compensation (gross amounts)</b>  | <b>Financial compensation (gross amounts)</b>   | <b>Financial compensation (gross amounts)</b>  |
| <p>Paid by the employer</p> <p>One fifth: a minimum of EUR 150 per month or EUR 250 if the work is spread over four days per week.</p> <p>One quarter: min. EUR 187,50 per month or EUR 287,50 if the work is spread over four days per week.</p> <p>Pay and compensation may never exceed 100% of the person's previous full-time earnings.</p> | <p>Paid by the ONEm</p> <p>One fifth: EUR 188 per month for workers aged under 50 and EUR 248 for those aged 50 and over.</p> <p>One half: EUR 444 per month.</p> <p>The employer may top up these amounts.</p> <p>Pay and the ONEm allowance and any top-up from the employer may never exceed 100% of the person's previous full-time earnings.</p> | <p>Paid by trade unions or Capac (<i>Caisse auxiliaire de paiement des allocations de chômage</i>).</p> <p>The worker receives a crisis-related daily allowance, for each day of suspension, corresponding to 70% (if cohabiting) or 75% (if living alone or head of household) of his/her gross pay (currently capped at EUR 2 206,46).</p> <p>The employer pays a top-up which must be equivalent to at least the top-up paid to blue-collar staff, employed by the same employer and who are in receipt of unemployment benefit owing to their contracts of employment being suspended on economic grounds (temporary unemployment).</p> <p>Unemployment benefit plus top-up may never exceed 100% of the person's previous full-time earnings.</p> |

### 3. Involvement of the social partners

In March 2009, the social partners discussed within the Group of 10<sup>(1)</sup> the idea of extending economic unemployment to white-collar workers. The negotiations did not, however, result in an agreement. According to the trade unions, an extension of the economic unemployment scheme to white-collar workers could be negotiated only in connection with a harmonisation of the employment status of blue-collar and white-collar workers. That would mean, in particular, lengthening the periods of notice given in the event of dismissal, which in the employers' view would entail an excessive increase in wage costs and would be totally inappropriate in the current economic climate. The FGTB and CSC unions then declared their willingness to discuss economic unemployment for white-collar workers on three conditions: notice periods for white-collar workers must be guaranteed, any economic unemployment measures must be framed at sectoral level, and alternative funding measures must be provided for. Thus it was that these measures came into being following the collapse of negotiations between the social partners. The measures represent a positive response to the employers' demand, but are subject to the conclusion of sectoral or company-based collective agreements.

### 4. Performance and achievements

An initial evaluation of the introduction of these measures consists of seeing which sectors have signed a collective agreement enabling companies in those sectors to access the measures adopted by the federal government. Indeed, one of the conditions for the effective implementation of some of the

measures is that, by 3 July 2009, companies must be bound by a sectoral collective agreement or, failing that, by a company-level collective agreement. Only a few sectors (e.g. metalworking, textiles and knitwear, the paper industry, audiovisual and social workshops) had signed a sectoral agreement by the deadline.

There are no observation and analysis indicators specific to these measures. However, the following indicators taken from the Commission's compendium and linked to the abovementioned guidelines enable us to evaluate their implementation:

#### Guideline 17

##### Observation indicators:

- Employment rate: overall employment rate, by sex and age group.
- Employment growth: growth in the number of people in employment by sex and growth in the number of people in employment by main sectors (agriculture, industry, services).
- Unemployment rate: overall unemployment rate, by sex and age group.
- Activity rate: overall activity rate, by sex and age group.

##### Analysis indicators:

- Employment rate in full-time equivalents: overall employment rate and by sex.
- Rate of real GDP growth.
- Labour supply growth rate: overall growth rate and by sex.
- Transitions by employment status: percentage of people working full-time/part-time who were unemployed or inactive at  $t$  and have changed status at  $t + 1$ .

(1) The Group of 10 brought together representatives from the trade unions, employers and small businesses.

## Guideline 21

### Observation indicators:

- Transitions by type of contract: percentage of people who were permanent employees, temporary employees, self-employed, unemployed and inactive at  $t$  and have changed contract type at  $t + 1$ , by sex.
- Diversity and reasons for contractual and working arrangements: people employed part-time and/or on fixed-term contracts as a percentage of all those in employment, and people working on a self-employed basis as a percentage of all those in employment; breakdown by sex.

### Analysis indicators:

- Working time: average number of hours usually worked per week, defined as the sum of hours worked by full-time employees divided by the number of full-time employees; breakdown by sex.
- Access to flexitime: total employees who have time arrangements other than fixed start and end of a working day as a percentage of total employees. Breakdown by sex.

## Guideline 22:

### Observation indicators:

- Unit labour cost growth: growth rate of the ratio: compensation per employee in current prices divided by GDP (in current prices) per total employment.
- Tax wedge on labour costs: ratio of income tax plus employee and employer social contributions including payroll taxes less cash benefits divided by the labour costs for a single earner earning 67% of the average wage.

### Analysis indicators:

- Labour productivity: GDP divided by the number of people employed and hours worked.
- Implicit tax rate on employed labour: ratio of total taxes on employed labour (personal income taxes plus employees' and employers' social security contributions plus payroll taxes) divided by the total compensation of employees plus payroll taxes.

## 5. Conclusions

These three measures should help to minimise job losses resulting from the downturn in economic activity. However, the number of collective agreements concluded by the end of June 2009 was very small, even though the measures are time-limited. The measures constitute an emergency response to the risk of widespread redundancies among white-collar employees, but they leave the issue of harmonising the employment status of blue-collar and white-collar workers unresolved. The first two measures, which are not specific to white-collar workers, also announce a return to working-time reductions, albeit temporary, as a response to growing unemployment.

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# Bulgaria

## The integrated approach in the labour market in the context of the recent economic crisis

### 1. Introduction

The latest economic crisis provides additional arguments for the importance of an integrated approach (IA) because it contributes to efficiency, quality and legitimacy of labour market policies by addressing the needs of institutions and stakeholders. The combination of actions already applied in the Bulgarian labour market and the anti-crisis package, in particular, will be presented here, from the point of view of that approach. There are two programmes in the package which have innovative elements: compensation for employed people who are on reduced working time schedules; and new opportunities for the employment of workers being made redundant as a result of the crisis.

### 2. The labour market measures

The 2009 employment plan is oriented towards preserving employment in companies with temporary problems and easing the transition of released workers to new employment. Subsidies for creating new jobs were provided together with vocational training, including that for the development of new skills. The main argument for such activities was not only the employers' intention to preserve at least the employment of core staff, but also the existence of some labour shortages and positive labour demand at the end of 2008.

#### 2.1. The anti-crisis package

The initial version of the employment plan for 2009 included a package of four anti-crisis programmes. They provided: compensation for those working reduced hours; mediation of the labour transition of workers made redundant as a result of the crisis; subsidised employment and training in public construction works under the 'Beautiful Bulgaria' programme; and encouraging self-employment and the creation of mini-companies under the JOBS programme. The first two activities were new, but they were combined with another two with already proven significance and viability. On this basis the successful and efficient integration of the anti-crisis actions was sought.

Using reduced working time to maintain employment is a new practice for Bulgaria. Its application brought about Labour Code amendments. This made it possible for companies to introduce reduced working time for a period of up to six months within a calendar year instead of the previous three months. After amendments in the Law for Employment a measure stimulating the maintenance of employment was introduced for the first time. The compensation of lower remuneration rates is allotted only to those employed in the economic sectors 'industry' and 'services' <sup>(2)</sup>.

Unemployed people, because of mass lay-offs and other recent problems in 2009, are offered subsidised employment for no longer than six months under the new national programme 'New employment opportunities'. They are directed to jobs offered by employers who have not carried out mass redundancies over the past 12 months, i.e. they have the potential to maintain their staff and their competitive positions. The programme offers vocational training in compliance with the demands of regional labour markets. There is a new point: the provision of training on key competences to improve worker mobility.

The programme does not allow employment with the last employer and any of its subsidiaries, to prevent possible abuse of the rules by employers. Priority is given to those who create jobs in national infrastructure projects such as the construction of transport, communication and technical infrastructure. Considering the nature of the jobs promoted, it is expected that mainly low qualification workers will benefit from the programme.

Workers made redundant by the metallurgy works of Kremikovtzi were included additionally in the later programme, as a separate group of beneficiaries. There was a need to develop a separate component of the programme as a short-term reaction to this mass redundancy.

The 'Beautiful Bulgaria' programme is one of the most successful earlier labour market initiatives. In 2009, it is supported by a memorandum between the Ministry of Labour and Social Policy (MLSP) and the municipalities for the implementation of the activities. The programme provides the opportunity to employ people with low qualifications in construction. They are directed to new construction works as well as to maintenance works for social establishments, protected houses, kindergartens and nurseries, and religious establishments, etc. The subsidised employment is combined with vocational training, including training in key skills.

The successful JOBS programme was designed to offer consulting and other services to those starting their own business, preparing business plans, leasing equipment, etc. The programme includes three components: developing the business skills of, and assisting, Roma entrepreneurs; creating competitive small businesses; and helping students

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(2) The monthly compensation is equal to half of the fixed minimum wage or salary. This sum is paid during a period that cannot be longer than 3 successive months within a year. The specific amount of the monthly compensation, though, depends on the working time actually implemented. A special decree of the Council of Ministers was issued to regulate compensation payments.

set up hi-tech companies. In 2009, part of the social security contributions paid by mini-company employers is reimbursed to assist companies' survival.

In the process of implementing the employment plan for 2009, some activities financed by the Social Investment Fund (SIF) were included in the anti-crisis package. The SIF secures employment for constructing nurseries, kindergartens and social establishments, adding to the 'Beautiful Bulgaria' project. Both programmes use public investment to create new jobs in the field of social infrastructure.

## 2.2. Other activities promoting employment

Employment in the sphere of social services has gained importance in the context of limited labour demand in the first half of 2009. It has also general social effects because of the ageing of the population, migration and other social problems. The national programme for providing social services at home is one of the new programmes in 2009. It includes two sources of jobs, social care and at-home assistance.

The programme 'Activating of the inactive' is large scale and targeted at beneficiaries having problems communicating with the labour authorities. During 2009, 46 Roma mediators have been given specialised training. They work with inactive people (including the Roma population) who are beneficiaries of the subsidised employment, literacy and vocational training. The implementation of specialised labour exchanges for the Roma people continues in 2009.

The programme for long-term unemployed people, 'From social assistance to employment', is also significant in terms of number of beneficiaries and scope of financing.

The impact of these direct employment services has been positive. In general, contact between labour mediators and employers have become more intensive. Seventy-nine per cent of all vacancies were occupied following specialised labour assistance in the first half of 2009, compared with 76% in the same period of 2008. The difference is not significant, but it is remarkable, considering that the economy went into recession at the beginning of 2009<sup>(3)</sup>.

Recently, the job search phase has been linked with longer periods of unemployment, during which an adequate standard of living has to be maintained. For this reason the minimum unemployment benefit was increased by 26% to BGN126 monthly (approximately EUR63), the upper limit being maintained at BGN252 (EUR126)<sup>(4)</sup>. However, even after this latest increase, it remains too low to maintain an adequate standard of living for jobless people and their families. Passive

policies<sup>(5)</sup> do now seem to be better combined with active policies, but the importance of the latter will predominate in the near future.

## 2.3. Integrating the anti-crisis measures with the operational programme, 'Human resources development' (OP HRD)

The operations of the OP HRD have been based on the model of the programmes in the 2009 employment plan for their content and their financing. This is important for the sustainability of the anti-crisis actions and for ensuring their efficiency, effectiveness and quality.

The recently initiated activities of OP HRD include training of unemployed people aged up to 29 in key competences, encouraging self-employment, with training on entrepreneurship. Four new activities were set up at the end of June 2009; the most important being the 'Adaptation' programme for preventing mass lay-offs. This includes an innovative element for reduced-time workers to be given vocational training in the unutilised part of their working day, for a maximum of five months. Scholarships will be paid to participants and it can include people whose period of subsidised employment has expired under the first programme of the anti-crisis package, as presented above.

## 2.4. Integrated financing of the anti-crisis actions

Almost half of the planned state budget for active policies was spent in the first six months of 2009. The remainder has been contracted and is expected to be expended by the end of 2009. The activities provided employment for almost 90 000 people and training for 7 000. The 2009 budget of the MLSP was decreased by 10%, as part of a Government Act aimed at reducing administrative costs. Whilst this hinders the work of the labour administration, it may also stimulate more efficient use of resources, including their combination with other European and international donor resources.

The anti-crisis package is funded by the MLSP budget and the European Social Fund, as well as by local authorities, the Social Investment Fund, and a guaranteed loan from the World Bank, and some other sources from the European Funds (Phare). Promoting the setting-up of hi-tech companies by students as a component of the JOBS programme is financed by the Ministry of Economy and implemented together with the MLSP.

(3) Source: Employment Agency.

(4) The maximum benefit is close to the BGN 240 minimum wage for 2009.

(5) The opportunity to pay daily unemployment benefits has recently been introduced (in legislation and in practice).

### 3. Organisation, implementation and funding

The implementation of the national plan for employment activities is carried out mainly through the activities of the MLSP, and primarily by the Employment Agency (EA) and its territorial structures. There is a tendency for more decentralisation, pulling together the efforts of local authorities, businesses and trade unions. It is carried out in compliance with the legislation, on the basis of agreements reached in advance (pacts, memoranda, etc.) and in the course of joint planning and financing of the initiatives.

The programme that provides compensation for people on reduced-time working is implemented in line with the needs of the local economy and with the active participation of local authorities and their social partners. Beneficiaries of the programme are discussed first by the Council for Cooperation with the Labour Office, and then submitted to the Employment Commission and the District Development Council for coordination and approval. These councils and commissions have been established throughout the country.

For the 'New employment opportunities' programme, trade unions provide information about the regions and sectors most severely affected by the economic crisis. They are delegated (for the first time) to implement key competence training for the workers released from Kremikovtzi.

In 2009, the trade unions also introduced two projects of their own. The 'Your own business — a change of your profession' project supports the social adaptation and employment of redundant tobacco industry workers through training and support in starting their own business. The second project, 'We will succeed again', supports redundant education sector workers.

Given the importance of training, the national employers' organisations initiated an agreement between them, the MLSP and the Ministry of Education, to improve collaboration between stakeholders in the field of vocational training and education. This initiative takes account of new labour needs and of the challenges of the dynamic labour market and of those sectors that are still competitive.

### 4. Performance and achievements

Interest in the programme for compensation of reduced working time was high, but its financial resources have already been exhausted. It appears to have been effective, since 17% of those involved in it remain employed with the same employer

after the period of compensation expires. Its popularity gives grounds for its extension through the second half of 2009, if new funds become available. For the moment, the planned paying of scholarships to workers on reduced working time could be one way to continue the programme.

The programme 'New employment opportunity' provided employment for only 43% of the planned number of unemployed people, and vocational training to 35% of them. This programme has to be better advertised in the second half of 2009 and participation in the vocational training component will have to be more actively stimulated.

The programme 'From social assistance to employment', together with programmes for employment in social services, still provides the main share of the employment opportunities for registered unemployed people.

The combination of new and existing employment policies has produced relatively good results, thus far. The average unemployment rate for the first six months of 2009 was 6.91% (but was already approaching 8% in July 2009). Expectations, however, are rather pessimistic considering the deteriorating indices for the real economy and the acceleration of cases of mass redundancies. A more precise understanding of the effects of the anti-crisis activities will be available after their net impact assessment, at the end of 2009.

## 5. Conclusions

The design of the above anti-crisis actions follows the requirements of the integrated approach in that the actions combine social and economic effects, i.e. different kinds of investments for employment, addressing stakeholders on a large scale, and providing a combination of new and existing activities. As shown above, there is a provision to combine different activities and services within the framework of the proposed actions, such as employment, training, financial services, assistance for business start-ups and self-employment. It seems that there is a tendency to build coherence between short-term measures that benefit local communities and, in particular, beneficiaries with low levels of qualifications and income. There are some steps towards common medium-term targets and the further implementation of the flexicurity path will also contribute to them.

Special stimuli are presented for employment in fields which are important for the country and severely affected by the crisis. The social partners and the state administration at local level actively participate in the design of labour market policies.

Along with the steps already taken for applying the integrated approach, there are some problems that reduce its potential. In the attempt to react quickly to the problem, there is a relatively weak preliminary assessment of the social impact of the actions planned. Practically, prospects for continuing the subsidised employment programmes have not been outlined, nor have other activities in favour of employment

after the expiration of the period for participating in the anti-crisis measures. The criteria applied for the selection of employers who can take advantage of the proposed anti-crisis measures are too general. To a certain extent, the approach thus far is to distribute 'a little to everybody', which is not necessarily the most efficient one.

There are problems in financing labour market policies and these will escalate in the near future. Some of them are related to the expected expansion of the budget deficit. The situation of the municipal budgets is especially difficult, given that they have limited scope to co-finance employment projects. The Unemployment Fund is also shrinking and it may turn out that it will not be able to fund the increased unemployment benefits. For the time being, however, the creation of specialised aid to people, companies, and municipalities that are strongly affected by the crisis is not being discussed. The part-time agencies are still not implemented in practice and this (amongst other reasons) constrains the use of flexible work arrangements.

It can certainly be claimed that it was the necessity of efficiency in spending the limited resources available for labour market policies that made it particularly necessary to apply the integrated approach to the labour market. This has already shown positive results and the interest shown by the social partners and their participation in the elaboration and implementation of recent policies is especially notable.

A suitable flexicurity path has been adopted for the country thus strengthening both the place and the significance of the integrated approach in the near future. Its content presents the basis for the successive application of reforms and for their financing and implementation. The representatives of the trade unions and other social partners again took an active part in its elaboration. The path was developed in a constructive and proactive manner that will stimulate the advantages of the integrated approach in the medium term.

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# Czech Republic

## Projects supporting the education of employees and aimed at mitigating the impact of the economic crisis on employment

### 1. Introduction

Two major projects are reviewed in this article; they were both launched in the spring of 2009 and aimed to mitigate the impact of the economic crisis on employment in the Czech Republic. Both projects provide public subsidies in the form of grants to employers to co-finance education and training of their employees and cover associated costs.

The adverse impact of the economic crisis on the Czech economy appeared somewhat later compared with most other EU countries, but the impact is becoming substantial in the historical perspective of the last 20 years. In the first quarter of 2009, GDP dropped by 3.4% on a year-to-year basis. However, in July 2009, the prediction of real annual growth rate decline during 2009 was revised from between 2 and 2.5% to about 4.5%. Until now, the drop has been mainly due to a large decline in manufacturing exports and investments.

By the end of June 2009, labour offices registered only 43 000 vacancies, compared with about 108 000, a year ago. This represents a drop of almost half. During the same period, over 80 000 jobs were lost in the manufacturing sector. The average number of employees reported in firms in industry with over 50 workers declined by over 11% in April 2009, in a year-on-year comparison. Hours worked in industry declined by over 4%. The outlook for recruitment in the manufacturing sector in the second half of the year is not positive and some experts predict a second wave of lay-offs to appear during the autumn of 2009. In June 2009, the registered unemployment rate was at 8.0%, compared with 5% a year earlier. Until now, younger male workers with apprenticeship education were mostly affected by the crisis.

The previous government, which resigned in April 2009, had started to consider anti-crisis measures at the end of 2008, with preparatory administrative and legal work for the measures starting only in early 2009. The establishment of the new government slowed down the implementation of anti-crisis measures.

However, the two projects under discussion are rather an exception, since they were launched by March 2009 and are relatively large in terms of budget and number of firms assisted. Other measures have been either approved very recently by the parliament, in the summer of 2009, or are not yet approved.

At the time of producing this article, there is little information available about actual targeting of both programmes but some plans exist to perform an *ex post* impact evaluation of both programmes. However, given the exceptionally swift implementation of both projects, there are no strong expectations that rigorous and credible impact evaluation can be implemented. It is hoped by the administrators that there will be at least some analysis available, shedding light on actual targeting of the projects. More detailed information should be available during the autumn of 2009, or next year.

### 2. The projects and their expected impacts

The two major projects implemented are 'Education is a chance' (EiC) and 'Educate yourself' (EY). Both projects are being largely co-funded from the ESF through the existing operational programmes (OPs). In both projects, employers can obtain financial support for employees' training and education or to co-finance labour costs related to employees' time spent in education or training. In special cases, funding can be for the full costs, per employee. Legal limits are imposed so that one activity cannot be financed simultaneously from both projects.

The projects differ in terms of provider and their funding conditions. While the EiC project is administered by the Ministry of Labour and Social Affairs (MoL), the EY project is administered by individual labour offices. The EY project is targeted at employers being directly hit by the economic crisis, whereas the EiC project does not have this restriction.

The expected impacts of the projects are not explicitly stated in the project documentation. However, it can be easily inferred from the official goals that expected impact includes maintaining employment, improved productivity and competitiveness.

The eligibility criteria distinguish three types of firm, according to size<sup>(6)</sup>. Both projects distinguish two types of education: general and specific. General education<sup>(7)</sup> is meant to provide skills and competencies of general use irrespective of the employer receiving the subsidy. Specific education is meant to provide skills and competencies which increase the productivity of employees of the current employer in receipt of the support.

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(6) A large firm has more than 250 employees or turnover exceeding at least EUR 50 million and assets at least EUR 43 million. A medium-sized firm employs 50–249 workers or has a turnover and assets above EUR 10 million. A small firm employs less than 50 workers and its annual turnover does not exceed EUR 10 million.

(7) Education in languages, IT, communication skills, accounting, construction works, plumbing.

## 2.1. The 'Education is a chance' (EiC) project<sup>(8)</sup>

The general aim of this project is to contribute to increasing the adaptability of employees and the competitiveness of employers by providing additional vocational knowledge, skills and competencies to employees and employers. There is EUR666 million (CZK 1.8 billion) allocated to it and it is expected to stay open until the end of 2009.

Specific objectives of EiC are:

- development of qualification levels and competencies of employees;
- development of firms' human resources management systems and human resources development using innovative approaches;
- increase in the motivation of employees to spread vocational education in the firm; and
- fostering the sustainability of jobs.

The target groups are all employees, ranging from blue-collar workers to top management. Employees include those with any regular open-ended or ad hoc work contract with a given firm. The call for proposals encourages projects to focus on vulnerable age groups of employees — below 25 and above 50 years old.

The project distinguishes between general and specific education. The proportion of public support for the general education is set at 80, 70 and 60% for small, medium and large firms, respectively. Funding for medium-sized firms is increased to 80% in the case of education for disabled and disadvantaged employees. For specific education, the proportion of support is set at 45, 35 and 25% for small, medium and large firms, respectively.

Some industrial sectors are not eligible for public support for specific education. Some of them are expected to be eligible for support from another type of project to be run by the Ministry of Industry and Trade. The support from the EiC project cannot be used to finance long-term training courses, courses organised abroad, and adoption of quality management systems, including related training of staff. Most public and state institutions, including schools, are not eligible for support, given that they are eligible for support from other OP projects. Projects supported by EiC can be implemented in all regions of the Czech Republic except Prague<sup>(9)</sup>.

Regional (NUTS 2) and trans-regional projects are singled out by the budget allocated in the proportion of 75 to 25% respectively. The minimum and maximum size of support

for a regional project is EUR 37 000 to EUR 259 000 (CZK 1 million to CZK 7 million), and EUR 74 000 to EUR 555 000 (CZK 2 million to CZK 15 million) for a trans-regional project.

Public support can be provided combining several rules<sup>(10)</sup> and under particular conditions. In some cases, the amount of public support can amount to 100% of eligible costs, 85% covered from the ESF and 15% from the state budget. The maximum timescale for an individual project is 24 months and support is provided in the form of a grant.

## 2.2. The 'Educate yourself' (EY) project

EY is an individual project and takes the legal form of a subsidy<sup>(11)</sup> to co-finance vocational development of employees. EUR55 million (CZK 1.5 billion) is allocated to the project and it is scheduled to remain open until 30 June 2011. Those eligible are employers forced to limit their production due to drop in demand and who are allowed to pay their employees a lower wage<sup>(12)</sup> or employers whose new orders are in decline.

Employers can obtain a subsidy to finance training courses for their employees who are endangered by adverse consequences of organisational changes within the firm due to the economic crisis. Individual projects should provide an opportunity for employees to obtain further education, to improve their vocational knowledge and competencies in the area of general education, and employers should get an opportunity for more effective human resource solutions in the company during the crisis.

The proportion of public support is set at 80, 70 and 60% for small, medium and large firms, respectively. Intensity for medium firms is increased to 80% in the case of education for disabled and disadvantaged employees. Under special conditions, the amount of public support can amount to 100% of eligible costs. Public support can be provided combining *de minimis* and block exemption rules. The maximum support per project is EUR200 000 (CZK 5.6 million).

At the time of preparing this article, the second wave of calls for proposals was open. The criteria and conditions<sup>(13)</sup> were somewhat modified according to experience gathered during the first wave of the project.

(10) The rules are *de minimis*, block exception for education, and temporary framework. The European Union *de minimis* state aid regulation allows for aid of up to EUR 200 000 to be provided from public funds to any enterprise over a period of 3 years. Block exception rules state the 26 categories of state aid that do not need to be reported to the European Commission, thus reducing the administration involved in granting state aid in such cases. Temporary framework for state aid measures refers to the framework developed by the European Commission to support access to finance in the current financial and economic crisis.

(11) *Příspěvek* in Czech.

(12) According to Labour Code 262/2006 Sb., § 209.

(13) <http://portal.mpsv.cz/sz/zamest/kestazeni> and [http://portal.mpsv.cz/sz/politikazamest/esf/projekty/vzdelavejte\\_se](http://portal.mpsv.cz/sz/politikazamest/esf/projekty/vzdelavejte_se)

(8) <http://www.esfcr.cz/skoleni-je-sance>

(9) Some exceptions are possible in the case of employers based in Prague employing larger proportion of workers from non-Prague regions.

### 3. Organisation, implementation and funding of the projects

#### 3.1. The 'Education is a chance' (EiC) project

For EiC, employers have been allowed to submit online applications to the MoL since 23 March 2009. There are regular, continuing deadlines each third week and applications are being evaluated continuously. Project evaluation criteria and methodology are explicitly stated<sup>(14)</sup>.

Individual projects have to include monitoring indicators and their targets. The recipient firm has to monitor these indicators continuously during the project and report upon them.

According to interim reports dated 27 May and 16 July 2009, a total of 1 270 applications were submitted amounting to EUR814 million (CZK 6.25 billion) of support requested (total budget allocated for this programme is EUR666 million (CZK 1.8 billion). Funding was proposed for 188 applications, with a collective value of EUR 19.6 million (CZK 532 million).

#### 3.2. The 'Educate yourself' (EY) project

Employers have been submitting applications since 23 March 2009; they are evaluated and approved continuously at district labour offices. Employers with workplaces in all regions of the Czech Republic, except Prague, are eligible. Costs claimed may not exceed prices common in the region. Employers can claim funds (contribution) to pay for education of employees, wage compensation for the time spent by employees in education including employer's social and health contributions and related travel due to training.

### 4. Performance and achievements

Evaluation of both projects relates to the overall and systematic evaluation of all operational programmes and their projects, co-funded by the ESF during the current programming period 2007–13. In addition to the existing Working Group

for Evaluation, an evaluation office for the OP LZZ<sup>(15)</sup> was established (with five administrators) in December 2008.

These two bodies are now in charge of evaluating the OP LZZ. Detailed information on evaluation processes and activities can be found in the evaluation plan for the OP LZZ for the period 2008–15<sup>(16)</sup>.

There will be two evaluations to assess the impact of the project. The first will cover qualitative issues of project implementation from the standpoint of both providers and recipients and will provide a qualitative evaluation, implemented as a part of the annual OP LZZ evaluation in 2009. It is expected that this will also provide information on the targeting of projects, as well as analysis of regional impact of the crisis on the labour market. In addition, a longitudinal evaluation study of OP LZZ effects on target groups is being prepared.

Feedback provided in late July 2009 by administrators of the EiC provides information on the monitoring of performance and achievements. There is little aggregate information about actual targeting of the project (by industry sector, location, employment structures of firms submitting proposals). Firms from the Moravskoslezský and Jihomoravský regions are the most represented among applicants. Both regions are considered large according to their labour force. While the former has been reporting the highest unemployment rate in the country even before the crisis and has a large proportion of employment in manufacturing and heavy industries most heavily affected by the crisis, the latter has an unemployment rate close to the country average and has a notably smaller proportion of employment in manufacturing. Overall, for EiC, large firms represent 57%, medium 28% and small firms 14% of projects approved. More comprehensive information will become available in September 2009.

In the first phase of the EY project, more than 900 employers received support, out of a total of 3 247 applications. The projects approved provide support to 56 676 employees and almost 7 million hours of training. Applications requested support mainly for vocational (1 286), IT (673) and managerial training (592).

Impact evaluation is being planned on three fronts.

First, administrative data will be analysed, providing an insight into the impact of the project and its targeting (by firm size, industrial sectors, profession of employees supported, etc.). There is already a plan to amend criteria for the second wave of the project call, so that future support is better targeted.

Second, online surveys will be used to gather opinions, experience and evaluation of participating employers.

Third, *ex post*, online survey among participating employees will be carried out.

(15) Operational programme 'Human resources and employment' (Operacni program lidske zdroje a zamestnanost).

(16) <https://forum.esfcr.cz/node/discussion.home.list.php?ident=50&dhi dent=67&1248181843>

(14) The details of the evaluation criteria are beyond the scope of this review.

## 5. Conclusions

Overall, it seems that both projects are reasonably well implemented, given the short time available for their preparation. In general, the goals of both projects seem to be desirable and achievable. It is not clear at this moment, whether or how much these projects really help to mitigate adverse impacts of the crisis on employment and whether education and training courses increase productivity. The potential impact of projects should be considered vis-à-vis their financial and administrative costs. While the former amounts to EUR 851 million (CZK 2.3 billion), the latter is not known, but includes costs of both providers and employers.

Actual targeting of projects to employers — those in real need where public support can save higher numbers of jobs in the longer term — is questionable, since there seems to be little focus on targeting at this moment. Analysis of actual targeting is being planned for later, after the first phase of both projects, when the peak of the economic crisis may well be over.

It would be very desirable that an informative and credible causal impact evaluation is implemented, in addition to the existing evaluation framework represented by the usual project indicators. Resulting *ex post* analysis would document not only the number of firms and employees assisted by the project and the amount of funds spent, but would provide information about the net causal impact of the project on employment and labour productivity. However, exceptional speed of implementation of both projects makes such an evaluation rather difficult.

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# Denmark

## Comprehensive assistance to unemployed people in integrated jobcentres

### 1. Introduction

An important feature of the Danish system of income support for unemployed people is its two-tier nature. The dividing line is between those unemployed, who are members of an unemployment insurance fund, and those who are not, and who are therefore eligible for means-tested social welfare. The former have traditionally been the responsibility of the state-run Public Employment Service (PES), while the municipalities have cared for the latter. The aim of the creation of the new integrated jobcentres described in this article is to establish a new structure that can provide for a more comprehensive assistance to unemployed people.

### 2. A summary of the assistance provided

Danish active labour market programmes take in about 60 000 full-time people per year, in the context of a workforce of about 2.9 million people. This figure does not include participants in the so-called flexi-jobs, which are jobs with a permanent wage subsidy for people with ongoing reduced work-capacity. Their number has been rapidly rising and in 2008 amounted to 49 500 people.

Measured in numbers, the municipalities have taken responsibility for about half of the total number of unemployed people in active measures and thus play a key role in the implementation of active labour market policies. This is also the main reason for the efforts to integrate the state system for the insured unemployed with the activities of local government.

After a series of pilot projects, a new implementation structure was created from 2007 onwards, where the state-run Public Employment Service (PES) and the employment branch of the municipalities (responsible for the non-insured unemployed) were joined in jobcentres at the local level in the municipalities, but with the PES still being legally and administratively a separate entity (Deloitte, 2006). In the autumn of 2008 a new political agreement was made, which implied that from 1 August 2009 the jobcentres became fully integrated into the municipalities. As a consequence, the PES was abolished. The changes were related to the so-called 'structural reform', which implied major changes in the Danish public sector, not only with respect to

the administration of labour market policy. Thus, the number of municipalities was reduced from 271 to 98 and the number of regions (counties) was reduced from 14 to 5<sup>(17)</sup>.

Furthermore, from 1 January 2010 the municipalities will take full economic responsibility for all unemployed (including their benefits), albeit with a refund from the state. The administration of benefits for insured unemployed people will, however, still be in the hands of the unemployment insurance funds.

The main arguments behind the reorganisation of the administration of employment policy and the creation of the integrated jobcentres were as follows.

Firstly, the new jobcentres established the possibility for a concerted effort towards both insured and non-insured unemployed people and to draw on a wide range of skills within a single organisation. The more work-oriented approach of the former PES could thus be combined with the competences of the social workers in the municipalities, thus allowing the services given to unemployed people to be adapted to their specific needs and social situation. In general it was the wish that a greater emphasis should be put on a work-first approach towards all unemployed people, including the non-insured recipients of social assistance. The kind of income support provided to unemployed people should no longer determine the kind of services they would receive.

Furthermore, the integration of the two organisations would create a greater transparency in the administrative systems. Insured unemployed people would no longer have to be shifted between different administrative bodies when they, for instance, change their status from unemployed to receiving sickness benefits from the municipality, or vice versa. In all cases the municipalities could now take responsibility for them. Also, for both employers and unemployed people, the new system would guarantee a 'one door' organisation, where they would only approach one administrative body in all matters related to the labour market.

Finally, from the point of view of governance, the new integrated system should provide better options for implementing a comprehensive national strategy in a unified system rather than in the previous fragmented organisation composed of separate state and municipal employment systems.

In short, the aim of the reforms since 2007 has been to modernise and strengthen the Danish employment services in order to secure greater transparency and more efficient administration of the available resources at both the local and the national levels.

Table 1 gives an overview of the tasks and responsibilities of the different actors in the new employment system.

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(17) With respect to the administration of employment policy only four regions were established, since Zealand including Copenhagen was considered as one region, whereas in other regional administrative matters (like the administration of healthcare) it was divided into two regions.

**Table 1: Administrative and corporate bodies at national, regional and local levels after the reform of 2009**

| Level    | Administrative bodies                      |  | Corporate bodies            |  |
|----------|--|--|-----------------------------|--|
|          | Name                                       | Main responsibility  | Name                        | Main responsibility  |
| National | National Labour Market Authority           | Overall management of active employment policy   | National Employment Council | Advisory body to the Minister of Employment in all matters related to labour market policy |
|          | Labour Directorate                         | Supervising the unemployment insurance funds and the municipalities' administration of cash benefits |                             |  |
| Regional | Employment Region                          | Supervising the performance of the local jobcentres  | Regional employment council | Advising the regional labour market director<br>Monitoring regional labour markets.        |
| Local    | Jobcentres                                 | Employment services to insured and non-insured unemployed  | Local employment council    | Advising the municipality and the local jobcentre  |
|          | Social security office of the municipality | Payment of cash benefits to non-insured unemployed   |                             |  |
|          | Unemployment insurance fund                | Payment of unemployment benefits to unemployed and control of availability for work                  |                             |  |

At the national level, the administrative and corporate bodies were unchanged by the reform. The National Labour Market Authority and the Labour Directorate are still responsible for the overall management of employment policy and for the supervision of income support for unemployed people. Also the National Employment Council, with representatives from the social partners, kept its role as an advisory body to the Minister of Employment.

At the regional level the four new employment regions supervise the performance of the jobcentres in the municipalities. However, due to the Danish tradition for local self-governance, this created some delicate problems concerning the exact competences given to the Employment Region, which is still a state body. The solution was to give the director of the Employment Region a mainly advisory role. Only in cases where a jobcentre was evidently mismanaged and unable to fulfil its tasks, would the director report to the Minister of Employment, who would then have the authority to intervene and in practice set the jobcentre in question under administration by the region, by ordering the municipality to use external service providers to improve its performance.

With respect to external service providers the regions also organise joint tenders, which provide the jobcentres with a common pool of external service providers that can be used, for instance, to service special target groups (for example, unemployed academics), with which a local jobcentre may have little experience.

Also at the regional level, the Regional Employment Council, with representatives from the social partners, acts as an advisory body to the director of the employment region. However, compared to the situation before 2007, the council has no direct influence on the allocation of resources to the different active programmes.

Finally, at the local level, the jobcentres are responsible for the provision of services to both insured and non-insured unemployed people. The latter receive their income support from the separate social assistance offices of the municipalities, while insured unemployed people — as before the reform — get

their unemployment benefit from the unemployment insurance fund. Thus, although the jobcentres should act as a 'one door' organisation, there is still a separation of the administration of benefits into a two-tier system outside the jobcentre.

Similar to the national and the regional levels, a local employment council with representatives from the social partners, has an advisory role toward the jobcentre and the municipal council.

### 3. Organisation, implementation and funding

Both before and after the reforms, funding for active labour market programmes and income support for unemployed people are provided by the general tax system and not from earmarked contributions from employers or employees. With respect to non-insured unemployed people, expenses are carried by the municipalities, but with a refund from the national government depending on whether the expenses are for active programmes (65%) or for passive income support (35%). The idea is thus to provide strong incentives for the municipalities to activate unemployed people.

With respect to insured unemployed people, the costs for both active measures and income support have previously been financed by central government, apart from a small membership contribution from the members of the unemployment insurance funds. Under the new system, where the municipalities will also be responsible for insured unemployed people, a complex system for financing the costs has been set up. The basic principle is that the municipalities should have strong economic incentives to activate insured unemployed people. Therefore the share of the costs being refunded from central government is higher for active programmes than for passive income support to insured unemployed people, in a manner similar to the existing system for non-insured unemployed people.

The problem is, however, that these costs have a strong cyclical element relating to overall economic performance. Furthermore, smaller municipalities will be hard hit if a large local employer closes down. For these reasons the new financing system contains a number of compensating mechanisms that dampen the negative effects, from rising unemployment, on municipal budgets. The question is, of course, whether the compensation has been made so generous that the incentives to activate insured unemployed people have disappeared. Since the new system will come into effect only from 2010, the answers given can only be speculative.

## 4. Performance and achievements

Since 2007 a number of evaluations have been conducted to assess the performance of the integrated jobcentres. This section gives an overview of some key findings from these recent studies. Only those evaluations that are focused on issues of management and implementation are included, while a number of other assessments of the outcomes of different specific programmes and activities are not discussed (e.g. Arbejdsmarkedsstyrelsen 2008ab, 2009; Capanet Epinion, 2008; Ellerbæk and Graversen, 2009; UNI-C, 2008)

### 4.1. Barriers to a full integration between the former PES and the municipalities

A recurrent theme in the assessment of the jobcentres has been the concern that the integration would be more formal than real, in the sense that the centres would still be internally divided between divisions handling insured and non-insured unemployed people. To some degree this suspicion could be supported by an evaluation of the first year of the reform, concluding that the organisation of the activities of the jobcentres was still along the lines of the PES and the social assistance branch of the municipalities, thus reducing the synergy that was one of the aims of the reform (Eskelinen, 2008). A similar observation is made by Larsen (2009). Whether this will change with the formal abolition of the state arm of the jobcentres from 1 August 2009 remains to be seen.

### 4.2. The use of external service providers

External service providers have played a role in the implementation of Danish labour market policy for decades. Thus both the PES and the municipalities have cooperated with private commercial firms or with private organisations like trade unions or unemployment insurance funds in running active programmes for specific target groups like the

young unemployed, unemployed from ethnic minorities or unemployed academics.

However, during recent years it has been a deliberate strategy of the government to strengthen the role of external service providers in the implementation of employment policy, thus following the international trend towards involving private firms in the implementation of public employment policies (Bredgaard and Larsen, 2008b). As illustrated above, external service providers are, furthermore, seen as an important element in the regional and national supervision of the jobcentres, both when it comes to taking measures towards jobcentres with a substandard performance and to providing the jobcentres with a shared pool of service providers established by common tenders.

In an evaluation of the use of external service providers conducted for the National Labour Market Authority in 2008, the outcome of two major joint tenders were assessed (Deloitte, 2008). Both tenders were for target groups of unemployed people with specific problems, such as academics, managers or older long-term unemployed people. One conclusion from the evaluation is that the common tenders have put a downward pressure on costs, without reducing the quality of the services provided. There are, however, some administrative barriers in the interaction between the jobcentres and the external service providers, and the jobcentres have also developed somewhat different administrative routines, which may hamper effective implementation. The assistance of external service providers has furthermore strengthened the use of job training with a wage subsidy, which is an instrument that is given high priority in Danish employment policy.

### 4.3. The interplay between the national employment strategy and the jobcentres

From the beginning of the discussion about the design of a new administrative organisation for employment policy, worries have been expressed that the jobcentres would have a number of barriers to overcome in order to implement the national employment strategy in an efficient manner (Madsen, 2009). Among the issues were the limited geographical area covered by each jobcentre and their lack of competence with respect to specific target groups. Another worry was the tradition for local self-government, already mentioned above.

A couple of recent research projects have investigated some organisational aspects of the new organisation of the jobcentres (Breidahl and Seemann, 2009; Larsen, 2009). One conclusion is that the new organisation has led to a more work-oriented approach towards non-insured unemployed people, thus fulfilling one of the main aims of the reform. This change is supported by the formal separation of the jobcentre from the social assistance branch of the municipality and also by the stronger monitoring of the results of the jobcentres by the regional and national authorities. The stronger monitoring has, however, also increased the risk of a standardised approach

giving higher priority to the fulfilment of the formal targets than to the situation and problems of the unemployed individual. Larsen (2009) further concludes that the cooperation between the municipalities seems to be rather limited, thus increasing the risk of a geographical segmentation of employment policy, divided by the borders of the individual municipalities.

#### 4.4. The role of the regional and local employment councils

As described above, the new organisational structure implies a reduced role for the tripartite councils at the regional level. At the same time, local employment councils were established in each municipality giving the social partners a higher profile there, albeit still with an advisory role.

A recent research project has investigated the work of the new councils during the first years of their existence (Bredgaard and Larsen, 2009). The conclusions are positive in the sense that a majority of the members of the councils express a high degree of engagement and involvement in the design of regional and local employment policy, in spite of the fact that their formal influence is limited. However, the position of the councils at the crossroads between national control and supervision, on the one hand, and local self-government, on the other, limits their potential for acting as dynamic bodies for policy development.

### 5. Conclusions

The various reforms of the administration of Danish employment policy illustrate a number of general dilemmas which all countries will face in the design of their systems for implementing employment policy. What should be the balance between implementing a coherent national strategy and adapting policies and programmes to local conditions? How far can the efforts towards target groups of unemployed people, with different characteristics and problems, be integrated? Which role should the social partners play in the design and implementation of policies, and how can balance be ensured between the influence of corporate structures and democratic bodies like the municipal councils? How could a system of economic incentives that leads to the desired results at the local and individual level be designed? There are no simple solutions to these challenges, but as described in this article, the experiences from the successive Danish reforms may provide some inspiration for the organisational aspects of employment policy.

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# Germany

## Parental allowance (Elterngeld) — An innovative policy

### 1. Introduction

The introduction of the new parental allowance has been a key element in German family policy. The German Federal Ministry for Family supports young families through: financial support after the birth of a child; improving day care infrastructure; and fostering a family-friendly working environment. These measures are important to counter the challenges posed by demographic developments in Germany, characterised by low birth rates in comparison with previous decades.

As part of this programme, the parental allowance aims to reconcile work and family life. It targets young families in general. However, the discussion about this programme concentrates particularly on highly qualified women and the involvement of young fathers in childcare. For these two groups, the opportunity costs are especially high and as such, public policies aim to compensate for at least part of the costs.

The parental allowance legislation was introduced in 2007 and, as initial evaluation results have revealed, seems to be effective.

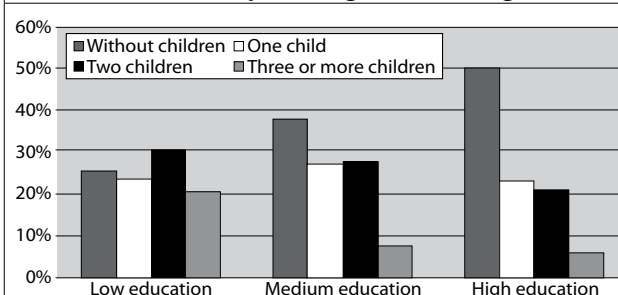
## 2. Description of the parental allowance (Elterngeld)

### 2.1. Objectives and target group

The new legislation on parental allowance is designed to offer incentives to have more children, to facilitate re-entrance into the labour market and to better share childcare responsibilities between women and men. Parents receive a proportional substitute for the loss of income following the birth of a child. As a result, the legislation also addresses highly qualified people with a high income, who were not eligible for benefits under the former legislation.

According to the German labour force survey, 50% of women between 25 and 45 years old with a high education have no children (see Figure 1). This group postpones the decision to have children, as they wish to gain career experience before starting a family. This trend is reinforced by the rising level of female education. In 2005, more women than men graduated at German universities for the first time. Figure 1 also shows that women with low education are the most likely to have three or more children (21%).

**Figure 1: Women aged 25–45 by educational level and number of children, percentage of women aged 25–45**



The categories of educational level are based on the International Standard Classification of Education (ISCED). People with 'high education' hold a university or a trade and technical school degree. People with a 'medium education' hold vocational education qualifications, a secondary school qualification (Abitur) or a vocational diploma (Fachabitur), whilst all other qualifications/degrees belong to the 'low education' category.

Source: German labour force survey, Federal Statistical Office.

### 2.2. Description of the measure

In January 2007 the legislation on parental leave and parental allowance (Bundeselterngeld- und Elternzeitgesetz) was introduced. It superseded the previous federal family allowance (Erziehungsgeld) <sup>(18)</sup>.

Parents whose children were born on or after 1 January 2007 can apply for the new parental allowance. They receive 67% of the average annual net income before birth, with a minimum payment of EUR 300 and a maximum of EUR 1 800 per month. For people with an income of below EUR 1 000, the compensation rate is increased up to 100%. Both mothers and fathers can apply for the allowance.

The standard period to receive the allowance for one parent is 12 months, which can be arbitrarily divided between the partners. The period can be extended by a further two months if the partner takes care of the child. As a result, fathers are also encouraged to stay at home to take care of the child during this period. Single parents can apply to receive the allowance for 14 months.

The parent receiving support is allowed to work up to 30 hours per week. Beyond the minimum payment of EUR 300 per month, the allowance compensates the corresponding loss of income. There is an option to receive half of the allowance for 24 months. When older children up to the age of 3 live in the household, the parental allowance rises by 10% or by a minimum of EUR 75 per month. If multiple children are born, the parent will receive the minimum payment for every further child.

(18) Parents could choose between a monthly payment of EUR 300 for 24 months or EUR 450 for 12 months after the date of birth. The means-tested benefits had the following income limits:

- during the first six months the income limit was EUR 30 000 of annual net income for couples and EUR 23 000 for single parents;
- after the seventh month the income limit for couples was EUR 16 300 and EUR 22 086 for receiving a reduced payment. Single parents had an income limit of EUR 13 500 and EUR 19 086 for receiving a reduced payment.

Compared to the former Federal Family Allowance Act, people with a high income are now eligible for the benefits and receive proportional income compensation. People with no income were better paid under the former legislation, as the minimum amount was provided for 24 rather than 12 months.

### 3. Organisation, implementation and funding of the allowance

The parental allowance is run at the national level and is funded by the federal government. The law is implemented by the federal states on behalf of the federal government. The federal states have established public authorities which are responsible for parental allowance and parental leave.

In 2007, the federal government planned to spend EUR1.6 billion on parental allowance. However, expenditures rose to EUR1.7 billion, as, among other things, more fathers than expected used the allowance. In 2008, the expenditure was about EUR4.2 billion<sup>(19)</sup>. In 2009, the Federal Ministry for Family is expected to spend EUR4.4 billion.

## 4. Performance and achievements

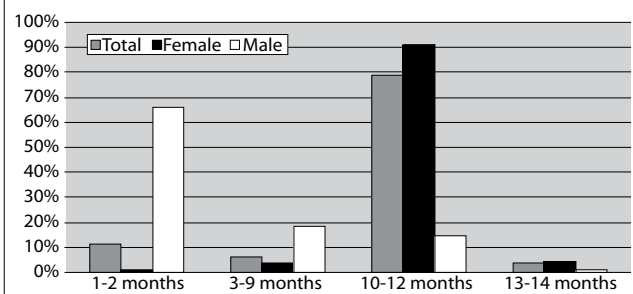
### 4.1. Current participation rates

The Federal Labour Office provides up-to-date statistics on the use of parental allowance and some of the socioeconomic characteristics of applicants.

Between January 2007 and March 2009, 945 882 people received parental allowance, of which 84% were female and 16% were male. Over half of all parents applying for parental allowance were employed before having a child (57.5%). This share was much higher for fathers (80.7%, as opposed to 53% for mothers).

The majority of women applied for parental allowance for 10 to 12 months (see Figure 2). In comparison, the majority of fathers took a short parental leave period. Two thirds of fathers left employment for a maximum of two months. Very few applicants were eligible for periods over 12 months (single parents).

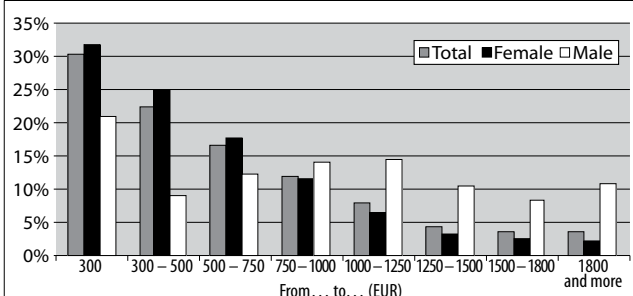
**Figure 2: Period of entitlement for parental allowance, percentage of applications for parental allowance between January 2007 and March 2009**



Source: Labour force survey, Federal Statistical Office.

The majority of recipients received the minimum payment of EUR300 per month, whilst only 3.4% received the maximum amount of EUR1 800 or more (a larger amount can be paid due to having siblings or multiple children). The proportion of fathers receiving the maximum amount is much higher than among mothers (10.9%, in comparison to 2% among mothers). The share of mothers receiving a relatively low amount of parental allowance is disproportionately high among families with three or more children, which means that it is unlikely the mother was employed before the birth of the child<sup>(20)</sup>.

**Figure 3: Amount of parental allowance in the first month, percentage of applications for parental allowance between January 2007 and March 2009**



Source: Labour force survey, Federal Statistical Office.

### 4.2. Changes in birth rates

The number of births rose by about 1.8% between 2006 and 2007. In 2008, it declined slightly by - 0.3%. Nevertheless, a study by the Berlin Institute for Population and Development (2008) came to the conclusion that the number of births did not decline as much as a decline in the number of women of childbearing age. In particular, in eastern Germany women are having more children after a long period of low fertility rates. This can be interpreted as a small success of the measure even though the uncertainties of the final figures remain.

(19) BFSFSJ (2008a).

(20) BFSFSJ (2008b).

### 4.3. Evaluation

The Federal Ministry for Family commissioned an evaluation of the introduction of the new parental allowance<sup>(21)</sup>. The final report of the evaluation focused on the use of the parental allowance and behavioural changes. The results are based on a survey of 1 151 parental households whose youngest child was born in the first quarter of 2007 or in the last quarter of 2006. As such, comparisons could be drawn between the behaviour of parents under the new parental allowance legislation and parents receiving the former family allowance.

Unless stated otherwise, the following results refer to parents whose children were born in the first quarter of 2007.

#### *Use of parental allowance and its income effects*

- Between January 2007 and March 2008, nearly 100% of parents applied for the new parental allowance, in comparison to 77% in 2006 when the old legislation was still in effect.
- In 12% of families, both the mothers and fathers received parental allowance. The share of fathers applying for benefits rose to 16%, supplemented by families where only the father received the allowance. During the last quarter of 2006, when the former legislation was in place, only 3.5% of fathers used parental benefits<sup>(22)</sup>. In 84% of cases only the mother obtained parental allowance. Fathers were more likely to be involved if it was their first child, the mother was employed the year before birth and the father held a graduate occupation. The survey indicated that fathers were often not able to reduce their employment: in families where the father did not apply for parental allowance, 48% stated that a reduction was not possible due to financial reasons and 35% cited professional or domestic reasons. Traditional task sharing (where the mother stayed at home with the child or children) was favoured by 20%.
- The parental allowance stabilised the household income for many young families: 45% of mothers said that the household income was reduced in the year after birth; 29% stated the income was unchanged and 21% reported a rise of income. Income reductions were experienced by households with a high income, while families with low or medium income either received the same level of income or gained an increase in income.
- The new parental allowance legislation is being perceived positively: 90% thought that it is helpful and 54% thought that it is very helpful. The former legislation was also positively evaluated. The fact that all parents are eligible for benefits under the new programme means that a larger share of the population is reached by the measure.

#### *Employment behaviour*

- The parent's employment status before having a child strongly influences their employment behaviour after birth. Half of the women who were employed before giving birth and took a longer break than the obligatory maternity leave of 14 weeks were back in employment again one and a half years after birth. A further 39% wanted to return to the labour market at a later stage.
- Women who were not employed before giving birth returned more slowly to employment: 10% were employed one and a half years later; 43% plan to return; 36% are not sure or did not answer; and 12% plan to continue with their role as a housewife for a longer period of time.
- The proportion of employed women who obtained the new parental allowance 10 months after birth is nine percentage points lower than that of women under the former legislation.
- In comparison with the former legislation, women who received parental allowance are more likely to be employed after one and a half years after the birth of their child (43% as opposed to 38% with the former legislation). This effect is significant for two subgroups — women from Eastern Germany and women who were unemployed before having a child — but not for all women together.
- Parental allowance supported fathers to reduce their employment. Analysis of data showed a reduction of the employment rate of fathers 10 months after the birth of the child.

#### *Day care and reconciliation of family and job*

- Two thirds of parents want to make use of childcare facilities. However, there are strong differences between eastern and western Germany: in eastern Germany, 15% of parents take care of their children alone, while in western Germany the proportion stands at 36%.
- In western Germany, relatives and friends are often involved in childcare. That implies that there is a low supply of childcare facilities in western Germany and parents have organised childcare in other ways. In 2008, 12.2% of children less than 3 years old were enrolled in day care facilities in West Germany, in comparison to 42.4% in eastern Germany<sup>(23)</sup>. This is in line with a higher labour market participation rate of women in eastern Germany. The government wishes to increase the day care rate across the whole of Germany — from 18% in 2008 to 35% in 2013.

(21) BFSFSJ (2008b).

(22) Deutscher Bundestag (2008).

(23) Statistisches Bundesamt (2008).

- Women who prefer a fast re-entry to working life, and are able to do so, are more often satisfied with their occupational planning than women who plan to enter the labour market at a later date. This indicates that the legislation meets the wishes of women who want to work again after having a child.
- The lack of day care facilities was an important reason why women were not able to start working as early as they wanted to — in particular, the lack of affordable day care facilities and the hours during which day care is available (i.e. day care hours are not compatible with working hours).

In order to provide a continuous analysis of the programme, a parental allowance monitor will begin in autumn 2009 and will run until the end of 2013. It will analyse the effects and efficiency of the parental allowance.

#### 4.4. Acceptance by the public

There has been a very high acceptance rate of parental allowance among the population. According to a survey by the Institut für Demoskopie (IfD), 61 % of the population evaluated parental allowance positively in December 2006; this proportion rose to 74 % in June 2008 <sup>(24)</sup>.

The IfD <sup>(25)</sup> also evaluated the acceptance of parental allowance in enterprises. In 2008, 61 % of enterprises thought that it is good if fathers take a break of employment and 65 % did not see any problems should fathers wish to reduce their working time (in 2006 the figures stood at 48 % and 59 % respectively).

#### 4.5. EU indicators to assess the impact of the measure

Guideline 18 of the integrated guidelines emphasises the promotion of a lifecycle approach to work by, among other factors, a better reconciliation of work and private life and the provision of accessible and affordable childcare facilities, as well as care for other dependants <sup>(26)</sup>. Two indicators exist to analyse this topic and could also be useful to monitor the impact of parental allowance in order to observe differences in employment behaviour.

- Employment impact of parenthood, which highlights the difference in percentage points in the employment rates of people aged between 20 and 49 without children and those with children from newborns to age 6.
- Lack of care for children and other dependants. This indicator indicates the share of people aged between 15 and 64 years who would like to work but are either searching for a job or working part-time due to lack of suitable care facilities, in relation to the total population of the age group.

(24) IfD (2006, 2008a).

(25) See IfD, 2008b.

(26) Employment Committee (2008).

## 5. Conclusions

The new legislation on parental allowance is well accepted by the population. Due to higher monthly payments, it is easier for parents to spend the first year after birth at home to take care of the child. This implies that the income of young families is stabilised after the birth of a child.

The parental allowance does not provide women with strong incentives to re-enter the labour market. While the evaluation of parental allowance showed that these incentives are stronger than under the former legislation, significant impacts could only be measured for subgroups of women. A positive outcome is the fact that parental allowance encourages the father to reduce his employment time to care for their child. This also facilitates the mother's re-entry into the labour market.

These findings reveal that the number of children and the labour market participation rate of young mothers depend on the provision of childcare facilities rather than on public funding support. This is highlighted by the big differences between eastern and western Germany. The plans by the government to expand childcare facilities by 2013 are therefore likely to produce stronger employment effects.

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# Estonia

## Impacts of the economic crisis on the Estonian labour market

### 1. Introduction

The global financial crisis and its impact have been high on the agenda for the past year in Estonia. GDP started to decline at the beginning of 2008, while growth started to slow down by the end of 2006. As a result, the GDP decrease reached 15.1% in the first quarter of 2009. This decrease is the highest since 1995 (first available data from Statistics Estonia), indicating the severity of this downturn. These developments have also had a significant impact on the labour market. The unemployment rate has increased to be among the highest in the EU at 11.4%, an increase of almost three times in the past year, from 4.2% in the first quarter of 2008. This has been accompanied by a rapidly increasing number of registered unemployed people and an increasing burden on the Unemployment Insurance Fund in terms of expenditures on unemployment benefits and also higher demand for active labour market policy measures. At the same time participation in active labour market policy measures is relatively low.

The current recession has impacted on companies as well. The number of collective redundancy cases has almost doubled in the first half year of 2009 compared with one year ago and the number of employer insolvency cases rose by 2.6 times during the same period (Estonian Unemployment Insurance Fund). Furthermore, employers have increasingly started to move their workers onto partly paid leave (so-called 'forced' leave) or to reduce working time due to economic difficulties. The number of applications was 1 025 in the first quarter of 2009 influencing 29 389 persons, increasing by 18 times and five times respectively compared to 2008 (Estonian Labour Inspectorate).

The aim of the current article is to discuss the steps taken by the Estonian government before June 2009 to tackle the economic recession. Broadly, the Estonian government has taken three specific groups of measures to address the global financial crisis and its effects on the labour market and entrepreneurship: (1) amending the provisions of the new Employment Contracts Act; (2) concluding an action plan on measures to maintain jobs and support unemployed people; (3) provide support measures for exporting companies.

Even though the measures are introduced specifically in the context of the economic crisis, they are not distinct from the general national policy framework, but complement other measures and support the defined aims in longer-term strategic documents and action plans. These include (for example) the Estonian action plan for growth and jobs 2008–11 (i.e. increasing the share of export in GDP, improving the matching

of education and labour market needs, supporting participation in adult training, and incorporating the flexicurity principle into Estonian legislation), the Estonian enterprise policy 2007–13, the action plan for Estonian foreign investments and export ('Made in Estonia 2009–11') and the foundations of Estonian export policy adopted in 2001. Other (longer-term) measures, such as those implemented in the framework of the Estonian action plan for growth and jobs before the first effects of the current crisis emerged, also help address the new difficulties in the labour market. Thus the three measures introduced to address the economic crisis and other labour market measures are strongly interconnected in terms of their goals and planned impact. The current article only covers those introduced specifically as a result of the crisis.

In general, the measures introduced in the current recession can be divided into two: those with more short-term impact to tackle the current recession; and those that aim to achieve new growth and stabilise the labour market. The latter have several links with the employment guidelines at EU level, while the measures with more short-term impact are mostly related to the priority areas for addressing the current recession as defined by the European Commission.

### 2. The measures and their impact on the policy challenge

Broadly, the measures aimed at addressing the current recession and managing its impact on the labour market can be divided into three groups, as described below.

#### 2.1. Reviewed reform of labour law

The main aim of this specific measure was to address the increasing burden on the Unemployment Insurance Fund as a result of the extensive increase in the number of registered unemployed people. The number of new unemployment insurance benefit recipients increased more than five times in the first quarter of 2009 compared with the situation one year ago, i.e. from 2 636 to 14 097 (Estonian Unemployment Insurance Fund, 2009).

While the introduction of the new Employment Contracts Act was already agreed in 2008 by all social partners (Nurmela and Karu, 2008), several changes were made to the initial draft law as a result of the recession. Firstly, it was decided to adopt the new Act six months before initially planned and to postpone provisions imposing additional financial burdens on the state budget until January 2010 (i.e. increasing additional childcare leave and the unemployment allowance, modernising administration of employment record books) (see also Nurmela, 2009).

Rising unemployment levels showed that further changes in the draft Act would be required. While the total amount of unemployment insurance payments was increasing rapidly, the new Act was to introduce further expenses by raising the replacement rate of the unemployment insurance benefit and the number of people eligible for the benefit (see also Nurmela, 2009). As a result, the government decided to reduce the expenses of the Unemployment Insurance Fund by postponing these provisions until 2013. From 1 July 2009, the unemployment insurance benefit will stay at its current level <sup>(27)</sup> and people who have terminated their employment relationship voluntarily or by agreement will still not be eligible (Nurmela and Osila, 2009) <sup>(28)</sup>. To further reduce expenses from the state budget, remuneration of childcare leave at the level of the national minimum wage and paternity leave at the previous average wage were also postponed until 2013 <sup>(29)</sup>. All these changes were introduced despite strong opposition from the trade unions.

These changes also had a significant side effect on the introduction of the flexicurity principle into national labour law. While the main measures to raise social security for employees, i.e. increases in unemployment insurance benefit, unemployment allowance and the number of people eligible, were postponed, provisions increasing flexibility in the labour market remained in effect. These included a reduction of advance notice periods and sharing the payment of redundancy benefits between the employer and the Unemployment Insurance Fund, thus making it cheaper for the employer to make redundancies (see also Nurmela, 2009). To assess the impact of these decisions, two aspects should be taken into account. First, according to Eurostat data, the labour market policy expenditure in Estonia, measured as a share of GDP, is one of the lowest in the EU; total labour market expenditure (including both active and passive measures) reached a mere 0.154% of GDP in 2007 compared with 1.683% in the EU-27. Secondly, various research results have shown that despite the results of the different international indices showing a rather rigid labour market in Estonia <sup>(30)</sup>, on the micro level, labour market flexibility is quite high.

(27) Unemployment insurance benefit is paid at 50% of the previous average remuneration during the first 100 days of unemployment and 40% after that. This was planned to be increased to 70% and 50% respectively.

(28) With the purpose of reducing expenses of the Unemployment Insurance Fund, the government has also made three revisions to the size of the unemployment insurance premiums during 2009, raising the premiums for both employers and employees by almost five times compared with the situation in the beginning of 2009 (Osila and Karu, unpublished). However, these changes have not been part of the labour law reform package.

(29) Unpaid paternity leave and childcare leave at a flat rate EEK 66 per day (about EUR 4.22), i.e. about a third of the national minimum wage, will remain in effect.

(30) These indexes include the 'Employment protection legislation' (EPL) index of the Organisation for Economic Development and Cooperation (OECD), 'Doing business' index by the World Bank and the 'Index of economic freedom' by the Heritage Foundation.

## 2.2. Measures to maintain employment and support unemployed people

On 24 March 2009, representatives of the Ministry of Social Affairs, the Ministry of Economic Affairs and Communications, the Ministry of Education and Research, the Estonian Trade Union Confederation (Eesti Ametiühingute Keskliit, EAKL) and the Estonian Employers' Confederation (Eesti Töandjate Keskliit, ETTK) agreed upon several measures to tackle the current economic recession. The main purpose of the tripartite agreement on principles for maintaining employment is to maintain jobs and provide effective help for registered unemployed people (see also Nurmela and Karu, 2009) <sup>(31)</sup>.

### 2.2.1. Measures to maintain employment and create jobs

Combining part-time work with expanding and developing qualifications was proposed as a precautionary measure for those at risk of redundancy. This would provide employers with an additional opportunity to implement reduced working time in combination with additional training measures during a one-year period. Currently, reduced working time can be implemented for a maximum of three months during a one-year period with no requirement for providing training measures. Second, to promote the implementation of flexible forms of work, employers are called to develop and implement job-sharing principles. Also in cooperation with the Ministry of Economic Affairs and Communications and employer representatives, training sessions will be available for employers in identifying possible alternatives to redundancies.

To provide additional jobs, local municipalities are called upon to recruit unemployed people for community jobs. Furthermore, to further support job creation, it was proposed to extend the eligibility for enterprise support to those unemployed people who would like to establish a non-profit association as an alternative form of work.

### 2.2.2. Upgrading skills, matching labour market needs

To keep vocational training in line with labour market demand, an analysis to assess the demand for qualified workers in the labour market was proposed. In line with this, ETTK has agreed to give quarterly inputs to the Ministry of Social Affairs on the training needs in enterprises, which could lead to the training of better qualified workers in these fields.

To further promote flexible learning pathways, unemployed people participating in training measures will be allowed to continue their training even if they find a job during the training period. Also, a new system of training vouchers was proposed — a voucher with a fixed monetary value would be provided

(31) The activities agreed on the tripartite agreement are further elaborated in the *Tegevuskava tööpuuduse vähendamiseks ning töötute tööle aitamiseks 2009-2010* (Action plan for reducing unemployment and bringing the unemployed back to the labour market 2009–10), which was adopted by the Estonian Government on 10 September 2009 — for further information see the Internet (<http://www.sm.ee>).

to unemployed people, to be used for participation in any training of interest to them. Currently, unemployed people have to wait for a group to be formed before they are able to undertake training. The voucher could also be used for funding professional examinations.

For the same purpose, it was proposed to renew the financing system of vocational training. Currently, a rather inflexible system of public procurement procedures is used, which is time-consuming as new procedures have to be announced for each training course.

In addition, it is proposed to extend the maximum length of labour market training to two years instead of one year at present. This would enable the provision of longer-term training measures for unemployed people, which would, for instance, allow young unemployed people to continue their studies.

### 2.2.3. Increasing access to employment

To reinforce activation, it was proposed to enable electronic registration as unemployed, as well as notification of services and vacant positions. Also, a special website has been opened by the Ministry of Social Affairs with basic information for those who have become unemployed or in threat of losing their jobs (i.e. support provided to unemployed and their rights in employment relationships, possibilities and information for finding a new job, important contacts, etc). In addition, several information publications have been disseminated.

## 2.3. Support for exporting companies

A support plan for exporting companies has been introduced by the Ministry of Economic Affairs and Communications, with a budget of EEK 6.1 billion (about EUR 390 million). The plan includes five individual measures to relieve the financing problems and provide access to additional finances for Estonian exporting companies. In addition, the plan is intended to maintain and create new jobs in the current economic downturn. The support is available for companies in manufacturing, construction, wholesale and retail trade, transport and communication, accommodation, catering and business services. Loans of up to EEK 30 million (EUR 1.9 million) per company are available. To be eligible, at least 20% of a company's turnover must be based on exports and support is provided only to sustainable companies, assessing this on a case-by-case basis.

The planned measures include raising the capacity of the business loan guarantee provided by the Credit and Export Guarantee Fund (KredEx)<sup>(32)</sup>. This will help provide additional loans, which would not be issued without the guarantee by KredEx or would be issued on considerably stricter terms.

(32) KredEx was founded in 2001 by the Ministry of Economic Affairs and Communications with the aim to improve the financing of enterprises in Estonia, decrease export-related credit risks, enable people to build or renovate their homes and promote energy efficiency in Estonia. For further information in English, see the Internet (<http://www.kredex.ee/2>).

Also, the size limit of companies eligible for this measures will be waived, enabling access to the measure for large companies (i.e. more than 250 employees). It is expected that this measure will give companies easier access to loans, which will in turn support employers in continuing with their business activities and making investments in the reorganisation of production, thus directly impacting on the maintenance and creation of jobs.

Secondly, a new flexible equity loan will be provided by KredEx. The target group is enterprises who are not able to provide self-financing to the extent required by a bank.

Third, it has been decided to allocate additional funds from both the state budget and KredEx to provide credit to private banks at a more favourable interest rate to increase their finances for granting loans to companies.

As the fourth measure, additional finances will be allocated to provide a specific project-based loan at more favourable conditions to banks to enable them to finance specific projects. Currently, the lack of long-term loans is having a negative impact on the implementation of large-scale investment projects. The target group for this measure is medium-sized exporting companies.

The final measure aims to provide large-scale export guarantees. For that purpose a new private insurance body will be created under KredEx and the limit of guarantees provided will be raised. According to the estimates of the Ministry of Economic Affairs and Communications, this measure will be implemented in autumn 2009.

## 3. Organisation, implementation and funding

The organisation of all three policy measures is centralised, i.e. they are managed at national-level, with responsibilities divided between different ministries, and in some cases, national level social partners. The widest range of organisations included in the implementation of the measure is with the second initiative (i.e. tripartite agreement on measures to maintain jobs and support unemployed people). Thus, it could be argued that this is the measure with the greatest inclusion of non-governmental organisations (in this case, the social partners), compared with other measures which are organised only by the government. Furthermore, if regional and local partners are not involved, regional issues may not be taken into account and, as a result, there may be a less effective impact in some regions. At the same time, it should be acknowledged that the capacity of local government to have a role in tackling the recession differs widely since smaller local authorities often lack the administrative capacity or the resources to undertake such additional measures.

The three measures described in this article are very different in terms of partnerships. Good examples of cooperation are the measures in the tripartite agreement on principles for maintaining employment and the measures to support exporting companies, which were based on previous enterprise research, asking enterprises to identify the most acute financial problems and possible solutions (Eesti Ekspress, 2009). Conversely, labour law reforms have been characterised by poor cooperation between all parties and have hardly included social partners. While national social partners could not reach an agreement in bipartite negotiations on possible solutions to the budget constraints of the Unemployment Insurance Fund, the inclusion efforts by the government were also very limited. Although the trade unions protested against the planned changes, no negotiations were initiated and the changes were nevertheless introduced in legislation (see also Nurmela, Osila, 2009).

The measures introduced in the recession are mostly financed from the state budget and the European Structural Funds. While an aim of the labour law reforms was to reduce any additional expenses, the other two measures still require additional investments. However, currently the exact extent of additional ESF resources required is unclear as many activities have been put on hold and the implementation timetable is not in place. The financing for support measures to exporting companies is more clear-cut and requires the most additional resources. From the total of EEK 6.1 billion, EEK 1.7 billion is allocated by the state. From this, 12% is allocated from the state budget, 82% is financed from the European Regional Development Fund (ERDF) and EEK 100 million from the budget of KredEx<sup>(33)</sup>. The rest of the financing is from private-sector resources.

## 4. Performance and achievements

Monitoring the performance of these measures has, so far, been poorly implemented. There are no monitoring instruments or targets to assess the effectiveness of the measures set out in either the tripartite agreement on principles for maintaining employment or the support plan for exporting companies. Initial estimates of the labour law reform indicates that this will save an additional EEK 991 million (EUR 66.3 million) in 2009, EEK 2.8 billion (EUR 179 million) in 2010, keeping the budget of the Unemployment Insurance Fund out of deficit. Actual effects will be clear by the end of this year, from the incomes and expenses of the Unemployment Insurance Fund.

As all these measures have only been introduced recently, there has been no official evaluation of their effects on the labour market. It is expected that in the short term the support package to exporting companies will have a significant impact on those enterprises with stronger exporting capacity. There has also been some criticism of the implementation of this measure, i.e. several

companies pointed out that the measures should have been introduced earlier since some companies could run into further difficulties (Ojala, 2009). By July 2009, most of the measures have been implemented, although some of them (e.g. the creation of the new private insurance body for providing large-scale export guarantees) has been delayed due to the need to coordinate activities and negotiate its implementation (Ministry of Economic Affairs and Communications, 2009). There has been no assessment of the expected number of jobs to be saved or created.

## 5. Conclusions

As can be seen from the above, the Estonian Government has taken several steps to tackle the current economic crisis. However, there is a need for a more comprehensive anti-crisis package rather than isolated measures implemented by different ministries.

Based on the above analysis, it can be concluded that some of the steps taken have not been balanced (e.g. increased flexibility combined with reduced security resulting from amendments of the Employment Contracts Act) or are delayed (e.g. more emphasis on active labour market measures). Consistence in including the social partners and other stakeholders (e.g. local municipalities) could enhance the effectiveness of the policies. The implementation and the organisation of the monitoring and evaluation of the proposed measures also need more attention.

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# Ireland

## Recent labour market measures to support national recovery

### 1. Introduction

Before setting out the objectives and other details of the measures considered in this article, it is necessary to describe the economic context within which these measures have emerged. The current situation in the Irish economy presents serious challenges, to say the least. Recent Central Statistics Office (CSO) data reveal that between the third quarter of 2008 and the first quarter of 2009 real GDP<sup>(34)</sup> declined by nearly 7% (the fall being particularly sharp, 5.5%, in the final quarter of 2008). Over the same six-month period, employment decreased by 107 000, or by just over 5%, while the unemployment rate (based on International Labour Organisation (ILO) concepts) rose from 7% to over 10%. While these figures (particularly the output data) are unprecedented, they do not reflect the full gravity of the current situation as other more recent indicators (e.g. the growing fiscal deficit, the trend in registered unemployment) indicate that the economic position deteriorated further during the first half of 2009.

The growing fiscal imbalance is indicated by the monthly Exchequer statements which reveal an Exchequer deficit of EUR 10.6 billion in the five months to May 2009, compared with a deficit of EUR 3.6 billion in the corresponding period of 2008. This has involved a growing decline in VAT income, which is worrying, as it indicates that the downturn has spread to the wider economy, whereas initially it was caused by sharply declining activity in the construction sector. It is now estimated that the general government deficit for 2009 will be 12% of GDP, greatly exceeding the 3% limit set out in the EU Stability and Growth Pact.

With regard to recent unemployment trends, the number of registered unemployed people (seasonally adjusted)<sup>(35)</sup> was nearly 414 000 at the end of June 2009, compared with a total of 293 000 at the end of December 2008, and 216 000 a year earlier; i.e. an increase of over 40% over the first six months of 2009 and of more than 90% in a full year. The June 2009 figure is equivalent to an unemployment rate of nearly 12% when defined on an ILO basis.

All principal analysts, both government based and others, are now in broad agreement that the Irish economy, as measured by real GDP, will contract by between 7% and 10% in 2009. If global conditions improve, some improvement is expected in 2010 but it is likely that real GDP growth will still be in negative territory.

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(34) GDP at constant market prices.

(35) While the unemployment register is not regarded as an accurate measure of the absolute level of unemployment, it can be interpreted as a reasonable indicator of trends.

## 2. The measures and their expected impact on the policy challenge

In response to the falling numbers in employment and the sharp increase in unemployment, the Irish government has put in place a joint initiative involving the Departments of Enterprise, Trade and Employment (DETE), Education and Science (DES) and Social and Family Affairs (DSFA), in the form of an activation programme under the heading 'Labour market measures to support national recovery' (LMSR). This involves a number of new programmes and the adaptation of existing measures designed to assist unemployed people by providing more opportunities for training and education and facilitating both job retention and entry into employment. The actual measures involved are described below.

The basis of the approach used is that the LMSR measures offer a substantive response to the immediate needs of those who have either lost their jobs or are in danger of being made redundant. A major objective is, where possible, to prevent the drift into long-term unemployment. In this context a number of the measures involve a shortening of the qualification periods necessary to establish eligibility for support. At the same time they must also be consistent with and grounded in achieving the objectives and targets set out in the national skills strategy (Forfás, 2007), which aims to support the transition to a knowledge economy and the creation of sustainable long-term employment opportunities. It follows, therefore, that this initiative comprises a varied mix of activation-based responses in education, training, work experience and employment support at different levels in order to meet these objectives, and to accommodate the diverse needs of the newly unemployed.

It is estimated that in excess of 50 000 people will be assisted by these measures, the estimated cost in a full year being in the order of EUR 330 million, of which about EUR 200 million will relate to a new temporary employment subsidy (see below). However, due to financial constraints, these costs must be primarily met through reallocations of funds from within existing departmental resources or from resources that would otherwise be required for social welfare payments.

As currently envisaged, the estimated subdivision of expenditure in a full year between the different departments involved is shown in Table 1.

**Table 1: Expenditure on the measures per year, by department**

| Department | Million EUR |
|------------|-------------|
| DFSA       | 22          |
| DETE/FAS   | 261         |
| DES        | 44          |
| Total      | 327         |

While the reliance on reallocations may be viewed as disadvantageous, one must bear in mind the difficult budgetary situation and the fact that one of the two Commission recommendations submitted to the Council (COM(2009) 34/2) for Ireland is to 'gradually restore fiscal sustainability'.

With regard to the European Social Fund (ESF), while the total allocation for Ireland over 2007–13 is EUR 375 million, arrangements are being made with the European Commission to have an accelerated drawdown of ESF funds in 2009 and 2010 to address labour market problems. However, it has not been decided at this stage if these funds will be used to finance the measures described in this article.

There are further labour market measures, other than those included in the LMSR programme, which have been enhanced or expanded in order to assist unemployed people. Also, in a more general economic context, it is of relevance to mention the Enterprise Stabilisation Fund, launched by Enterprise Ireland in April 2009. This is designed to help viable but vulnerable exporting companies in the manufacturing and internationally traded services sectors that are experiencing difficulties in the current economic circumstances. While there are no requirements regarding enterprise staff levels, the measure should have positive employment effects. The fund has a total budget of EUR 100 million, to be expended over two years<sup>(36)</sup>.

It must also be borne in mind that, important as they are, the various measures described in this article must be considered to address symptoms rather than causes. Thus they are essentially secondary to the main economic initiatives recently taken by the Irish government in order to address the fundamental problems in the wider economy. The latter include measures to inject capital on a substantial scale into the troubled banking system and significant increases in taxation, introduced as part of a supplementary budget presented to the Dail (Parliament) on 7 April 2009.

Given the diverse range of activities involved, it follows that the LMSR measures can be linked to a number of EES guidelines, particularly No 20 (improving matching of labour market needs), No 23 (expanding investment in human capital) and No 24 (adapting education and training systems). The LMSR is also consistent with promoting activities as set out in the three EU priority areas, particularly in regard to (a) maintaining employment and (b) upgrading skills.

(36) Funding is offered primarily through preference shares, repayable after five years. It is structured via tripartite agreements between Enterprise Ireland, the company and its bank, all of which are expected to contribute to the funding requirement.

### 3. Organisation, implementation and funding of the measures

#### 3.1. Department of Social and Family Affairs (DSFA)

##### **Reorganisation of the 'Back to work allowance' (BWA).**

DSFA has decided, as part of the LMSR initiative, to refocus resources on the enterprise strand of this measure which provides financial support to assist people into self-employment. To this end, the employee strand of the BWA is being closed to new applicants. The revamped measure, now called the 'Back to work enterprise allowance' (BWEA), involves a shorter qualifying unemployment period (down from 24 to 12 months), even though the period of support has been reduced from four to two years. It has also been decided to allow people who have previously participated in the scheme to participate a second time.

It is also proposed to give immediate access to this scheme for those who qualify for the social insurance-based jobseekers benefit, or who qualify for statutory redundancy payments.

##### **Reorganisation of the 'Back to education allowance' (BTEA).**

This measure is designed to encourage people on the unemployment register to enter or re-enter education at various levels. The main thrust of the changes is to reduce the duration of the periods of unemployment necessary for qualification. In the case of those availing of the second-level option this duration is to be reduced from six to three months, and for the third level option from 12 to 9 months.

#### 3.2. Department of Enterprise, Trade and Employment (DETE)/Training and Employment Authority (FAS)

**Extension of training initiatives strategy.** The additions to this programme, which is run by the Training and Employment Authority (FAS), comprise two new training courses. The first, which will involve over 12 000 participants, is of 10 weeks' duration, while the second course, which is more comprehensive, extends to 20 weeks and will involve nearly 2 000 participants. The aim of both of these courses is the development of occupation-specific skills with accreditation at either levels 4, 5 or 6 on the national framework of qualifications, or with recognised industry accreditation bodies. Basically these levels cover the higher secondary school sector and the diploma (or non-degree) component of third-level education.

**A new work-placement programme.** This measure, which is also to be administered by FAS, will provide six months of work experience for an initial 2 000 individuals who are currently unemployed. There will be two streams, each consisting of an initial 1 000 places. The first stream is for degree-level graduates from higher education, who have been receiving jobseeker's allowance for the previous six months. The second stream will be open to all other individuals who have been receiving jobseeker's allowance for the same period.

Participants on both streams of this measure will continue to receive their existing social welfare entitlements from the DSFA for the duration of the programme. On the employers' side, participation in the programme will be open to both public- and private-sector employers. The maximum number of placements with a single provider has been set at 10, or 10% of the enterprise workforce, whichever is the smaller. The placements will not be provided to fill existing vacancies or to displace existing employees

**A new temporary employment subsidy scheme.** This initiative aims to assist the economy to retain its productive capacity and employers to retain the labour, knowledge and skills of the workforce and help employees to retain their jobs.

The measure will involve a subsidy to firms to retain a person in employment for a period not exceeding 15 months or to the end of 2010, whichever is earlier. The subsidy will amount to a maximum of EUR200 per week per employee with a tapered reduction towards the end of the period. The European Commission has agreed that, under the terms of the temporary aid programme for Ireland, the maximum subsidy over a 3-year period for an individual company can be increased from EUR200 000 to EUR 500 000.

Eligibility for the subsidy would be determined on the basis of the following criteria.

- The enterprises are involved in manufacturing and/or internationally traded services and are currently engaged in exporting.
- Enterprises must not have current financial difficulties, but a financial assessment establishes that the enterprise is facing significant problems as a result of the economic crisis. It must also be judged to have sustainable business models and plans that are financially viable in the medium term, and be capable of growth in the global upturn.
- Enterprises must have already taken significant restructuring measures to improve their competitive position through full engagement at enterprise level on measures to sustain jobs, by addressing issues such as work processes and payroll measures.

The scheme will be managed by Enterprise Ireland and its implementation will be overseen by a National Monitoring Committee with representatives from the partners, as well as relevant departments and agencies.

A financial allocation of EUR250 million is being made to cover the full cost of the scheme, of which some EUR 50 million was to have been dispensed in the final quarter of 2009. The measure is deemed to take account of the agreed need to design interventions which are targeted and effective. In particular the scheme will be implemented in a way which minimises the risk of deadweight and displacement affects<sup>(37)</sup>. Accordingly, the resources should be offset by savings in social welfare budgets or found by diverting funds from spending programmes with a lower economic and social priority. This proposal has met with a mixed reception (see below).

**Other DETE/FAS programmes.** Steps are being taken, jointly with the Department of Education and Science (DES), to introduce an 11-week certified training programme for up to 700 redundant apprentices each year. This measure will facilitate participants' progress to higher-education training programmes, or to complete their apprenticeship at a later stage if on-the-job placements can be found for them.

Steps are also in train to initiate a pilot training scheme for workers on systematic short-time working<sup>(38)</sup>. It is intended that this measure will provide training and income support to workers considered to be in vulnerable employment, by supporting companies that have placed staff on a three-day week. The measure will provide two days training per week to up-skill employees for a period of 52 weeks. This pilot measure, the details of which are currently being finalised by DETE, FAS and DSFA, with a view to early implementation, will initially involve up to 300 participants.

### 3.3. Department of Education and Science (DES)

**Expansion of higher education and post-secondary places.** This initiative will provide over 6 000 additional places for unemployed people in the education sectors in question. At the third level, 2 300 additional full-time places are being set aside for unemployed people on courses starting in 2009. These will be supplemented by nearly 1 000 places on short part-time transition courses designed to facilitate entry to third-level courses. Furthermore, 2 500 additional part-time third-level places will be provided (in association with DETE) to enable people who are unemployed or who are on short-time working, to pursue third-level certificate or primary degree programmes.

In the further education sector, provision will be expanded by 1 500 places in September 2009.

(37) In this context 'deadweight' relates to a situation whereby the subsidy is paid unnecessarily, i.e. the employer did not really need the financial support to maintain the level of employment.

(38) There is provision for this under unemployment compensation procedures. If, for example, an employer and employees agree to work 3 days a week, the latter can receive unemployment benefit for the days not worked.

### 3.4. Consultation and related issues

The measures described have been decided on primarily by the government. The views of the social partners were sought in the context of the current social partnership process, but they were not involved in drawing up the proposals. It should be noted that at this stage there is a widespread view that the critical economic situation requires urgent responses in all spheres, and there is little time for prolonged discussions.

In this context, the new temporary employment subsidy scheme described above raises some relevant issues. The social partners (particularly the employers) are supportive but are unhappy with the level of funding, which they want increased to EUR1 billion from the EUR250 million allocated. The government is unlikely to agree to such a proposal due to the difficult budgetary situation. This measure has also been the subject of critical comment by economic commentators in the media on the grounds that previous experience, particularly in other countries<sup>(39)</sup>, has indicated that there can be substantial waste associated with these programmes due to deadweight and displacement effects. While the fact that the scheme is very closely focused on strategic areas may minimise these problems, clearly the larger it becomes the greater these losses are likely to be, especially if its scope is extended by widening the criteria required for eligibility. This can be a real problem, as previous experience with various support measures in Ireland has shown that it is difficult to restrict measures to the categories originally intended, as all interest groups subsequently begin to exert pressure to include their client groups.

It should be noted that some of the effects referred to above would also apply to the DSFA 'Back to work enterprise allowance', particularly in regard to displacement.

## 4. Conclusions

Broadly speaking, the LMSR measures which aim to augment personal skills by extending educational and training opportunities for unemployed people can be viewed as positive

developments. The same can be said for programmes which provide work experience for those whose have lost their jobs, as retaining links with the world of work is important. The value of the temporary employment subsidy may be more problematic, but it can be deemed to possess merit if it is restricted to assisting the categories of enterprise indicated. These are firms in the internationally traded sector and will be relied on to lead the way in promoting growth when economic conditions improve. However, if the measure is enlarged to cover a wider range of businesses or if the criteria for assessing vulnerability are not sufficiently strict, the likelihood of substantial waste or loss due to deadweight and displacement effects is greatly increased.

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(39) See, for example, OECD (1993) and Sexton (1995) in the bibliography. These papers may be somewhat dated, but they have current relevance, as the analyses are based on experience with similar employment support schemes which were introduced in the depressed periods of the 1980s.

# Greece

## Responding to the crisis — Active labour market measures

### 1. Introduction

According to reports by the Commission and the OECD, Greece's economy is likely to slip into recession this year, pushing up the country's unemployment rate close to the 10% mark by 2010. Figures from the National Statistical Service showed Greece's jobless rate hit 9.3% in the first quarter of 2009; up from 7.9% in the last three months of 2008, and up from 8.3% a year earlier.

Greece responded to the financial crisis with a set of measures designed to assist the most vulnerable, including a lump-sum social cohesion subsidy (Law 3746/09) and extraordinary payments to unemployment benefit recipients. In addition to these one-off measures Greece has largely expanded active measures offered to all the categories of the labour force, accelerated organisational reforms and made an intensive effort to utilise the latest communication technologies, in an attempt to prevent the unemployment rate from escalating further. This effort is still ongoing. This brief article describes the measures put forward, focusing on the measures taken by the Manpower Employment Organisation (OAED), the main employment agency in Greece.

### 2. The measure and its expected impact on the policy challenge

Starting from the last two months of 2008, OAED has set up and gradually put in place a series of active measures designed to mitigate the effects of the current economic crisis on the labour market<sup>(40)</sup>. Through these programmes, OAED hopes to assist more than 200 000 people at a cost exceeding the sum of EUR 1.5 billion. Flexibility in the implementation of the planned interventions is secured by monitoring the short-term economic developments at the regional and sectoral levels and by adjusting actions accordingly.

The group of active measures is based on a number of already established actions (notably aid for self-employment, subsidies for wage and salaried employment), as well as on a series of new actions and organisational innovations, including the following.

- Unemployment benefits may now be converted into employment subsidies. Although this measure had been foreseen by an earlier law (Law 3227/2004), activation has been delayed until recently, due to organisational difficulties. The 2004 law has been amended so as to cover unemployment benefit recipients recruited by public and semi-public agencies and local authorities (Law 3746/2009).
- Given the significance of tourism-related activities for the Greek economy, a special action is designed to help seasonally employed workers in hotels and restaurants maintain their working posts through the conversion of regular benefits into subsidies. This action alone is expected to benefit as many as 50 000 workers in the tourist industry.
- A major new programme bearing the title 'One start — One chance' targets young people aged between 16 and 25, who have either dropped out of school or have completed only secondary education and who in addition were never given a chance to work or participate in some form of training. These young people will now be given the opportunity to acquire professional experience, while at the same time achieving a training certificate in informatics.
- Services are to be offered within a decentralised framework and in close cooperation with the social partners and local actors. In this respect, the PES network, comprising 121 Centres of Employment Promotion, are gradually being transformed into one-stop shops (Law 3518/2006). Further, OAED plans to commission work relating to active employment measures to accredited institutions, such as social partner organisations, universities, local authorities, non-governmental organisations and firms of the private sector.
- Access to notified vacancies is to be free to all interested people irrespective of work status (employed, unemployed and inactive people) through the creation of a EURES-type portal for the better matching of supply and demand for labour. In addition, in running the various programmes, bureaucracy is to be kept to a minimum, utilising for that purpose new technologies. The rules for participation will be simple and all applications (by both employers and unemployed people) are to be completed electronically.

The main active measures offered to unemployed people by OAED are the 'New jobs' programme (NØE), the aid scheme for self-employment (NEE) and the STAGE programme. The aim of these programmes is, respectively, to help unemployed people secure a temporary job in the private sector, start their own small business or acquire professional experience in public- or private-sector jobs. Although these programmes have been running for a long time, they have undergone a noticeable change during the last few years. More specifically, their design has become more focused with respect to target groups, economic sectors and geographical areas. In addition, they are now more closely linked to policy changes, backing, for example, efforts to boost part-time work. Thus it would seem that the current generation of active programmes has moved closer to real needs and hence it is likely that interventions will now have a greater impact in relation to the past.

(40) See the Internet (<http://www.oaed.gr>).

The current 'New jobs' programmes include the schemes described below.

- One scheme provides subsidies to 2500 workers close to retirement. In order to be eligible, participants must be unemployed for at least two months and close to establishing pension rights. Eligible firms are firms of the private sector and local authority enterprises.
- Another scheme targets young unemployed people (up to 30 years of age) with at least compulsory education. They can be placed in firms, provided that the latter are small, i.e. they employ less than 50 workers.
- Part-time work in shops is the target of another 'New jobs' programme. This programme aims at the temporary employment of 8000 unemployed people in very small firms (0–3 people). Participating people must be unemployed for at least one month and be less than 50 years of age.
- The employment of mature and older workers is the subject of another scheme. Under this scheme, 10 000 unemployed workers can be placed in firms of the private sector provided that they are older than 45 years of age.
- Younger unemployed workers can benefit from another 'New jobs' scheme targeting 6500 unemployed workers aged 31–44. These can be placed in private firms, irrespective of size.
- A special 'New jobs' scheme covers seasonally employed workers in the tourist industry. This scheme targets 50 000 workers in tourism-related activities (hotels and restaurants). To be eligible to participate in the programme, the employing firm must have recruited during April and May 2009 the same number of workers as one year ago.

In addition to the above, 60 000 people are expected to benefit from the activation of Law 3746/2009, allowing for the conversion of unemployment benefits into employment subsidies and secure temporary employment in ministries, public enterprises, local authorities and firms of the private sector within 2009.

The aid scheme for self-employment is another active measure that has proved popular among unemployed people, given that there is a strong sentiment for self-employment in Greece. In all, 14 000 unemployed people are currently participating in the relevant programmes, while in 2009 a new self-employment scheme will target 6000 new scientists (lawyers, medical doctors, engineers, etc.), who will be assisted in establishing an independent practice. Also, within 2009, an opportunity to become self-employed is expected to be offered to 7000 unemployed workers aged between 18 and 64.

The new programme 'One start — One chance' is designed to meet the needs of both employers and unemployed people, by providing skills that are considered as essential for finding a job and by offering certain choices to participants. The design of the new programme has been based on prior research on the problems facing the new labour market entrants on their

transition from school to work, and also on the problems facing employers trying to recruit young people.

The new programme targets young people aged between 16 and 25 who have either dropped out from school or have completed only secondary education and who in addition were never given a chance to work or participate in some form of training.

Beneficiaries may choose to participate in one, or more of the three actions envisaged by the programme, namely:

- achieve a work record (προυπηρεια),
- achieve a training certificate in informatics, and
- receive guidance and counselling services.

Those choosing the first option (professional experience) are to be placed in jobs in the public or the private sector of the economy for five months, during which they will be receiving a wage equal to the minimum wage foreseen by the general collective agreement, while enjoying at the same time full social security coverage. The cost of participation (wage plus contributions for pension, health and occupational danger) will be borne by OAED.

The second choice concerns young people who are not able to secure a job because they lack the ability to work with a computer. Those taking this option will participate in a 100-hour training programme, during which they will be receiving EUR 6 per hour. Upon completion of the training course, participants will be provided with a training certificate.

Finally, those taking the third choice are to receive personal coaching and participate in a special guidance programme designed to enhance job-search skills. In addition they will participate in a separate training course for entrepreneurship. The duration of the course is set at 60 hours. A fee is foreseen for participants (EUR 10 per hour).

Starting from 2008, this programme is expected to benefit approximately 40 000 young people per year.

Another type of active programmes that has been gaining in importance during the last few years is integrated interventions programmes, implemented by OAED in areas of high unemployment due to restructuring. Under these programmes, special structures are formed, typically at the level of prefectures, with the task to map all enterprises in the area, interview all unemployed workers, draft individual action plans, assess the growth potential of specific sectors, and assist displaced workers with training, employment subsidies or self-employment incentives. Local interventions of this type are expected to benefit approximately 15 000 unemployed workers in 2009.

Taken together, OAED's active measures are estimated to benefit 273 000 people during 2008–09, at a cost of EUR 1.6 billion. It should be noted that expenditure on active measures in Greece until 2008 was small in relation to the European standards and that this is the first time that substantial resources are being invested in assisting unemployed people to secure temporary employment.

### 3. Organisation, implementation and funding of the measures

OAED's active measures are being implemented within the framework of OAED's operational plan, in effect since the beginning of 2009 (Ministry of Employment and Social Protection, 2008). The latter is the latest of the annual plans linked to OAED's strategic plan for 2006–09. The operational programme is also closely linked to the national reform programme, to the employment guidelines and to the orientation and financial capabilities stemming from the national strategic framework 2007–13. As regards the latter, the financial plan of the ESF in Greece for 2007–13 amounts to EUR 4.363 billion, to be invested in training and social services and improvements in public administration and in the job opportunities of disadvantaged groups<sup>(41)</sup>.

OAED's operational programme is structured around three strategic objectives (priorities): the upgrading of OAED's mediation services, ensuring an effective matching of labour demand and supply, the strengthening of active policies and the integration of active and passive policies, and the linking of OAED's actions with priorities for development at the national level.

Strategic priorities are, in turn, further elaborated in a number of operational objectives (immediate priorities). In this respect, the upgrading of mediation services is to be served through: the conversion of the PES into one-stop shops; the linking of the PES with the Citizens Service Centres (KEP), structures commonly associated with cutting red tape and efficiency; advances in various ICT applications, which will result in the better monitoring of OAED's activities and also in more efficient assistance to clients; the setting up of a EURES-type portal enabling the efficient matching of labour demand and supply; the development of vocational guidance and counselling services; and the linking of OAED's training centres with the PES.

The target of improvements in the design and delivery of active measures is to be achieved through: the full utilisation of the financial capabilities offered by the national strategic framework and the priority assistance to women, newcomers in the labour market, older workers, people from vulnerable population groups and people working in sectors affected by the current economic crisis; the option of contracting out certain employment services to accredited actors, the enhanced utilisation of the findings of evaluations; and the new measure concerning the conversion of unemployment benefits into employment subsidies.

Lastly, the contribution to national development targets is to be facilitated through: the upgrading of OAED's apprenticeship system with the adoption of modern equipment and teaching methods; the formation of partnerships with other agencies

active in the field of employment policies (such as the Secretariat for Youth); the reorganisation of the in-service training courses offered to the employed workers; the targeting of micro-enterprises; and the design and execution of intervention in cases of industrial restructuring.

Turning to finances, OAED's receipts come mainly from social contributions (EUR 2.5 billion in 2009), with the national budget and the public investment programme providing smaller contributions (EUR 375 and EUR 450 million, respectively). The public investment programme covers expenditure on projects co-financed by the ESF. In all, OAED's budget for 2009 amounts to EUR 3.5 billion, up by EUR 385 million in relation to 2008.

Apart from envisaging an impressive increase in the active measures put forward in order to restrict unemployment, the latest of OAED's operational programmes contains a number of innovations which are certain to hold efficiency gains. The creation of one-stop shops through the integration of placement and unemployment benefit administration is expected to lead to more efficient and effective services. This is because the institutional separation of benefit administration from placement holds the risk that the two organisations will adopt divergent objectives (e.g. the placement officer seeking to activate unemployed people and the benefit administration officer being preoccupied with the eligibility criteria for paying the benefits), thus necessitating the need for increased cooperation. In addition, the plans to create a EURES-type portal for the better matching of labour supply and demand, and the plans to commission work relating to employment policies to accredited institutions, represent a historic opportunity for Greece to develop modern and efficient employment services. These actions can pave the way for increased cooperation among the various actors in the field of active employment measures in Greece, thus leading to better quality of services for unemployed people and also for society as a whole.

### 4. Performance and achievements

OAED's strategic plan attaches importance to the evaluation of active measures for policy improvement purposes. In this context, starting from 2008, OAED is cross-checking data from its own records with data from the main social security organisations and the tax authorities. In addition, during the second quarter of 2008 evaluation work was commissioned on the two main active measures implemented in Greece, aid for self-employment (NEE) and employment subsidies (NOE). Although both evaluations have focused on actions implemented during 2004/05, it is believed that their findings are still relevant today, given that the main features of the programmes have remained intact<sup>(42)</sup>.

The evaluation of the aid scheme for self-employment (NEE) was based on the results of the programme for the year 2004, when the target set was to help approximately

(41) See the Internet ([http://ec.europa.eu/employment\\_social/esf/docs/gr\\_country\\_profile\\_en.pdf](http://ec.europa.eu/employment_social/esf/docs/gr_country_profile_en.pdf)).

(42) The evaluation studies are available (in Greek) on the Internet ([http://www.oaed.gr/Pages/SN\\_805.pg](http://www.oaed.gr/Pages/SN_805.pg)).

7 500 unemployed workers set up their own small enterprise. According to the findings of the evaluation, as regards the implementation of the programme's budget, this was largely achieved. With respect to the personal characteristics of the participants, the typical participant is, according to the study, a mature person (30–49 years of age), secondary school graduate, setting up a small business in the fields of trade and other services. As regards survival rates, the evaluation study concludes that 2 to 3 years from the beginning of their involvement with the programme, 75 % of the new entrepreneurs were still active. However, only a minority (18 %) of the firms created managed to increase employment, beyond the level of one person. As an end result, the contribution of the programme to employment increase was modest. The study has offered a number of suggestions for improvements, including the provision of assistance with the drafting of business plans and the mandatory participation of the new entrepreneurs in training courses.

The second evaluation study focused on the implementation of the 'New jobs' programme (NØE) for the year 2005. Again, as regards budget allocations, initial targets have been achieved. On the basis of gender, age, educational and labour market status of the participants, the study concludes that the typical participants are young (25–34 years old), women (60 % of the total), with intermediate educational credentials, recruited in full-time posts by firms active in the distributive trades and in the hotel and catering sectors. As regards the efficiency and effectiveness aspects of the programme, the study noted that one year after the termination of the subsidies almost 40 % of participants were still employed by the same firm that recruited them. In addition, another 24 % of the ex-participants were working as employees in another firm and 3 % became self-employed. On account of these estimates, the study concludes that cumulatively the programme benefited 66.5 % of participants. Among those that following their participation in the programme have again become unemployed, the study notes the increased presence of older people (50–64 years of age) and very young women (18–24). It is on these groups that the study proposes focusing, through more intensive interviews and individualised assistance, among other measures.

Although the findings of the evaluations are clearly encouraging and show that participants have been able to benefit in more than one way, there is a need to strike a balance between accountability for policymaking and knowledge production in future evaluation studies. This is because existing evaluations concentrate on measuring the success (or failure) of adopted policies and measures, and not on the core question of evaluation, i.e. what works and why. Furthermore, policy interventions could benefit from studies comparing and ranking the gains (and losses in the form of unintended results, or side effects) of the various measures. Knowledge on the individual measures has increased considerably during recent years. What is still lacking is a common 'yardstick' to judge the effects of the various interventions.

## 5. Conclusions

According to all existing evidence, conditions in the Greek labour market will deteriorate in the latter part of 2009, due to the current economic crisis. The unemployment rate currently shows increasing tendencies and is projected to increase further in 2010. Although the exact impact of the crisis is difficult to predict, certain economic sectors (notably construction, manufacturing and tourism) and certain groups of workers (the young, women and older workers) are thought to be more vulnerable.

OAED, the main employment agency in Greece, has responded to the crisis by taking steps to modernise its employment services, accelerate efforts to establish networks with other actors, utilise ICT applications and, perhaps more importantly, by intensifying efforts in the field of active measures. The latter are now being offered to an unprecedented number of unemployed people. Further, active measures are now targeted towards specific groups, sectors of economic activity and even geographical areas and implemented within a flexible environment, with bureaucracy kept to a minimum. Whether or not these measures will manage to restrict unemployment or just mitigate the consequences of the crisis on the most vulnerable in the labour market, remains of course to be seen. Be that as it may, a critical factor for the success of policies will be OAED's ability to closely monitor developments at the local and sectoral levels, adjust its policies accordingly and distribute available resources rationally.

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# Spain

## The State Fund for Local Investment

### 1. Introduction

The Spanish economy has been particularly affected by the severe international economic crisis. Its significant dependence on the global economy (it is the second most open economy in Europe, just behind Germany), and the strong restructuring of the housing market, are having particularly strong effects on the Spanish labour market.

After ending 2008 with an increase of 1.3 million unemployed people in 1 year (up by 66%), the Spanish labour market has intensified its adjustment process in the first quarter of 2009, with the unemployed population increasing by more than 802 000 people (up 25%). The destruction of jobs that began in the construction sector has also extended to other sectors of the economy, and Spain has reached for the first time more than 4 million unemployed. The unemployment rate has increased to 17.36% of the active population, and Spain generates 66% of the newly unemployed population in the euro area, and 45% of the EU as a whole.

In this context, the Spanish government has approved a series of measures to stimulate the economy, mainly focused on public expenditure in public works and related to the construction sector, as a way to create employment and reduce the increase of unemployment in the short term.

The measure discussed below is part of this economic stimulus plan, and is aimed, in accordance with the 'Employment guidelines for the employment policies of the Member States', to maintain employment and create jobs, preventing exclusion from the labour market, establishing partnerships between central government and municipalities, and strengthening institutional and administrative capacity in local councils.

In particular, the measure is in line with integrated guideline 17, 'Implement employment policies aiming at achieving full employment, improving quality at work, and strengthening social and territorial cohesion', and it aims mainly to 'retain more people in employment and increase the labour supply'.

### 2. The measure and its expected impact on the policy challenge

As an urgent measure to tackle the deterioration of the economy and the worrying tendencies in the labour market, the Spanish government has approved the 'Spanish economy and employment stimulation plan — Plan E', which includes a series of measures to

stimulate the economy, mainly focused on public expenditure to alleviate the rise of unemployment in the short term.

As an important part of Plan E, the government has implemented the State Fund for Local Investment, aimed to finance investments in municipalities for new planned public works related to the construction sector, to be executed immediately, which will help to foster the creation of employment and reactivate the economy during 2009.

The state fund, which is financed with public borrowing (not using European Social Fund resources), amounts to EUR 8 billion, which doubles the average annual investment spent on public works by all the local councils in Spain, and is an unprecedented mobilisation of public funds in the country.

It is an extraordinary measure that has as its principal objective, to have a direct impact on job creation. Therefore, the projects financed by the fund must be particularly labour intensive.

The State Fund for Local Investment is expected to contribute to the creation of approximately 280 000 new direct jobs, and up to 400 000 jobs including indirect and induced employment. Given the nature of the projects targeted by this measure, this initiative will mainly mobilise workers and resources that have suffered the consequences of the sharp contraction of the construction sector that the Spanish economy is currently experiencing.

The fund is also expected to favour the viability of small and medium-sized companies engaged in activities related to the construction sector, such as engineering, architecture, logistics and the production and mobilisation of materials, machinery and diverse equipment.

At the same time, these investments are supposed to contribute to the capitalisation of municipalities, since they are aimed at projects that will improve local infrastructure related to social utility.

The fund also gets local councils involved in the management of investment aimed at boosting employment, improving local facilities and infrastructures, and improving the quality of life for citizens.

### 3. Organisation, implementation and funding of the measure

The measure was approved by the Council of Ministers on 28 November 2008, and the plan is run by the former Ministry for Public Administrations (now Ministry of Territorial Policy), which distributes the funds among more than 8 000 municipalities in line with their population.

It has been implemented through an emergency procedure that has made it possible to speed up the whole process, from the calls for tenders to the acceptance of the project bids, so that there will be the strongest impact upon employment.

The period for presenting the project plans ran from 10 December 2008 to 24 January 2009. Once the corresponding projects have been awarded, the central state supplies 70% of the total cost and the rest will be paid at the end, once a statement justifying the expenditure is submitted.

Since the state fund was implemented as an urgent measure, and in order to commence projects as soon as possible, the maximum budget for each project amounts to EUR5 million. The works must be carried out during 2009 and the municipalities must certify the completion of the works during the first quarter of 2010.

The works that are eligible for financing in the various municipalities must fall within their competences and they should be characterised by their productive nature or by their special social usefulness.

To ensure the creation of jobs, when allocating contracts for the works financed by the fund, local councils must take into consideration the extent to which the project creates employment. Furthermore, all new workers hired must be registered as unemployed.

### Projects eligible for financing

The Royal Decree-Act 9/2008 of 28 November 2008, which regulates the fund, establishes that projects eligible to receive financing from the fund must be within the local council's remit and completely new; they must not be included in the Council's budget for the current year, and they must have a project budget of no more than EUR5 million. All projects will be financed entirely by central government.

The following projects are eligible for financing:

- refurbishment or improvement works on public urban areas and industrial areas;
- equipment and infrastructure works on roads, sewage systems, street lighting or telecommunications;
- construction, refurbishment or improvement works on social, healthcare, funerary, schooling, cultural or sports furnishings;
- works having to do with the environment, with pollution prevention and with the promotion of energy efficiency;
- works to eliminate architectural barriers;
- works to preserve municipal and historical heritage;
- construction or improvement works on the water supply system and on the wastewater purification system;
- works to improve road safety and to promote sustainable urban mobility; and
- works for fire prevention and to promote tourism.

## 4. Performance and achievements

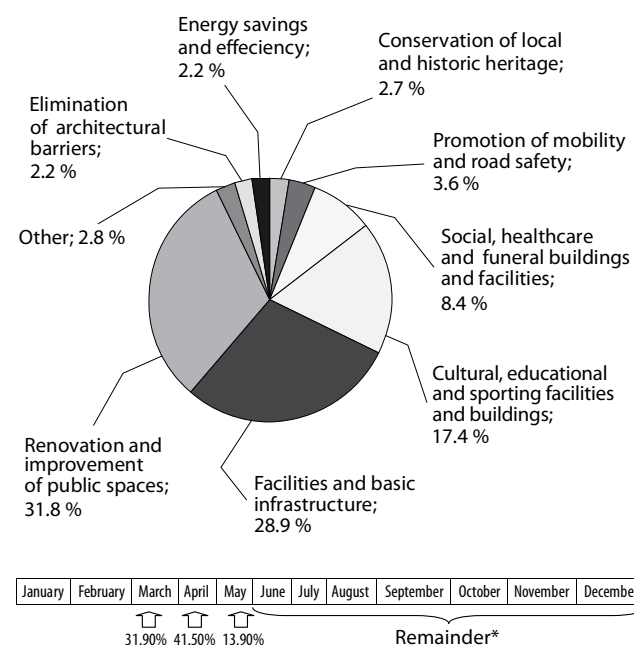
Between 10 December 2008 and 24 January 2009 there were 30 903 projects presented from almost all local councils in Spain (8 108). After assessment of the project plans, 30 772 projects were finally approved with a budget of EUR7 999 million, corresponding to 99.9% of the fund.

As shown in Figure 1, the average amount per project approved totals EUR 259 939, and each of the projects employs, on average, 9.05 workers. Project financing ranges from a minimum of EUR410, for the improvement of municipal buildings in a village in Castilla-La Mancha, to a maximum of EUR5 000 000, for the maintenance of 14 streets in Barcelona. Only four cities in Spain have not submitted projects for approval.

**Figure 1: Details of funded projects**

|                                   |                              |                                 |                |
|-----------------------------------|------------------------------|---------------------------------|----------------|
| <b>Total Fund amount:</b>         | EUR 8 000 million            | <b>Potential beneficiaries:</b> | 8 112 councils |
| <b>Amount of proj. presented:</b> | EUR 7 998.7 million (99.98%) | <b>Beneficiary councils:</b>    | 8 108 (99.95%) |
| <b>Direct jobs:</b>               | 278 518                      | <b>Indirect jobs:</b>           | 400 000        |

Types of project



\*Except for certain projects implemented by the councils themselves, which began in February

Source: Ministry for Public Administrations.

Among all the initiatives presented, 31.79% are projects for rehabilitation and improvement of public spaces, 28.89% for equipment and infrastructure for basic services and 17.47% for cultural, educational and sports equipment and buildings. There have also been projects proposed for buildings and social facilities, promotion of mobility and security, conservation of historical and municipal heritage, and savings and energy efficiency, among other initiatives (21.85%).

According to the Ministry of Territorial Policy, by June 2009, the fund had financed 91% of approved projects and 93% of the municipalities involved had already received the funds to start the works.

According to the government, the State Fund for Local Investment has already generated 401 399 jobs, representing 44% more jobs than planned for the entire initiative (278 446 people), more than 164 000 of whom are newly hired. Over 14 000 companies are working on the plan — mainly small and medium-sized enterprises.

The electronic procedure used for the call for tenders has improved speed and transparency in the implementation of the fund, and represents an important milestone in the increased use of e-government in Spanish public administration. The fact that at least 8 108 councils already have an electronic certificate is expected to contribute more than any other measure to the modernisation of local government.

The measure has not been evaluated yet, but seems to be perceived as a success by the government and, President Zapatero subsequently announced a new State Fund for Local Investment for 2010 with EUR5 billion. Specifically, the new fund would be focused on productive investment projects for sustainable renovation, energy saving, environmental sustainability and social facilities, and will come into force on 1 January 2010.

## 5. Conclusions

Spain has complied with the recommendation of the European Commission regarding fiscal policy stimulus measures, which called on countries to stimulate their economies to the equivalent of 1.2% of their GDP. The EUR8 billion earmarked for the State Fund for Local Investment, plus the EUR3 billion invested in the Special Fund for Economic Invigoration designed to improve the situation of certain strategic economic sectors, also included in Plan E, account for over 1.1% of Spain's GDP.

Furthermore, the launching of this fund responds to the immediacy recommended in the European economic recovery plan, which stresses the need for urgent action to tackle the rapid general weakening of economic conditions. It is known that investment in public works has multiplier effects on the economy and on employment. Investing in public work involves creating and maintaining employment and at the same time is supposed to generate growing demand in other sectors.

As a measure to impact directly on job creation, the State Fund for Local Investment appears to have been successful, since the latest published data, referring to mid-year 2009, show that the number of jobs created by this measure is 401 399. That is 44% more than the initial estimations of job creation made by the government. This implies a cost of EUR 12 456.43 invested by the fund per worker.

However, a clearer methodology to quantify the employment created through the fund will be required, to calculate the full-time equivalents (FTE) jobs. The reason is that the employment creation data provided from the Ministry of Territorial Policy count all the people who are or have been employed on public works under the State Fund for Local Investment, without recording the type of contract they have. In some cases, and for some projects of short duration, employees are hired for only a few hours. One of the failures of the fund is that it does not fix the period workers have to be hired for, and that period can be months, days or only hours, contributing to the creation of precarious employment. In this situation, it is necessary to calculate the jobs created on the basis of FTEs and to take this into account in future initiatives.

Other issues include those listed below.

- The effects of the measure are limited in time, as the works that are funded have to be completed before the end of 2009, and at that point most of the jobs created could have been lost.
- On the other hand, the measure itself will help workers to keep a job for a few months, and this means savings in the payment of unemployment insurance by the central government, and maintaining the employability of workers, as they delay entering unemployment by several months.
- The criterion for allocating the funds, in accordance with the population of each town, although being objective, may be unfair, because it does not take into account the needs of municipalities, and could lead to inefficient distribution of resources: villages with shortages in equipment and population (specifically rural areas) will be at a disadvantage in relation to urban areas. This way, small municipalities and autonomous regions with more dispersed population and who suffered from emigration and rural depopulation in the recent past will be prejudiced against.
- Another main criticism made about the measure is that, according to some local trade unions, much of the work has been dedicated to non-productive investments that do not involve an increase in capacity. Thus, the measure has a high opportunity cost, resulting from investing in low added value projects, rather than financing more sustainable and productive activities. Also, the fund should finance new works, but it seems that most of these works were already planned, and were going to be financed anyway by local councils. The extent to which this is true should be evaluated.

In addition, this measure seems not to be designed to change the Spanish economic model, which has been based on the construction sector and which was largely responsible for the severity of the crisis in Spain and the huge increase in unemployment. In this context, the announced new fund for 2010, which will focus on projects for sustainable renovation, energy saving, environmental sustainability and social facilities, will contribute more effectively to changing the Spanish economic model.

Finally, the measure is very gender biased, with the vast majority of jobs being created for men. Men are engaged to a much greater extent than women in the construction industry. However, a justification for the fund is that men are also being more affected by rising unemployment.

On the other hand, the way in which the measure has been implemented has been innovative for Spain: the distribution of the funds has been made directly from the central government to the municipalities instead of to the regions, which is the usual method. The allocation of the funds has been made directly to more than 8 000 municipalities, in line with an objective criterion (their population), and governance has been strong.

In conclusion, despite the need for more transparency and a clearer methodology to quantify the number of FTE jobs created through the fund and its total impact, the measure

appears to have had positive effects on the economy and on employment, although these effects are short-term and difficult to sustain beyond 2009. In this sense, the new State Fund for Local Investment that is expected to come into force in January 2010 will have a broader impact, and its effects are expected to be more sustainable and permanent over time.

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# France

## The creation of the Social Investment Fund (Fiso) as an anti-crisis measure

### 1. Introduction

The global reform of vocational training in France and a growing concern over the snowball effects of the economic crisis on the labour market has led the French social partners (in particular, Confédération française démocratique du travail (CFDT, French Democratic Confederation of Labour)) to call for increased efforts to turn the crisis into an opportunity to improve workers' employability. They have advocated training measures to be implemented for the most vulnerable groups of the workforce and a 'crisis fund' dedicated to the financing of such measures to be set up. This request has led to the implementation of the Social Investment Fund (Fonds d'investissement social, Fiso), which will coordinate short-term and temporary anti-crisis measures with training measures aimed at increasing the employability of the workforce affected.

### 2. The fund and its expected impact on the policy challenge

The Fiso was agreed at the February 2009 social summit and was launched on 10 April 2009. The overall objective of the measure is to pool sources of finance from the French government and the social partners in order to coordinate their efforts to combat the effects of the economic crisis on the labour market. The Fiso aims to maintain employment and to secure professional transitions through the rapid implementation of concerted measures between the state and social partners. Whilst the measures financed broadly resemble most of the 'recovery package' implemented in other EU Member States, the philosophy behind the Fiso (both in terms of its organisation and its application) is a great policy innovation in France.

The Fiso is managed by a collective body responsible for developing effective policy responses in order to minimise the impact of the economic crisis on employment. As an anti-crisis measure, the Fiso will only be operational for two years (2009–11) and should not last longer than the duration of the economic crisis.

The principal role of the Fiso is not to finance new and innovative measures to tackle the impact of the crisis on employment. Rather, it is expected to coordinate the efforts of all parties involved in the management of the labour market and to ensure the highest degree of coherence, relevance and efficiency of the policy response to the crisis. As a result, some of the measures included in the Fiso, such as partial unemployment, are not new measures. However, the Fiso will ensure that their financing and operational implementation will be discussed and agreed between the State and social partners at the national and local level. This should lead to the rapid implementation of relevant and efficient actions.

In order to benefit from the Fiso funding, measures must adhere to two main goals.

1. Limit the effects of the crisis on both workers and unemployed people, with a focus on particular target groups (young people and low-qualified workers) and the most vulnerable economic sectors and territories.
2. Strengthen vocational training programmes to increase the long-term employability and thus secure professional transitions.

The Fiso will ensure that the following categories of measures will be implemented and financed:

- partial unemployment and its integration with vocational training;
- strengthening of existing measures aiming at easing the redeployment of redundant workers (such as *contrats de transition professionnelle* (CTP, professional transition contracts) or individual redeployment agreements);
- training programmes for unemployed people and low-qualified workers;
- support to employment policies and vocational training targeting young people; and
- support to the most affected territories and sectors.

The Fiso represents a great policy innovation in France for two principal reasons. Firstly, it focuses heavily on vocational training and securing professional transitions. The flexicurity approach underpins the Fiso and goes beyond the response to the economic crisis. As such, it should contribute to greater professional mobility and increased matching in the labour market in the long term. Secondly, the collective governance of the Fiso is an innovation. The increased role of social partners in the design of labour market policies highlights the French government's commitment to increase the role of social dialogue in the management of the labour market. In this respect, it can be said that the Fiso is emblematic of an overall strategy to modernise the French labour market.

### 3. Organisation, implementation and funding of the fund

#### 3.1. Financing and management of the Fiso

The Fiso is not a new 'structure' and does not have its own budget. The Fiso only designates the consultation body through which the state and social partners will collectively decide the measures to be taken against the crisis and agree on their financing. The state and social partners will then make available funds as needed. In short, the Fiso is collectively managed, the implementation and financing of measures is coordinated, but each actor remains fully responsible for its own funds. The flexible organisation of the Fiso is due to the concerns voiced by the social partners that the existence of such a collective fund should not mean that the state would be given new powers in relation to the management of social partners' funds, such as the Unedic (the joint body responsible for the financing of unemployment benefits).

In total, Fiso funding should amount to around EUR 3 billion. The state is committed to contributing up to EUR 1.3 billion to the fund, as well as an additional EUR 150 million from the 'youth experimentation funds'. Social partners are expected to contribute the same amount as the state, using existing resources from the Unedic (unemployment benefits) and vocational training funds. The ESF will contribute a further EUR 80 million.

The fund will be managed by a steering committee, which will meet once a month and will be formed of representatives from workers' trade unions (CFDT, CGT, CGT-FO, CFTC, CFE-CGC) and employers' unions (MEDEF, CGPME, UPA) and will be chaired by the Minister for Economy and Employment.

Stakeholders<sup>(43)</sup> in charge of employment and training policies can also be invited to attend meetings, when relevant. The committee will be in charge of examining and selecting local actions aimed at supporting the most affected economic sectors and territories, in the framework of a call for tender launched by the Ministry of Economy and Employment in June 2009. The actions will then be implemented directly by the local actors concerned. The chosen measures will then eventually be implemented through agreements between the state, employer's federations, social partners and the OPCA (Organismes Paritaires Collecteurs Agréés, joint bodies in charge of the financing of vocational training for workers).

#### 3.2. The organisation, management and financing of the Fiso

Debates are still taking place between the state and social partners as regards the financial contributions of each partner to the Fiso. Mainly, social partners underline that out of the EUR 1.3 billion of the state's commitment, only EUR 800 million will actually be new finance, dedicated to the Fiso. The other EUR 500 million was already announced in the framework of the recovery package announced by the state at the end of 2008. Trade unions are therefore asking for a higher financial investment from the state.

They also underline that among the measures foreseen by the state as Fiso-financed, some do not involve training programmes and consist of passive compensation for affected workers, which runs counter to the philosophy of the fund.

The absence of representatives from the French regions in the management of the fund is an important issue, as regions have been the main actors in vocational training policies in France since 2003. Their absence from the steering committee is all the more difficult to understand since some of them have recently implemented regional funds with similar aims to the Fiso, and could easily and efficiently be pooled together. Furthermore, the recent French law reforming vocational training allows the state, social partners and regions to sign joint agreements implementing local training measures so as to secure professional transitions. It is difficult to see how the Fiso's actions can be effectively coordinated with regional initiatives, if regional representatives are not involved in the management of the Fiso.

### 4. Performance and achievements of the fund

#### 4.1. Measures already being implemented

The Fiso Steering Committee has met three times since the fund was officially launched in April 2009. Several measures have been chosen to receive Fiso funding and a number of them are currently being implemented.

- **Fund for urgent training needs:** the state and the Fonds unique de péréquation (FUP, Special Equalisation Funds)<sup>(44)</sup> signed an agreement on 21 April 2009 which foresees the

(43) Such as Pôle Emploi (the French Public Employment Service) and the Association pour la Formation Professionnelle des Adultes (AFPA, Association for adult vocational training).

(44) The FUP was created in 2004. Its role is to pool and manage financial surpluses from the OPCAs (joint bodies in charge of the financing of vocational training for workers) and re-distribute them among OPCAs according to their recorded financing needs for the implementation of vocational training. It is also compulsory for OPCAs to provide the fund with 5 to 10% of the financial contribution they receive from employers.

implementation of an exceptional financial instrument dedicated to the vocational training of people affected by the crisis. With EUR200 million from the FUP, EUR80 million from the state and EUR80 million from the ESF, the fund will help finance vocational training for around 130 000 vulnerable workers, partially unemployed people and unemployed people under an 'individual deployment agreement'. According to the State Secretary for Employment, this fund should act as the Fiso's instrument for vocational training.

- **Increased compensation for partial unemployment and unemployment:** on 15 April 2009 the state and the Unedic signed a convention agreeing to an increase of the compensation given to partially unemployed people (up to 75 % of monthly gross salary, instead of 60 %). This increase will be financed by the Unedic by up to EUR 150 million. In exchange, the companies benefitting from the measure must commit to keep their workers in employment for a period at least twice as long as the duration of the agreement, and also to offer their workers training programmes during the time of partial unemployment. The first such agreement was signed on 22 July 2009. In addition, it was also decided that young jobseekers who cannot claim unemployment benefit because they have not yet made enough social security contributions will be given a one-off payment of EUR 500.
- National programmes favouring the **replacement of redundant workers** in the most affected sectors of the economy, thanks to the implementation of relevant vocational training programmes in relation to identified skills shortages. The three sectors selected by the committee are agriculture and food, distance retail selling and chemical industries.
- **Support to local initiatives** in the most affected regions of France. Two local projects supporting the development of employment and skills have been examined in Champagne-Ardenne and in Nord — Pas-de-Calais. The first concerns the signing of a commitment charter between the state, social partners and local authorities on the ways to help enterprises and workers to adapt to the reduction of their activities. The second project concerns the signing of a regional pact to secure professional transitions through the better anticipation of economic challenges and related skill shortages.

The steering committee has also decided to form a working group on the training of unemployed people, as well as a task force in charge of ensuring the rapid and effective implementation of the agreed measures. In particular, the task force will be responsible for examining the fit between the training programmes and the partial unemployment arrangements.

EUR200 million will be allocated to youth employment policies within the framework of the French youth unemployment plan presented in June 2009.

## 4.2. Expected efficiency: a first assessment

Whilst it is still too early to assess the impact of measures financed by the Fiso, many success factors exist. The Fiso is well placed to counter the effects of the crisis on the labour market in the short term and to secure professional transitions in the long term.

Firstly, the fund has been developed to take account of the recommendations to modernise the labour market and implement a flexicurity strategy to secure professional transitions.

- The use of the fund is **targeted at those most in need of support in the labour market:** vulnerable workers, those unemployed who are furthest from the labour market and young people.
- The ultimate purpose of the fund is to **combine short-term and long-term measures, which should have a structural impact on the French labour market.** With the emphasis on financing for and access to vocational training, the expected effects of the implemented measures should go beyond the economic crisis to improve long-term employability of vulnerable workers. Several studies have recently underlined that partial unemployment measures combined with training can accompany a structural improvement of the matching on the labour market (CEE, 2009b). The same studies show that partial unemployment alone does not prevent but rather postpones redundancies. The application of short-time work alone (i.e. without training during non-working time) might negatively affect the structural change of the labour market by artificially maintaining employment in declining industries, instead of redirecting the workforce into more promising jobs (Eichhorst and Marx, 2009; Crimmann and Wießner, 2009).
- The **collective governance** of the fund should allow for a greater coherence between the measures.

Secondly, the **bottom-up approach** and the focus on territorial actors should ensure that the measures chosen are best suited to answer local economic and social needs.

Finally, the Fiso has been designed to facilitate the assessment of the efficiency of measures. The allocation of the funds will be submitted to strict eligibility criteria and their utilisation will be regularly assessed according to pre-defined monitoring indicators. The steering committee will only agree to finance those projects with:

- a quality partnership between public and private local labour market actors in the definition and implementation of the proposed action;
- targeted beneficiaries: the most vulnerable workers, low or unqualified unemployed, young people and/or the most affected territories;

- measures contributing to the long-term future of professional transitions: development of new and needed skills on the local labour market, favouring professional mobility and better matching;
- strong management and regular evaluation of the actions at the local level.

Monitoring indicators have also been elaborated to ensure effective and regular assessment of the impact of the implemented measures. These indicators have been developed for both national and local actions and include: the monitoring indicators of the number of hours in partial unemployment and related cost in terms of compensation; the number of beneficiaries of vocational training under partial unemployment.

On the whole, the Fiso represents a great innovation in terms of the design and implementation of labour market policies in France. It is the first time that a policy instrument combines pooled financing; collective governance with social partners; a bottom-up approach; pre-defined and strict eligibility criteria for financing; and, above all, key indicators for constant monitoring by the steering committee.

Despite such success factors, it is possible that the Fiso will not have the expected impact. Timing will play a critical part in its effectiveness.

- The rapid implementation of training measures will be key in avoiding negative structural impacts of partial unemployment (see above).
- The longer the economic crisis lasts, the less effective the short-time work instrument will be to counteract negative labour market effects. As employers cannot accurately forecast the duration of partial unemployment in face of persisting economic difficulties, it is likely that most training measures applied will be of a short-term nature, which could impact negatively on their effectiveness.
- The added value for employers investing in skills development is low if they are unsure about how long the employees will remain in the workforce. Therefore, the longer the crisis lasts, the less likely it is that employers will adhere to the training obligation.

Moreover, the rapid implementation of Fiso measures may be difficult to achieve. The implementation of partial unemployment and training will increase the administrative and organisational burden for participating companies, which might not be feasible (especially for SMEs) and will be particularly difficult during the economic crisis. Tensions have also arisen in the steering committee, between the government and the social partners, as well as between the social partners themselves. Discussions so far have focused on the amount of financing available and on who should be responsible for the financing of each measure. It is likely that further disagreements will arise.

The Fiso is an important step toward increased social dialogue, but it is likely that it will take some time for the various actors to become used to the new responsibilities and methods.

## 5. Conclusions

Whilst the Fiso was implemented as an 'anti-crisis' policy instrument, it also contains many of the elements necessary for a more long-term and structural modernisation of the French labour market. Although it should not last more than 2 years, Fiso's organisation (greater role of social partners), purpose (securing professional transitions at a time of economic crisis) and working methods (bottom-up approach, constant monitoring) represent a deeper political trend, aimed at increasing flexicurity and better performance in the French labour market. As such, the Fiso is an important positive policy innovation. However, it may be affected by its ambitions; as a rapid policy response to the crisis, timing will be an essential element in its effectiveness. It is possible that the new roles and responsibilities given to the actors involved and the time needed to get used to this new instrument might actually impair its ability to develop rapid solutions to the current crisis.

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# Italy

## The integration of passive and active policies to support the workers hit by the crisis — The role of the ESF

### 1. Introduction

The current economic crisis is likely to bring about serious consequences on the Italian labour market: the unemployment rate is showing a sudden rise (from 6.7% in 2008, up to 7.9% in the first quarter of 2009) while the wide use of fixed-term contracts in recent years (for which the unemployment risk is considerably higher than for open-ended contracts)<sup>(45)</sup> may considerably disadvantage some more vulnerable categories of workers (namely, younger workers and women).

The employment effects of the crisis are exacerbated by the characteristics of the Italian unemployment benefits system (*sistema degli ammortizzatori sociali*). This system is quite complex and fragmented, and it lacks universal coverage: different benefits are provided for different categories of workers, depending on the length and the typology of previous employment, firm size and sector of activity. The system has an insurance nature: the access to benefits depends on the accumulation of contributions, leaving individuals in search of their first job and workers who experience discontinuous careers, largely unprotected. Moreover, the ordinary unemployment benefit is rather low as compared to international standards, both in terms of length and replacement rate (although a significant increase was introduced in 2007).

The system is based on two main modalities: one covering cases when the job relationship is temporarily interrupted due to demand fluctuations or firm restructuring (i.e. workers are not laid off); the other one covering cases when the job relationship ends (i.e. workers are laid off). The first modality includes the so-called Cassa Integrazione Guadagni (CIG — Wages Guarantee Fund)<sup>(46)</sup>, while the second one includes the mobility allowance (quite generous, granted in case of collective dismissals) and the unemployment benefit (granted in case of individual dismissals), which can be 'ordinary' or 'reduced', depending on the length of the previous employment spell and on specific requirements in terms of payments to the social security system. Eligibility to the various CIG schemes and to the

mobility allowance is usually restricted to firms operating in the manufacturing sector (with several exceptions) and employing more than 15 employees (higher thresholds are set for sectors different to manufacturing)<sup>(47)</sup>.

In order to overcome the limits of the system (without, however, introducing a systematic reform), the possibility to provide benefits 'on derogation' within the current legislation (*ammortizzatori in deroga*)<sup>(48)</sup> has been introduced since 2003. According to this measure (which has been continuously reiterated in the subsequent years), the coverage of CIG and of the mobility allowance can be extended also, in case of business crises, to employees who in principle are not eligible. Since 2007 the management of the unemployment benefits 'on derogation', previously coordinated at the central level, has been partially delegated to the regions, which locally define (through agreements with trade unions and employers' associations) the field of application and the categories of potential beneficiaries, while central government is only requested to approve the proposals and the expected expenditures.

The introduction of the unemployment benefits 'on derogation', on the one hand, helped to reduce the adverse effects of specific firm or sectoral crises but, on the other hand, undoubtedly increased the fragmentation of the system, introducing a certain degree of discretion in the conditions for access to unemployment benefits.

At the end of 2008, in face of the business downturn and the subsequent unemployment crisis, some urgent measures appeared necessary. Accordingly, in October 2008 a governmental decree (DL 185 of 2008), transformed into law in January 2009 (Law 2/2009), widened the field of application of unemployment benefits 'on derogation'<sup>(49)</sup>. In particular, the coverage was extended to categories of workers previously not covered by those arrangements, like fixed-term employees, temporary agency workers and apprentices. Moreover, the ordinary unemployment benefit was also admitted for 'on derogation' schemes (in addition to the CIG and the mobility allowance), providing regional authorities with considerable autonomy in tailoring passive labour market policies on the characteristics of the local labour force.

As for the financing of these measures, which were previously financed by annual allocations from the National Employment Fund, an agreement between the central government and the regions was signed on 12 February 2009. This agreement probably represents the most innovative element of the whole programme. In fact, it established that a share (almost 30%) of the total allocated funds (worth EUR 8 billion for the period 2009–10) will be directly provided by the regions, through

(45) See CNEL (2007) for an estimation of the transition rates into unemployment from different contractual arrangements.

(46) Cassa Integrazione Guadagni, in its turn, can be 'ordinary' in case of temporary market fluctuations (with duration limited to 13 weeks within a year) or 'extraordinary' in case of industrial restructuring, structural business crisis or insolvency proceedings (the maximum duration, in this case, varies according to the specific cause and to the geographic area, but as a rule it cannot be longer than 36 months within 5 years).

(47) It should however be noted that access to the 'ordinary' CIG scheme (though limited to manufacturing firms) does not ask for any requirement in terms of firm size.

(48) This measure was included in the 2004 budget (Law 350/2003).

(49) The same law also introduced some new arrangements such as the provision of the ordinary and reduced unemployment benefits to temporarily suspended workers (in firms that cannot apply for the CIG) and to laid-off apprentices, as well as a specific lump-sum allowance for 'coordinated collaborators' working for a single employer (*regime di monocommittenza*) and matching specific income limits.

resources coming from the European Social Fund<sup>(50)</sup>. The aim of this two-pillar scheme is to provide integrated welfare-to-work policies, where the national funding will cover the largest share of the income support provision and the contributions to the social security system during the unemployment period (*contributi figurativi* — imputed social contributions), while the regional funding is expected to cover: (i) active labour market policies, (ii) training interventions and (iii) the remaining share of income support, in the form of an indemnity strictly linked to participation in the active policy measures.

While details on the agreement and on its functioning (after the amendments suggested by the European Commission) will be provided in the following paragraphs, it seems worth noting here that such an arrangement seems to comply with the guidelines provided by the communication 'A shared commitment for employment', released by the European Commission on 3 June 2009. In particular, the adopted provisions seem to agree with the 'upgrading skills, matching labour market needs' and with the 'increasing access to employment' axes, as long as effective training and retraining initiatives and active labour market policy (ALMP) programmes targeted to the most vulnerable groups will be financed under this framework. The 'maintaining employment' indication is surely achieved as far as CIG schemes (according to which workers are not laid off) are implemented. Moreover, the agreement seems to respond to the recommendation of making better use of Community funds, although an exhaustive evaluation of the issue cannot yet be made.

## 2. The measure and its expected impact on the policy challenge

The agreement between the government and the regions allocates extra funds coming from national resources and ESF regional operational programmes to unemployment benefits on derogation as well as to ALMPs for the period 2009–10, focusing on the needs of individuals who have been made redundant or whose job relationship is temporarily interrupted due to demand fluctuations or firm restructuring.

The objective of the agreement is to design specific measures enhancing the employability and adaptability of workers affected by the current economic crisis and to provide them with some income support. The initiatives to be adopted within such framework are basically aimed at: retraining and updating workers' skills in accordance with the professional needs of the firms; and helping redundant workers to find a new job through improvement or changes to their competences.

The envisaged measures define an integrated set of ALMPs — namely career counselling, traineeships, training schemes, skill assessment mechanisms, tutoring and conciliation services

— which will be likely to give a concrete support to the target groups in their back-to-work process or in the search for a new job. Furthermore, this active approach to employment policies is accompanied by the provision of a specific allowance to workers, which should be considered as a useful instrument to encourage them to participate in tailor-made retraining schemes, to actively look for a job and to update their skills.

Although the agreement does not introduce any change in terms of typology of actions and expenditures with respect to traditional ESF-funded activities, it does contain some features that need to be emphasised.

- The agreement is complementary with national programmes in the field of unemployment benefits on derogation.
- The workers are identified by name and involved in labour market reactivation programmes by public employment services (PES) and employment agencies, which have a key role in the management of the process.
- The target groups benefit from personalised training paths or are given training vouchers.
- The agreement requires stronger cooperation among the different governance levels (national, regional, provincial, etc).

## 3. Organisation, implementation and funding of the measure

According to the agreement, EUR8 billion will be allocated for the period 2009–10; EUR5.35 billion will come from national resources (in particular, EUR3.95 billion from the Fondo per le Aree Sottoutilizzate, FAS — Fund for Underutilised Areas) and EUR2.65 billion will come from regional resources, specifically from ESF regional operational programmes. National resources will fund the main part of the unemployment benefits as well as the payment of social contributions for the unemployed beneficiaries (*contributi figurativi*), whereas regional resources will be used to integrate the basic allowances and provide ALMP interventions. The decision to use resources of the FAS for interventions at the national level raised some critical remarks from some observers and regions because 85 % of FAS allocations should be transferred to the southern regions to foster their development.

The coherence of the agreement with the ESF regulation lies primarily in the 'employability' and 'adaptability' axes, but the possibility to use the 'social inclusion' axis of the regional operational programmes (ROPs) is also foreseen when it is justified by the target groups' characteristics. The national strategic framework (*Quadro Strategico Nazionale*, QSN) assigns a top priority to measures and policies targeting human resources (priority 1 — Improvement and development

(50) It should be remembered that the regions are the managing authorities of most of the Italian ESF operational programmes (about 86 % of the overall ESF contribution to Italy).

of human resources) and their employability (priority 7 — Competitiveness of production systems and employment). Indeed, the envisaged ESF co-funded initiatives aim at improving the adaptability and employability of workers affected by temporary or structural redundancies and, consequently, at reducing the risk of social exclusion.

Following the agreement, the government set up a working group with the regions and the autonomous provinces in order to: estimate the exact amount of financial resources to be provided by the national funds and the ESF ROPs; define the activities and the monitoring procedures and guidelines of the interventions; and prepare the documentation required to ensure the implementation of the activities. The results of these technical inquiries led, in April 2009, to the official launch of the agreement's measures.

Based on regular feedback with the European Commission about the feasibility and the implementation of such ESF-funded unemployment benefits and ALMP measures, the government identified the accounting procedures and other details concerning the eligibility of expenditures, the payment methods for worker allowances, the monitoring and evaluation rules to be followed at the end of the performance period and the role of the National Institute of Social Insurance (INPS). The INPS can be granted the authority to transfer the allowances on the basis of ad-hoc arrangements with the regions and has already provided specific guidelines to manage the process of unemployment benefits on derogation.

According to the agreement, starting from 2009 the ESF expenditures related to the implementation of the unemployment benefits and active labour market measures will be excluded from the domestic Stability Pact's thresholds and rules. In any case, two criteria are identified for assessing the eligibility of costs, i.e. there must exist: a clear correlation between the allowance and the active intervention that the workers participate in; as well as a balance (proportionality) between the expenditures and the allowance during the implementation period.

## 4. Performance and achievements

Systematic monitoring of the programme is not yet available, as its official launch occurred only in April 2009 and, in order to be fully operational, the regions have to sign agreements with social partners so as to define modalities and eligibility criteria. However, in May 2009 almost all regions had signed such agreements (a notable exception is Sicily).

Even if available data are, at the moment, still sparse and limited to some regions (for example, Veneto), a proper monitoring and evaluation process has been set out by the agreement. In particular, INPS, the Ministry of Labour (through its technical agency Italia Lavoro) and the regions themselves are committed to constantly monitoring the trend of expenditures, in order

to verify the adequacy of the allocated funds to the actual utilisation and, if necessary, to allow for fine-tuning the plan. The construction of a specific dataset including names and personal data (educational level, qualification, participation to requalification programmes, etc.) of beneficiaries, with monitoring purposes, is explicitly provided for by the Law 2/2009. The evaluation of the effects of active labour market policies is instead appointed to Italia Lavoro as well as to ISFOL — Istituto per lo Sviluppo della Formazione Professionale dei Lavoratori (the National Institute for Vocational Training). In this regard, it should be noted that one of the amendments made by the European Commission to the agreement explicitly requires the planning of an evaluation of the results of the whole programme immediately after its conclusion.

Apart from the monitoring and evaluation of the entire programme, it should be noted that ESF ROPs are subject to different evaluation stages (*ex ante*, interim and *ex post*). Accordingly, the interventions financed by regions with ESF resources will also be evaluated at the regional level.

As for the indicators which are best suited for the evaluation of the measures, among those included in the Commission's compendium<sup>(51)</sup>, those pertaining to 'activation/support' and 'new start/prevention' appear particularly relevant. Their computation will be carried out by combining PES administrative data on hiring and firing (*comunicazioni obbligatorie* — mandatory employment status communications) and on the participation to ALMPs and training activities with the database collecting information on the beneficiaries of unemployment benefits 'on derogation'.

## 5. Conclusions

The programme seems to provide an adequate response to the labour market consequences of the current business crisis. The main innovative features of the programme are related to the integration of active and passive measures, although some risks emerge in terms of a proper balance between these two components. Indeed, it will be extremely valuable to have an effective monitoring and evaluation mechanism in order to ensure the compliance of the funded measures with the ESF principles and rules, and to avoid any mismanagement of the resources.

A critical issue that is worth mentioning is related to the presence of some categories of beneficiaries of the ESF operational programmes that are not targeted by the programme, such as long-term unemployed, short-term unemployed who do not receive any unemployment benefit, some categories of atypical workers whose contracts have not been renewed, women re-entering the labour market and young people looking for their first job. It should be noted that these groups run the risk of being negatively affected in two ways: by not benefiting from the programme's actions and by being deprived of the ESF policies/resources which would have been otherwise addressed to them.

(51) Available on the Internet (<http://ec.europa.eu/social/main.jsp?catId=477&langId=en>).

Other critical issues involve the lack of universal coverage of the unemployment benefits on derogation (beneficiaries are selected on the basis of different criteria at the regional level) and therefore the possible occurrence of regional disparities in the implementation of measures. Some arbitrary allocation of resources seems to be unavoidable in the absence of a thorough and systematic reform of the unemployment benefit system.

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# Cyprus

## The international crisis and employment measures

### 1. Introduction

The global crisis has been slow in reaching the Republic of Cyprus (Cyprus). The conservatism of the banking sector and the careful supervisory practices of the Central Bank have averted heavy involvement in risky investments. Russian investors and others, who hold substantial deposits in commercial banks in Cyprus, have enjoyed relatively high deposit rates and have continued to treat Cypriot banks as safe. The substantial growth momentum that had built up since the most recent slowdown in 2003 continued and real GDP growth in 2008 was 3.7%, down only marginally from the 4.2% average of the previous 4 years. Real GDP growth in the last quarter of 2008 was 0.5% in Cyprus, compared with –1.8% in the euro area, and the harmonised unemployment rate in December 2008 was only 4.1%, compared with 4.0% in December 2007.

The crisis made itself felt gradually, through lower tourist visits and associated revenue and diminished interest by foreign investors in retirement and holiday housing. The slowdown in tourism and construction, felt initially and most keenly in the coastal areas, spread to other sectors and registered unemployment began to rise more broadly. Some business organisations have argued that the high interest rates prevailing in Cyprus also played a role in accentuating the slowdown. The quarter-to-quarter growth in real GDP slowed down to zero in 2009 Q1 compared with 1.1% during 2008 Q1 (real GDP growth in the euro area was –2.5% in 2009 Q1). A similar growth performance at annual rates occurred in April and May 2009. Registered unemployment rose and spread during the winter of 2009. By May 2009, the number of registered unemployed people was 15 158 compared with 9 253 in May 2008 — an increase of 63.8%. The decline in construction and economic activity led to a decrease in government revenues through lower land transfer fees and other indirect and direct taxes. The decline in government revenues eroded the 0.9% fiscal surplus as a percentage of GDP for 2008 and the Minister of Finance recently reported a 2.4% deficit for the first six months of 2009. Unless new sources of revenue can be found, the government's ability (see below) to continue to use fiscal levers to stimulate the economy and employment will be circumscribed, just as the crisis deepens.

The following sections discuss what has been done until now and what the prospects are for continued fiscal stimulus in the near future.

## 2. Measures to stimulate the economy

### 2.1. Initial measures for the most immediately affected sectors

While it evaluated options, expecting a longer lag with which the global recession may affect Cyprus, the government initially attempted to hang on to the fiscal surplus as a percentage of GDP that had emerged during 2007 (3.4%) and 2008 (0.9%). However, pressures from the construction and tourism lobbies and a genuine fear of erosion in macroeconomic confidence and a deepening crisis led it to announce a package of measures. These were approved by the Council of Ministers on 3 February 2009 and were announced by the President on the same day. The total package amounted to approximately EUR300 million. This was about 1.8% of the 2008 GDP of approximately EUR17 billion. The fiscal surplus for 2008 (Deltio Ikonomikis Anaskopisis, November 2008 — Ministry of Finance) was EUR164 million, also a substantial number. Thus, a sizeable package was put in place. The figure of 1.8% of GDP exceeds the guideline in the European economic recovery plan (Pillar I) of 1.5% of GDP. The measures announced in February 2009 were, in fact, temporary, as suggested by the European economic recovery plan. These measures added to earlier announcements that infrastructure projects would be accelerated (European economic recovery plan, Pillar II) and the advertising budget of the Cyprus Tourism Office increased.

The measures announced in February 2009 were targeted. About EUR250 million was devoted to strengthening the construction sector. In particular, EUR200 million was made available via the body (Organismos Xrimatodotisis Stegis — Housing Finance Organisation) which helps finance the acquisition of first housing by young couples of modest means (family income up to EUR40 000 annually). Funding for houses up to 200 square metres was supplied at zero interest for the first 2 years and, thereafter, at the rates that will be charged by this organisation. This measure will run over the period 2009–13. A further EUR54 million was budgeted for refugee housing (EUR30 million), school construction and repairs (EUR20 million), and social support and local government needs (EUR4 million).

Some EUR51 million was targeted for the tourism industry. Taxes for overnight accommodation at hotels, normally paid to local authorities, would be covered by the central government. This measure will run for the period April to December 2009, and cost approximately EUR10 million. The rate at which value added tax is charged on overnight accommodation in hotels has been reduced from 8% to 5%. This measure will cover the period May 2009 to April 2010 and will cost approximately EUR15 million. Landing fees at airports have been reduced, a measure that will hold for the period April to December 2009, and will cost approximately EUR16 million. Finally, a new measure to subsidise vacations within Cyprus for low-income individuals, pensioners, welfare recipients and people with disabilities was also introduced. This measure will apply during the summer

months of 2009 and cost approximately EUR 10 million. The government expected that price declines initiated by hoteliers would amplify the beneficial effects of these measures, helping Cyprus to remain competitive. However, the impact on prices is, in practice, difficult to measure and there have been claims that hoteliers have not matched the cost declines initiated by the government.

## 2.2. Labour market measures

From the beginning of the global crisis, the Ministry of Labour and Social Insurance (MLSI) has been investigating desirable interventions, through its own departments as well as in collaboration with other government units. It has made a number of announcements relating to employment policy. These include stricter monitoring of illegal work and tougher approval procedures for workers from third countries.

An important set of initiatives involves collaboration between the MLSI and other units such as the Human Resources Development Authority (HRDA), the Productivity Centre (PC) and the Higher Hotel Institute of Cyprus (HHIC). These initiatives include both a new programme as well as the reactivation of pre-existing programmes. A new scheme, put into effect on 1 March 2009 (to last initially for one year), aims to offer up to 1 000 individuals, who have become unemployed due to the crisis, training aimed at helping them re-enter the labour market. The scheme is offered with the HRDA at the helm but involving also the PC and the HHIC. The latter two units will be responsible for planning and implementing the training programmes, including the certification of the successful participants. The HRDA will be monitoring and be responsible for paying the cost of the trainers, the subsidies offered to the unemployed participants in the programme, the social security contributions of the participants, and their employer-equivalent accident insurance coverage. The Department of Labour, within the MLSI, will inform the unemployed about the programme and deal with organisational issues involving their number, characteristics and geographical distribution. The cost of the programme for approximately 1 000 individuals (involving 60 contact hours) is estimated to be about EUR 1 040 000. In light of the increase in the number of unemployed people over the last year (5 905 individuals) in all educational categories, the programme aims to deal with the needs of a significant proportion of the unemployed. Existing documentation on the programme mentions needs in construction, hotels and tourism and trade. While it is certainly the case that these are the areas most immediately affected by the crisis, a question that may be raised about the programme is whether these individuals should aim for re-employment in the same sector once the international crisis and its manifestations in Cyprus abate or whether new areas of need will emerge, especially in light of the ongoing restructuring of the economy towards activities which have higher added value.

Three other programmes, spearheaded by the HRDA, that address needs that have emerged or have become more acute because of the international crisis had existed in a similar form in the past but have been reactivated. One such programme,

which will be in effect between January 2009 and December 2014, deals with new tertiary education graduates. The HRDA helps enterprises to enhance their human capital base and new tertiary education graduates to adapt to the needs and business culture of the enterprises in Cyprus. The number of unemployed tertiary education graduates increased by 1 250 (37%) between June 2008 and June 2009 and thus it is important and timely to continue programmes of this kind. This programme helps businesses absorb and utilise new graduates (within 3 years of qualification) from degree programmes of at least 3 years in duration, or postgraduate programmes, by stressing practical skills. These skills are to be offered by existing, suitable, employees of the firm. Individual programmes must be approved by the HRDA, following application by an enterprise which has already employed a tertiary education graduate. The programme lasts for 6 or 12 months, depending on whether a graduate is placed in the same area of expertise as that acquired during his or her studies. After training the graduate must be placed in a pre-approved position. The possibility of transition to another area of work (albeit with the aid of a 12-month programme) is a useful aspect of this scheme at a time of labour market turbulence (due to the crisis and to restructuring). Also interesting is the positive discrimination of the programme in favour of small businesses: the subsidy offered by the programme may be as high as 80% of costs (direct training costs, supplies and the cost of devoting part of the graduate's working time to training) for small businesses, 70% for medium and 60% for large businesses.

The second programme that has been reactivated by the HRDA and should be useful, in light of the increase in the number of unemployed individuals with at most high school education <sup>(52)</sup> aims to provide initial skills quickly (within 12 to 25 weeks) in areas that are deemed by the HRDA to be experiencing labour shortages. The training includes placement in participating organisations and businesses, where relevant experience can be obtained. The programme covers the direct costs of training, as well as a weekly supplement to the trainees, their transportation costs, social insurance contributions and the employer-equivalent accident insurance. In areas where the system of professional qualifications has laid out the required skills, the programme aims to provide these specific skills. At the end of training, the individuals are awarded the appropriate certification, thus making their skills portable beyond the units where their experience was acquired. The scheme will be in effect over the period January 2009 to December 2014 and is expected to involve about 400 individuals (generally new school graduates) annually.

A third reactivated programme, to remain in effect between January 2009 and December 2014, is addressed at firms that may be having difficulty retaining employees, or employing them on a full-time basis, but which may find these options easier if these individuals were to receive some training. While not explicitly aimed at minimising the effects of the crisis, the HRDA views this programme as contributing through an increase in productivity. The programme is designed to strengthen both general and

(52) Between June 2008 and 2009 the number of unemployed primary school graduates increased by 1 677, or 91 %, while that of high school graduates increased by 2 639 individuals, or 58 %.

specific (to the firm) skills. The proportion of costs covered depends on the size of the firm and, in the case of general skills, it is the same as that in the first reactivated programme above. When skills are specific to the firm, the proportions are smaller, covering 45% of costs for small businesses, 35% for medium and 25% for large firms. It is anticipated that about 5 000 individuals will participate in this programme annually and that the total cost for the period covered will be in the region of EUR 10 million.

The district employment offices are obviously part of the strategy for dealing with the impact of the crisis. In addition to their normal activities, which now include individualised counselling, they will intensify their efforts to place unemployed workers in the training programmes mentioned above.

Another programme, the ESF-funded scheme for training unemployed and inactive females, is in effect. A scheme to encourage flexible (part-time) forms of employment is also running.

### 2.3. Stimulating demand

One concern that has been articulated relates to the level of borrowing rates in Cyprus. From the beginning of the crisis, these have remained higher than in the euro area. The government is attempting to maintain liquidity levels in commercial banks and is urging them to reduce their lending rates. A modest but steady decline in interest rates has already begun and this is likely to continue in the weeks ahead. The Minister of Finance and the Governor of the Central Bank have both urged commercial banks to reduce interest rates. As interest rates decline, more investment opportunities are likely to be implemented and some borrowing for consumption may occur.

Several other initiatives also have the effect of stimulating aggregate demand. Pensions, social assistance benefits and the wages of many groups are indexed to the cost of living. The basic allowance of welfare recipients was increased by 12%, at a cost of EUR 30 million. A scheme to encourage the vocational training and employment of public assistance recipients and encourage their reintegration into the labour market is being implemented at a cost of EUR 584 000. Pensioners in the social insurance scheme and public assistance recipients enjoyed an Easter allowance. Local authorities received subsidies for the construction of social care infrastructure at a cost of EUR 4 million. Minimum wages for groups not covered by collective bargaining agreements increased in July 2009.

### 2.4. Infrastructure development

A number of planned infrastructure projects have been speeded up. Several energy-saving initiatives for public- and private-sector buildings are being promoted. Airports and ports are being upgraded. A number of road-improvement projects are proceeding and public transport initiatives are planned. The building of schools and other government buildings, improvements to irrigation systems and some environmental projects are being speeded up. The broadband network

infrastructure is being extended to remote areas, possibly with funding from the Structural Funds. It is hoped that coverage of some areas will be provided by the European Agricultural Fund for Rural Development. The budget of the Research Promotion Foundation is being increased from EUR 10 million in 2006 to EUR 120 million by 2010.

## 3. Performance, achievements and prospects

In designing these measures, the government has been in close contact with social partners and their response has been generally good. The government's initial response to the international crisis was guarded, on the grounds that ill-effects for Cyprus would be felt later rather than earlier and that the fiscal capacity to deal with them should be available in the future. The slowdown in the construction industry and the economy generally has reduced the ability of the government to raise revenues, the fiscal surplus has turned into a deficit and the government's ability to be fiscally proactive in the future has been circumscribed. The fear that the 3% limit on the size of the fiscal deficit as a percentage of GDP may be exceeded is very real.

In light of these developments, the government has begun to seek ways to increase revenues through other sources. One long-standing issue has been the under-collection of income taxes and other levies. There is thought to be a chronic and substantial under-declaration of incomes by the self-employed and there are a number of outright collection problems pending. In addition, some employers have been slow at remitting their social security contributions. The government, following discussions with political parties, has announced its intention to be more aggressive in dealing with these issues. A second source of revenue, a building code and zone violation amnesty, has been discussed for a number of years: the government appears determined to tap this source of funds by offering an amnesty at a price. This is a reasonable policy. Many homeowners do not have titles because of these violations, resulting in a diminished ability to trade in the housing market. Foreign owners who may want to liquidate their investments are less able to do so because of the lack of titles. In the final analysis, there is no will by the government to undo building violations so nothing may be gained by postponing any action on this issue. The real concern lies in what credibility government regulation may have in the future, given a possible building amnesty and the tax amnesty which has preceded it.

If, indeed, the impact of the crisis is felt in 2010 more strongly than in 2009, as originally feared, the ability to raise funds through these and other means will influence the ability to stimulate the economy. While fiscal policy is the main lever under current monetary arrangements, the government needs also to concern itself with the level of interest rates.

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# Latvia

## The employment policy response to the crisis <sup>(53)</sup>

### 1. Introduction

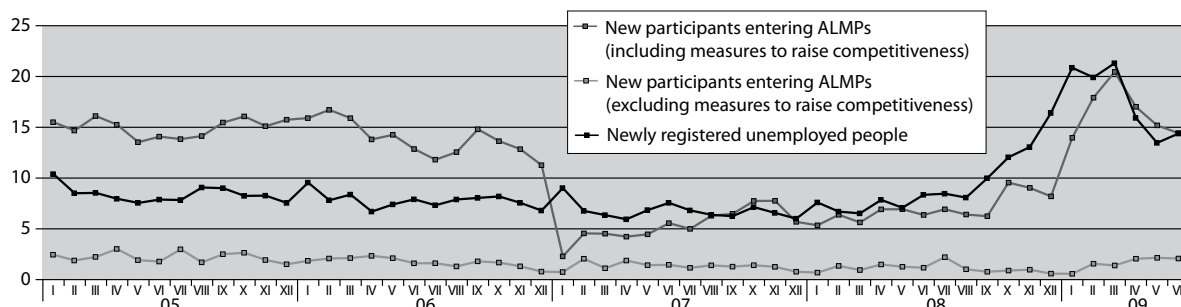
#### 1.1. Background and challenges

The challenge created by the economic crisis for employment policy in Latvia has been the great speed with which registered unemployment has risen — from around 50 000 in mid-2008 to very nearly 130 000 in mid-2009. The budget crisis of the Latvian government meant a cut in resources to deal with the growing number of unemployed people. Thus, at the operational level, the administrative resources available to the SEA have been cut by 24%, relative to 2008. As a result, the offices of the State Employment Agency (SEA) have been closed for a number of days in 2009, including every Friday in July 2009, as part of an austerity regime (SEA, 2009f). Figures 1 and 2 illustrate some of these developments.

Within this context, the main priority of Latvian employment policy has continued to be to implement measures aimed at raising and maintaining the professional qualifications of the workforce, thereby increasing its productivity and employability, including for the so-called special risk groups. This general theme has repeatedly been expressed by officials (Welfare Ministry, 2008; Welfare Ministry, 2009a) and is consistent with the stated goals both of the Latvian Lisbon reform programme (Ministry of Economics, 2005) and the country's plans for economic recovery through structural reforms, which among other things aims to increase productivity (Ministry of Finance, 2008). For the most part, the measures adopted have been traditional competitiveness-raising courses, requalification programmes and temporary paid work. However, as Figure 1 shows, the growth in the number of people participating in the ALMPs has been outpaced by growth in the number of people entering unemployment during the first half of 2009.

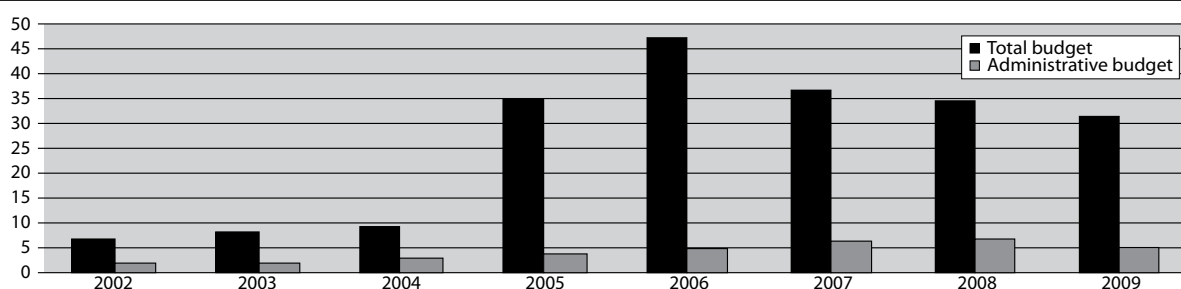
The most alarming consequence of these developments is that from the autumn of 2009 large numbers of unemployed people will no longer be eligible for unemployment benefit. The government's first priority has been to address this problem. The solution adopted is a programme of community jobs developed with help from the World Bank. In the context of crisis both in the labour market and the PES, major innovative measures have been hard to find, and innovation — where it appears — has come partly through a more flexible approach to training programmes and partly through a number of small-scale new initiatives.

**Figure 1: Developments in unemployment and in participation (thousands of people) in ALMPs <sup>(54)</sup>**



Source: State Employment Agency.

**Figure 2: Annual budget of Latvia's State Employment Agency (million LVL)**



Sources: State Employment Agency of Latvia; Latvian State Budget.

(53) The excellent contribution of Krisjanis Krustinš to this report is gratefully acknowledged by Alf Vanags, Sysdem expert for Latvia.

(54) 'Measures to raise competitiveness' is a term used by the SEA for a range of activities such as courses, seminars, lectures and individual consultations. Courses can be from 16 to 35 hours, seminars are 8 hours and lectures 5 hours. Consultations last one hour.

## 1.2. Overview of the new measures

The main new measures introduced include those described below.

- Community jobs. These are socially useful jobs provided by local authorities for people who have lost their unemployment benefit entitlement. The programme is in line with the European Commission's integrated guideline 17 and will focus on maintaining employment and upgrading skills.
- More flexibility is being introduced to various training programmes, removing bureaucratic obstacles to participating in them and making them more accessible (Latvijas Vēstnesis, 2009a, 2009b). Also, a new voucher system is expected to introduce more flexibility and competition in the provision of education and training for the unemployed. These measures address, in particular, integrated guidelines 24 and 17, and focus on the priority upgrading skills and matching labour market needs (Council of the European Union, 2008).
- New initiatives include a variety of measures to assist the unemployed in starting their own businesses and becoming self-employed through financial and/or advisory support (SEA, 2008b). This measure is in line with the integrated guidelines 17, 18 and 21, and focuses on the priority of maintaining employment and creating jobs (Council of the European Union, 2008).

## 2. Description, implementation and evaluation of the measures

### 2.1. Community jobs

This is a major emergency measure introduced by the Latvian authorities with the help of the World Bank to deal with the large numbers of unemployed people expected to come off unemployment benefit from the autumn of 2009 onwards. The aim of the measure is twofold:

- to maintain income after unemployment benefit entitlement has ceased;
- to enable people to maintain and improve their skills through work practice.

Each community job is meant to be a 'new job' and must last for at least two weeks and not more than six months.

The programme will be implemented jointly by local authorities and the SEA. The local authorities have an obligation to provide a job that is worthwhile to society, while the agency will provide funds to cover the allowance received by the workers, their transportation costs incurred when getting to the workplace, and the costs of equipment and infrastructure necessary for the job. The current programme is due to run from September 2009 to December 2010 and is expected to involve 17 800 unemployed people in 2009 and 17 600 in 2010. The total cost will be LVL 24 million (EUR 36 million) with the majority of the funding coming from the ESF. In practice, this programme will be a continuation of the current temporary paid jobs programme, but the financing has been shifted from the state budget to the ESF (Neatkarīgā Rīta Avīze, 2009; SEA, 2009g).

Since this measure is effectively a continuation of the previous temporary paid jobs programme under a new source of financing, it can be (and, in fact, has been) evaluated. The fulfilment of the first of its objectives (providing income) is straightforward to assess. Looking at the number of participants in the programme, the target numbers were actually exceeded by about 130 % in 2008. Also, in a survey conducted by the SEA, 82 % of participants claimed to be satisfied with the programme and 88 % saw benefit in the material rewards it offered (SEA, 2008a). In that sense, this measure has been a success. However, only 11 % of participants believed that it would improve their chances of finding a job in the future, and only 17 % valued the practical experience gained (SEA, 2008a). This casts doubt on whether the objective of improving skills is being successfully achieved, which is not surprising, given the low- or unskilled jobs involved. Another possible problem is that the current planned number of participants may not be enough — there are discussions of 50 000 to 100 000 participants as being a more realistic estimation of the number of people involved.

### 2.2. More flexible approaches to training programmes

The flexible approach to training appears in a number of different forms. First of all, legislation was introduced on 18 June 2009 to allow access to state-funded training and retraining programmes not only for unemployed people, but also for people at a risk of becoming unemployed because of the recession. This introduces a more preventive approach to unemployment, whereby the potentially jobless have an incentive to undertake training while still in work and to look for a new job while studying<sup>(55)</sup>. This programme is expected to start in September 2009 and to last until December 2013. It has a budget of LVL 10 million (EUR 15 million) and will be implemented by the SEA together with educational institutions. It is expected to accommodate 11 000 participants, who will be provided with allowances and training vouchers of up to LVL 500 (EUR 750) (Welfare Ministry, 2009b).

(55) The June 2009 amendments to the law also allow a person to finish qualification-raising courses if he or she loses their 'unemployed' status.

Another flexibility initiative, following an example from Germany, is the introduction of a voucher system, whereby those who participate in qualification raising programmes will now be able to choose the institution for their education or training. The funding is now based on the individual's decision. In contrast, state funding has hitherto been allocated directly to institutions. The new system will be introduced from September 2009. With this change, it is hoped that the competition will improve the quality of the skills and knowledge that the unemployed can get and that the private sector will take on some functions formerly performed by the state (Latvijas Vēstnesis, 2009b).

The voucher system will be implemented through three projects:

- the project discussed above for people at risk of unemployment because of global economic crisis;
- a new lifelong learning initiative for workers over 25, due to run from 2010 to 2013 with a budget of LVL 5.4 million (EUR 7.7 million). It is expected to involve 25 000 people;
- an initiative to promote the professional education of people who already have higher education. This programme will start in 2010.

The voucher programme has not been costed but will offer vouchers worth up to LVL 1 000 (EUR 1422) and monthly allowances of LVL 70 (EUR 100) for 1 500 people for up to 18 months. The main aim of the voucher system is to generate some competition in the market for the provision of education and training for the unemployed, which has for many years been dominated by established traditional providers (Welfare Ministry, 2009b).

Thirdly, since late autumn of 2008, and substantially more so in 2009, the state has offered employers the opportunity to take unskilled employees as apprentices in professions that do not require an official state-issued educational certificate, or where the unemployed person has obtained a professional qualification but has lost the relevant skills. The state pays both for training and employing the person during the apprenticeship period. This introduces an element of public-private partnership into the state's employment policy. The employment agency and the employer sign a contract where the former provides financing and the latter pledges to provide training and at least six months' employment afterwards. The agency is to ensure a fair selection of participants, and perform a supervisory function (SEA, 2009c). In 2008, when the initiative began, 93 unemployed people participated, but it is planned to involve at least 400 people in this programme during 2009 (SEA, 2009b).

All of the above measures and initiatives are largely funded by the ESF (SEA, 2009d).

In terms of monitoring and evaluation of these more flexible approaches, most of the aforementioned initiatives are yet to be implemented and hence it is too early to discuss any results. An important aspect of monitoring of the voucher schemes is to ensure that there is de facto competition among potential

providers of services, since there is clearly an incentive for incumbent traditional providers to resist new entry. More routinely, with respect to monitoring the results of these programmes, employment rates and derived indicators (i.e. indicators 17.M1–17.M5, 17.A1–17.A4) from the EMCO 24.06.09 compendium are obvious aggregate indicators (Employment Committee, 2009). However, it is almost impossible to identify the impact of more flexible training programmes on such aggregate indicators. A standard alternative is to look at the number or share of programme participants that have found a job within a given period. But this too is fraught with difficulties. So far in 2009, only 13.6% of participants undertaking professional qualification measures have found a job, compared with the normal figure of 60–70%, a figure that is clearly the result of the business cycle.

## 2.3. Promotion of self-employment and entrepreneurship

This measure is targeted at those unemployed people who already have some kind of business-related education, or some other formal or informal education. The purpose of the measure is to develop entrepreneurship and thereby create new jobs for the unemployed. Within the context of the programme, consultations (a total of 20 over three months) and advice are offered to programme participants as they develop their own business plans. Those are afterwards evaluated. Each business plan approved and chosen to be implemented receives start-up financing of up to LVL 4 000 (EUR 5 700), coupled with an allowance to the entrepreneur equal to the minimum wage for the first three months of the implementation of the business plan.

The role of the state, through the employment agency, is (by a public procurement procedure) to choose and contract the experts and consultants who evaluate the business plans. It also selects the most suitable candidates for support in writing their business plans. Afterwards, it performs a supervisory function, ensuring that all the sides fulfil their obligations, and a coordinating function, informing participants of the extent of their obligations, rights and eligible support, providing them with the actual financing and tracking the performance of the new start-ups. If the business plan is approved, a contract is also formed between the agency and the person receiving the support about creating the new venture in accordance with the approved plan and the law (SEA, 2008b).

In 2009, the SEA aims to involve 270 people in this activity, with the best 80 receiving financial help in starting their businesses. This year, this project has become one of the agency's priorities. In comparison, only 90 people received consultations in 2008 and just 20 of them started their businesses. All financing comes from Latvia's state budget (SEA, 2008a, 2008b).

In terms of the indicators in the Commission's compendium, this programme's impact would show in the employment rate in newly established enterprises (21.A6) (Employment Committee, 2009). However, it would be hard to identify the effect of the programme on such an aggregate figure. Overall,

the indicators for guideline 21, which entails the promotion of transition into self-employment, are inadequate when looking at the effects of this measure. A more informative approach would be simply to do case studies and examine the new businesses and jobs that have been created by this measure. A more sophisticated approach would be an econometric study of the factors determining the number of business start-ups and transitions into self-employment, where the participation in the programme could be a potential explanatory variable.

This measure has not yet been evaluated. While it might lead to individual success stories, its scope may well be too small to have a major economic impact, especially if the business plans involve the creation of sole proprietorships (e.g. hairdressing services). Requiring participants to have a business-related educational background severely limits the range of people who can benefit from this measure, while not necessarily improving the quality of the businesses created. Lastly, unemployed people are not necessarily those with the best business ideas.

### 3. Conclusions

The major thrust of Latvia's policy response to the crisis is the community jobs programme. This is a standard public works programme designed to provide temporary jobs and income support for those who have reached the end of their entitlement to unemployment benefit.

The voucher scheme which is being phased in represents a genuine innovation in Latvia. If it is not hijacked by incumbent providers, it could be just the right mechanism for generating a radical improvement in the quality and relevance of the training and educational programmes available to the unemployed.

Finally, it is regrettable that in the circumstances when unemployment is growing rapidly and there is a need for new activities and policy measures to combat this, the budget of the institution responsible (Latvia's State Employment Agency) has actually been cut.

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# Lithuania

## Amendments to the Law on Support for Employment

### 1. Introduction

The situation in the Lithuanian labour market has been deteriorating rapidly since autumn 2008. According to Eurostat, the unemployment level has tripled in Lithuania within the year, from 4.7% in May 2008 to 9% in December, and further up to 14.3% in May 2009. The rapid rise in unemployment was accompanied by a growing rush of unemployed people to territorial labour exchanges (TLE, public employment services in Lithuania).

The Law on Support for Employment, which came into effect during the economic upturn in the country (on 1 August 2006), was designed for a labour market with low unemployment rates and unlimited funding possibilities for active labour market policy measures (ALMP). A major change in the situation required an adjustment to the legislative framework governing employment policies. On 16 June 2009, the Seimas (Parliament) adopted the Law Amending the Law on Support for Employment (LALSE).

The following are the main objectives of the amendments to the law:

- more flexible application of ALMP and involvement of a larger number of unemployed people;
- assisting enterprises to avoid unnecessary reduction of jobs;
- promoting labour mobility;
- support to self-employment and entrepreneurship;
- promoting subsidised jobs;
- creating conditions for a quicker integration of long-term unemployed people into the labour market; and
- strengthening cooperation with employers in the formulation and implementation of employment policies.

The amendments support the long-term and medium-term employment policy objectives set out in the European employment strategy and, taken as a whole, would serve to increase the supply of labour, reduce unemployment and inactivity, and seek full employment. These measures are in full compliance with the key priorities set out in the Commission's communication 'A shared commitment to employment'.

New or better defined employment support policy measures support the employment policy objectives set in the national reform programme 2008–10 by attracting as many people as

possible to the labour market, promoting the attitude to work throughout the life-cycle, modernising the labour market by increasing flexibility of labour relations and enhancing the role of social partners.

This article discusses the three most innovative policies and measures entrenched in the law:

- extension of public works;
- support for the territorial mobility of the unemployed; and
- support for integration of inactive people into the labour market by creating conditions to balance work and family responsibilities.

### 2. The measures and their expected impact on the policy challenges

#### 2.1. Public works

From 1 August 2009, the LALSE (Article 28) extended the scope of public works and the list of eligible public works, as well as introducing supplementary funding sources. The main innovation in the law is that it creates conditions to assist employees of enterprises undergoing economic difficulties (experiencing lay-offs, faced with poor sales of products) to obtain temporary employment and recover, to a certain extent, the income lost due to the enterprise's problems.

A target group includes employees from enterprises, agencies, organisations or other organisational structures, irrespective of their form of ownership, exposed to lay-offs and part-time work.

This measure is aimed at helping to maintain and/or develop social infrastructure of the local community and to preserve jobs in enterprises undergoing economic difficulties.

Enterprises organise public works for their workers on part-time work and can employ them for jobs that are useful to the enterprise or the community, e.g. to improve the environment of the enterprise and/or neighbourhood, and to carry out repair works.

#### 2.2. Support for territorial mobility of unemployed people

After repeated recommendations from the European Commission, the LALSE (Article 33) has finally created conditions and a mechanism to overcome, at least to a certain extent, structural unemployment by using national labour potential. It has introduced a mechanism promoting the territorial mobility of jobseekers.

This measure is aimed at supporting unemployed people to be employed further from their places of residence when the TLE has no job offers suitable for unemployed people in their place of residence.

Transportation costs for formerly jobless people working further from home will be compensated by the TLE. The compensation will be paid for three months when travel costs exceed 20% of a worker's wage if it is lower than two minimum monthly wages (LTL 1 600; EUR 464). Accommodation costs will be compensated if a person travels to work once per working week or less. Monthly compensation of these costs will not exceed half of the minimum monthly wage (i.e. LTL 800; EUR 232).

## 2.3. Subsidies for employment of inactive people

The LALSE introduced a very important measure to assist employment of individuals not participating in the labour market due to family related circumstances. Family members capable of work are often deprived of an opportunity to work because they have care responsibilities.

The target group is people looking after sick or disabled family members for whom permanent care or nursing is required. There are around 30 000 people in families with disabled children under 16 and unemployed carers (mothers and fathers).

This measure is aimed at creating conditions for inactive people to enter employment through subsidised employment.

The LALSE introduced a new practice, to subsidise jobs, with an unusual combination of actions. Having completed vocational training courses and acquired the qualifications of assistant social workers, unemployed individuals are supported (through subsidised jobs), if such employment creates conditions for resuming employment by people who were not able to work earlier due family care responsibilities. Likewise, the LALSE stipulated that people registered with a PES, who look after their sick or disabled family members for whom permanent care or nursing is required, are to be additionally supported in the labour market. Employers of such people can receive subsidies for their employment.

# 3. Organisation, implementation and funding of the measures

Impacts of the financial and economic crisis and a rapid increase in unemployment and the number of jobless social insurance beneficiaries called for a review and redirection of financial resources earmarked for the implementation of labour market

policy in 2009. Having regard to the limited resources of the Employment Fund (EF, comprising a part of the State Social Insurance Fund), a decision was made to make use of as much ESF funding as possible, for funding ALMP and to use the EF for passive labour market policy measures, i.e. the payment of unemployment social insurance benefits. In 2009, around LTL 257 million (EUR 74.4 million) is planned for ALMP from EU Structural Funds, the state's budget and the EF, 1.75 times more than in 2008.

The LALSE contains several new provisions enabling increased participation of stakeholders in tackling employment-related problems at the local level and improving organisation and management of labour market policy measures. Article 11 of the law stipulates that 'representatives of organisations and local communities representing the interests of jobseeker groups may participate, with a deliberative vote, in the activities of tripartite councils (committees, commissions) established at the authorities implementing employment support policy and to submit recommendations to such authorities on better tackling of jobseekers' employment issues'.

## 3.1. Public works

Public works is one of the key measures organised by TLEs in close cooperation with representatives of local authorities and employers. This is the only way to match efficiently the interests of TLE's customers and the local community. According to the LALSE, public works can be financed from: EF's sources; municipal funds; EU Structural Funds; and employers' funds.

In March 2009, a project on supporting temporary employment was launched with the view to organising public works and providing jobs for 30 000 people (unemployed, employees given a notice of dismissal and employees from enterprises undergoing economic difficulties). The project is to be implemented in two stages: from March 2009 (to the tune of LTL 18 million; EUR 5.2 million) and from August 2009, i.e. after coming under the remit of the LALSE (to the tune of LTL 40 million; EUR 11.5 million). Employment of between 20 000 and 22 000 jobless people and part-time workers is expected during the second stage, which is fully financed by the ESF.

The conditions and organisation of public works will be defined in the implementation Act which is still in preparation.

## 3.2. Support for the territorial mobility of unemployed people

Promoting labour mobility is foreseen as one of the key tasks of the internal labour migration promotion programme for 2008–10 (as approved by the government in 2008). According to this programme, implementation of programmes promoting territorial mobility of the unemployed will be started in 2010. The amount earmarked for its implementation is LTL 1 million (EUR 280 000).

Support to territorial mobility of unemployed people is expected to be implemented in close cooperation between TLEs and local authorities. Its funding is envisaged both from the EF and the ESF, although agreement as to the amount of the ESG funds has not yet been reached.

### 3.3. Subsidies for employment of inactive people

Employers who employ jobless people with the qualifications of assistant social workers and people (registered as unemployed) looking after their sick or disabled family members are to be paid subsidies for wages paid and partial compensation of compulsory state social insurance contributions of the insured (hereafter referred to as 'the wage subsidy').

Subsidies paid by TLEs would amount to half of estimated wages (or a half of total employer's costs for an employee's wage), but no more than two monthly minimum wages (LTL 1 600; EUR 464). The wage subsidy is to be paid for a period up to 12 months.

Agencies and non-governmental organisations providing social services are considered to be employers of jobless people with qualifications of assistant social workers.

The conditions and procedure for the subsidies will be defined in the implementation Act which is still in preparation.

## 4. Performance and achievements

### 4.1. Public works

In order to organise public works for their employees, employers have to submit a proposal to the TLE. Such proposals should specify the reasons for intended implementation of public works (such as forced lay-offs, part-time work), the number of employees exposed to forced lay-offs or part-time work and the number of employees given notices of dismissal, the nature and scope of intended public works, as well as working time limits. Documentary proof of forced lay-offs or part-time work for reasons beyond employees' control should be enclosed with the proposals.

It is not yet clearly defined how to formalise employment relations in the enterprises which organise public works for their employees (the description of the procedure is in progress). Most probably, employers will sign agreements with TLEs on the performance of certain works, and original employment contracts of workers will be supplemented with an additional contract for carrying out public works. TLE funds will be used to pay the remuneration of the employees on public works.

Organisation of public works for enterprise employees is a completely new measure. The needs of enterprises for

organisation of such works have not been assessed. An *ex ante* assessment of the expected efficiency and effectiveness of the measure has not been carried out. In future, indicator 19.A6 — of the Commission's compendium — could be used for the assessment of efficiency.

The implementation of this measure may face certain difficulties. On the one hand, the level of employers' interest in applying for this form of support will depend on the level of bureaucratic demands and the maximum period of the support. On the other hand, sufficient control of work undertaken and their funding needs to be ensured. Special emphasis should be placed on the collaboration of social partners (representatives of public authorities, employers and employees as well as local communities) in the implementation of this measure. Unfortunately, the social engagement of employers and their cooperation with the local community is very low in Lithuania. This may also reduce efficiency of the measure.

### 4.2. Support for territorial mobility of unemployed people

In order to receive compensation for commuting expenses, jobless people employed far from home need to file application with the TLE for compensation of travel and/or accommodation costs, employer's verification of gross wage and the number of days worked, as well as documentary proof of expenses (such as travel tickets, accommodation leasing agreement, rent payment receipt).

This measure is new in Lithuania. According to officials involved in its preparation, it should be popular, subject to cooperation between neighbouring TLEs. An *ex ante* assessment, or simulation, has not been carried out.

There are several criticisms of this measure. On the one hand, its introduction is overdue as it was badly needed when there was a shortage of labour. In the present situation with labour supply (the number of unemployed) exceeding labour demand (registered job vacancies) by 7 to 10 times, and the EF badly lacking funds, financial support for territorial mobility is difficult to justify. The duration of the payment (three months) seems to be very short in light of the current economic crisis. Some bureaucratic requirements (e.g. to submit an accommodation lease agreement and rent payment receipt) will also impede the implementation of the measure.

### 4.3. Subsidies for employment of inactive people

This measure is completely new and it is, therefore, very difficult to forecast its implementation and achievement, and any of the anticipated results.

For inactive people looking after their family members to benefit from subsidised employment, they first have to become registered with the PES as unemployed. In most cases, these

people cannot withdraw from nursing or care and register with labour exchanges because they do not meet the definition of the unemployed. Accordingly, they are not able to seek jobs actively and participate in ALMP measures; they do not have direct contacts with the TLE and are not informed about available help. It is for TLEs to obtain information from local authorities about such people, introduce new employment opportunities to them, find agencies and organisations providing social services and which are likely to employ jobless people with the qualifications of assistant social workers, which would substitute the care-giving family members. These activities require a strong partnership at the local level and substantial personal effort.

If successfully implemented, the measure could be useful under future conditions of growing unemployment.

For the implementation of all three measures, there is also a danger that insufficient funding resources in the Employment Fund will impede their implementation. Therefore, a realistic impact of such amendments could be discussed only at the end of 2009.

## 5. Conclusions

In general, the three measures described above are to be evaluated as positive. They aim to increase employment and facilitate access to the labour market. They would prevent unnecessary loss of jobs in the enterprises undergoing temporary difficulties as a result of short-term irregularities in demand, offer more job opportunities and improve the activities of employment policy authorities. These measures imply an active participation of social partners in tackling unemployment-related problems at the local level, as this is the only way to reduce consequences of the financial crisis on employment and mitigate social tensions. However, as mentioned above, poor de facto collaboration of social partners at the local level can impede the implementation of the measures.

The Communication for the spring 2009 European Council suggests the Member States focus on keeping people in employment, notably by providing financial support to short-time working arrangements. Organisation of public works in enterprises, as introduced in the LALSE, fully conforms to this idea. Support to territorial mobility of unemployed people contributes to promoting mobility and matching labour supply and demand at the national level. Support to people who have to look after their family members for various reasons and are therefore not able to find proper jobs would increase access to employment, concurrently guaranteeing creation of new

jobs and maintaining employment levels. Jobless people obtaining qualifications of assistant social workers would have a significant practical benefit enabling formerly inactive people to resume employment.

Despite several positive aspects of the measures described above, certain constraints prevail in the current employment support system. Changes in labour market policy require a fundamental review of the methods of working in the TLEs. Relations should be strengthened with local communities, non-governmental organisations, and social care units of local authorities. Joint actions should be taken to help individuals most affected by the crisis. Accordingly, the implementation of the new employment support measures will depend largely on the skills and motivations of TLE staff. However, the employment policies in the public sector currently pursued by the government (such as the reduction in the number of employees and wage cuts) may impede the timely and high-quality performance of LLE staff members, particularly in the light of additional efforts required and the ongoing increase of registered unemployed people.

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# Luxembourg

## The law on re-establishment of full employment (the solidarity economy)

### 1. Introduction

The following article presents new legislation (approved on 3 March 2009<sup>(56)</sup>) designed to re-establish full employment in Luxembourg, with the aim of regulating the 'solidarity economy'<sup>(57)</sup>. The main objective of the legislation is to create a legal and a financial framework for social initiatives to support the professional integration of those who encounter difficulties in entering the labour market, independent of the cyclical economic situation.

The first social initiatives to support the professional integration of unemployed people who have specific difficulties in entering the labour market were introduced in 1998. The main initiatives that emerged during that period were linked to the principal trade unions. Such initiatives still dominate this specific sector of professional integration (or reintegration): Objectif plein emploi ASBL (Full Employment Objective non-profit association)<sup>(58)</sup>, Proactif ASBL (Proactive non-profit association)<sup>(59)</sup> and Forum pour l'emploi ASBL (Forum for Employment non-profit association)<sup>(60)</sup>. Later, a number of smaller additional initiatives were implemented<sup>(61)</sup>. For these three main initiatives mentioned above, it is estimated that in 2008, around 1 600 people were supported<sup>(62)</sup> but no reliable data are available at the moment.

(56) Law of 3 March 2009 contributing to the re-establishment of full employment.

(57) Within the framework of this article and the law on the re-establishment of full employment, the term of solidarity economy refers to the employment measures which were originally created by the trade unions OGB-L and LCGB. In Luxembourg, the term is usually used in relation with these measures and also in relation to employment measures created later by other actors.

The new government will re-evaluate this sector as indicated in the new governmental programme (July 2009) and it might be possible that this 'popular' use will be clarified as, for instance, the National Statistical Institute of Luxembourg (STATEC) has proposed a definition (see Statec, 2005).

During recent years these employment measures have become an important pillar to cushion unemployment.

(58) <http://www.ope.lu>

(59) <http://www.proactif.lu>

(60) <http://www.fpe.lu/>

(61) Report of the Commission of work and employment, contributing to the re-establishment of full employment.

(62) The estimate is based on phone contacts and data available on the websites of the associations.

The National Statistical Institute of Luxembourg (Statec)<sup>(63)</sup> tried to estimate the situation of the social and solidarity economy in Luxembourg in March 2005. For this, the STATEC used the NACE<sup>(64)</sup> code 85.3 'social action', which comprised around 130 units with 6 500 employees in 2004. However, this code also incorporates, for instance, childcare, retirement or housing infrastructure. In addition, the Statec mentions the informal platform *Économie sociale et solidaire* (Social and solidarity economy)<sup>(65)</sup>, created in 2003 and currently made up of 13 associations. In 2005, the members of the platform had around 1 575 employees (of whom 527 were women). Within the platform, 1 387 people (of whom 326 were women) were working in associations acting in the field of professional reintegration<sup>(66)</sup>.

### 2. The measure and its expected impact on the policy challenge

The objective of the new legislation is to regulate state intervention in the organisation and funding of initiatives undertaken by employers for the professional integration of unemployed people with specific barriers to accessing the labour market. This is intended to be independent of the economic situation.

Originally, the first bill, registered at the House of Representatives in 2003, was intended to create a more adapted legal and financial framework for the 'solidarity economy' in Luxembourg. The bill has been under parliamentary examination for six years and amended four times during that period. This may underline the importance of the subject presented. The draft bill has been revised because of:

- the developments in unemployment in Luxembourg since 2003;
- critical comments made by the State Council and the professional chamber;
- the decision of the government and other stakeholders to reduce associated administrative charges; and
- the 2004 speech on the state of the nation by the Prime Minister Jean-Claude Juncker, which emphasised the importance of supporting those who become victims of the first employment market<sup>(67)</sup>.

(63) Statec 2005.

(64) NACE stands for *nomenclature générale des activités économiques dans la Communautés européennes* (general industrial classification of economic activities within the European Communities). Since 1990 the NACE code has become compulsory for the classification of companies in the Member States.

(65) [http://www.egca.lu/faisons\\_connaissance/plates\\_formes\\_sectorielles/plate\\_forme\\_economie\\_sociale\\_et\\_solidaire](http://www.egca.lu/faisons_connaissance/plates_formes_sectorielles/plate_forme_economie_sociale_et_solidaire)

(66) Statec, 2005.

(67) The first employment market is the 'normal' competitive labour market.

The structure of unemployment has changed over time in Luxembourg. The employment measures in the 1970s during the steel crisis aimed to fight the effects of unemployment<sup>(68)</sup>, while the policies established during the 1980s tried to consolidate employment and activate those who were excluded from the employment market. At the beginning of the 1980s, as youth unemployment increased, special professional integration measures were created for young people, offering vocational training alternating with internships in companies.

Within this framework, the idea was to create durable 'socioeconomic' services and activities that were provided neither by public services nor by private companies. This idea was very close to what is today called 'economic solidarity'. Later, the original bill of 2003 emphasised that the use of these special socioeconomic services would be restricted by a number of conditions, for example not to compromise the profitability of companies. Furthermore, a number of employment measures had been created in relation to the increased employment problems encountered by older workers. Finally, within the framework of the Luxembourg process, the law of 12 December 1999, implementing the 1998 national action plan (NAP), created a financial framework allowing the Fonds pour l'emploi (Employment Fund) to fund such activities at local level in the social economy and new activities linked to needs not yet addressed by the market (notably in the fields of urban renovation, the environment, the tourism industry, childcare and community support for families).

In comparison to the first version of the bill in 2003, the socioeconomic context has changed considerably. Between 2000 and 2001, job creation was around 5% a year and unemployment was limited to around 3%, which explains why the first version was referred to as the 'draft bill concerning the fight against social unemployment'. The draft bill emphasises that for economists, full employment is reached if unemployment rates oscillate around 4%.

Nevertheless, unemployment in Luxembourg was characterised by structural unemployment because of two main factors: the absence of qualifications has become a very discriminating factor within the framework of the 'emerging' knowledge society and secondly, the atypical characteristics of the Luxembourgish labour market, where 75% of the newly created jobs go to cross-border workers.

In addition, unemployed older workers, as well as some highly qualified unemployed people, encounter more and more problems to reintegrate into the labour market. For instance, in 2008 around 12% of unemployed people registered at the employment administration had a higher education qualification.

All these factors led the authorities to fight 'residential' unemployment by offering support as early as possible to unemployed people. The final idea behind the first bill was then

to reorganise the solidarity sector and the existing structures by a legal, more transparent framework. In addition, the original bill foresaw more equal treatment of private enterprises and the non-profit sector<sup>(69)</sup>, as well as to improve the coordination between the actors. Another important point considered for the development of the draft bill was an attitude change towards people or workers with reduced capabilities: a rethink has taken place that characterises itself by a preference for active measures instead of passive activation (instruments).

Meanwhile, taking into account the advice and the criticisms of the State Council and the social partners, as well as Luxembourg's economic situation (the unemployment rate jumped from 2.6% in 2003 to 5.2% in 2006), the draft bill has been reshaped as follows.

- Every employer having received the ministerial certification (see below) could be funded by public means. The new law puts companies from the private sector and those from the non-profit-sector on an equal footing.
- In the former draft bill, the non-profit sector had the possibility to confine the people in passive measures<sup>(70)</sup> by adding a new instrument to the existing ones in order to combat unemployment. This possibility has been eliminated by inciting employers to have recourse to the existing measures introduced by the December 2006 law<sup>(71)</sup>. This has been reinforced by a second amendment to the draft bill, which has abandoned the legal differentiation between integration and professional reintegration measures and socioeconomic activities. The law also foresees the possibility of funding permanent contracts for unemployed people who could not enter the labour market<sup>(72)</sup>.
- The 'follow-up committee' stipulated initially has been replaced by the reinforced role of the Service d'Accompagnement Personnalisé des Demandeurs d'Emploi (SAPDE — Personal Accompaniment Service for the Unemployed) of the Administration de l'emploi (ADEM — Public Employment Agency).
- The title of the law has been changed from 'Law relative to the fight against social unemployment' to 'Law contributing to the re-establishment of full-employment'.

On a European level, the revised legal framework designed around both activation measures and an individual supervised professional integration plan, as well as enlarging the sector to include the private sector, also fully matches the objectives of the Lisbon strategy (cf. integrated guideline 19 of Luxembourg's

(69) The 'non-profit sector' is usually co-funded by the state.

(70) Passive measures meant employment measures where, for instance, the unemployed person is not urged to reintegrate into the first competitive labour market. The risk is, in that case, that the employment measure might be a permanent solution for the unemployed. Active measures are characterised, among other things, by vocational training measures, which are improving the person's chances of professional integration or by time-limited contracts.

(71) [http://www.cdc.public.lu/instruments/loi\\_22\\_12\\_06.pdf](http://www.cdc.public.lu/instruments/loi_22_12_06.pdf)

(72) [http://www.gouvernement.lu/salle\\_presse/communiqués/2009/01-janvier/23-travail/index.html](http://www.gouvernement.lu/salle_presse/communiqués/2009/01-janvier/23-travail/index.html)

(68) For example, the law of 24 December 1977 authorising the government to undertake measures to stimulate economic growth and to maintain full employment. This was the implementation of the tripartite system in Luxembourg.

2005–08 and 2008–10 national reform programme) as well as priority 1 announced in the Council Decision 2005/600/EC of 12 July 2005 on the guidelines for the employment policies of the Member States.

More recently, a significant observation is worth taking into account. After the drafting of the new coalition agreements that followed the June national elections, Prime Minister Jean-Claude Juncker of the newly elected government has announced during the presentation of the new governmental programme<sup>(73)</sup> that the solidarity economy will become a third pillar of the economy and has underlined the introduction of a new legal instrument. In fact, within the new government, the Ministry of the Economy and Foreign Trade will be in charge of the solidarity economy dossier, a step that reflects well both an increased recognition and a fundamental challenge for the new government. The Prime Minister announced the implementation into the law of a new instrument, a new legal form of association, the so-called Association d'intérêt collectif (Collective Interest Association). As the 2009 law has already come into force, the Employment Fund will cover contingent expenses related to the infrastructure and staff while the new legal body is developed.

### 3. Organisation, implementation and funding of the measure

The organisation, implementation and the funding of the law on the 're-establishment of full employment' is described in Articles L. 591-1 to 593-9 of the Labour Code. Article L. 591-4 of the Labour Code confines the implementation and the follow-up of the socioeconomic activities and the professional integration or reintegration activities to the Employment Administration (ADEM). The ADEM also decides on the orientation of unemployed people towards a social initiative in favour of employment.

Regarding funding, the first social initiatives were co-funded by a European project 'Local agreement for employment' at 37.5 % (the state co-funded the same amount). As the European project was coming to an end the state covered 75 % of the budget, funded by the Employment Fund, and 25 % fell to the project bearer. However, it turned out that the legal framework, as well as the measures introduced by the law on the national action plan in 1999, was inadequate. In 2001, a new administrative and financial framework defining a certain number of criteria had been put in place leading to the practice of cooperative conventions between the Ministry of Labour and Employment and the initiatives. Finally, the situation had led to the draft bill on 'social unemployment' in 2003 in order to clarify, among other issues, financial transparency.

(73) <http://www.gouvernement.lu/gouvernement/programme-2009/declaration-2009/index.html>

One of the important innovations of the new law is that the funding is not limited to the social initiatives, but that every employer who has received the ministerial certification might be funded.

Employers who want to be co-funded by the state must have received the ministerial certification and signed a cooperation agreement with the Ministry of Labour and Employment. The projects will be funded by the Fonds pour l'emploi (Employment Fund).

The ministerial certification of employers is subject to a number of conditions, such as documentation of the supervisory measures, not to have been made bankrupt, and fulfilling all the legal obligations concerning commercial societies and associations. The ministerial certification could be time-limited but not for less than one year and it could be removed if the conditions are no longer respected or if the employer goes bankrupt.

The cooperation agreement is required if the employer wants to receive public funds. This agreement mentions, among other things, the supervising measures, the maximum contribution of the Employment Fund, the administrative procedures to allow a follow-up of the beneficiary, the financial management procedures, and the employer's accounts. The part of the participation by the Employment Fund for the costs linked to the payments for the beneficiaries will be decided by the Minister for Labour and Employment 'considering the advice of the director of the ADEM'.

In addition, the Employment Fund also funds the costs of the staff needed to organise the socioeconomic activities on the basis of a plan, describing the projected budget and the staff needed, submitted for the advice of the director of the ADEM and accepted by the Ministry of Labour and Employment.

Furthermore, the employers must present both an analytical accounting report and a yearly report to the Ministry of Labour and Employment. In addition, the yearly accounts must be verified by company auditors. However, as already noted previously, the implementation of the new legal form of association also establishes a period of transition.

The beneficiaries of socioeconomic measures or professional integration or reintegration measures could be employed with a *contrat appui emploi* (CAE — employment support contract) or a *contrat d'initiation à l'emploi* (CIE — job initiation contract or receiving any other working contract within the framework of common labour law). The payments within the framework of the CAE and the CIE are fully funded by the Employment Fund. Payments within the framework of a *stage de reinersion professionnelle* (professional reinsertion internship) will be reimbursed at 85 % by the Employment Fund. In addition, the people in the 'assistant pool' (unemployed people who assist the management of secondary schools within the framework of an employment measure) or unemployed people in special employment measures (Article 523-1 of the Labour Code) as well participating in training, seminars or other measures assigned by the ADEM, could participate in measures within the framework of these active employment activities.

In order to improve the integration opportunities of the beneficiaries, an individual integration trajectory will be designed by the employer after having established a *bilan de compétence* (skills audit), in cooperation with the ADEM and taking into account the education level and the last occupation of the beneficiary.

Finally, the employer is obliged to offer the beneficiary a job that is in line with his established profile and must inform the director of the ADEM if the contract with the beneficiary comes to an end or if it is terminated.

## 4. Performance and achievements

At the moment, the impact of the new law is still uncertain because of the possibility that new actors may benefit from the new legislative framework in order to enter the solidarity sector of the economy. It is also too early to get an overall picture as well as a detailed evaluation of the repercussions that the new legislation will entail on the ground, especially after the announcements of the Prime Minister on 29 July 2009 concerning the solidarity economy.

The impact of the economic crisis has increased the unemployment rate by 38.3% in comparison with June 2008, reaching 5.8%<sup>(74)</sup> in June 2009<sup>(75)</sup>. Taking into account all unemployed people who are in employment measures, the unemployment rate (in a wider sense) has reached 7%<sup>(76)</sup>. This may emphasise the new, reinforced role of the solidarity economy in Luxembourg.

Concerning the measurement of performance, the new law should allow a better assessment of the outcomes of professional integration regarding the content of the cooperation convention. The best indicator to follow the outcome of the measure would be long-term labour market integration.

## 5. Conclusions

The solidarity economy sector which this new law aims to create mainly concerns those in the field of professional integration of unemployed people who encounter specific problems in entering the labour market. The new law on the re-establishment of full employment, recently approved in March 2009, intends to create a definitive legal framework and to increase financial transparency, to open the sector to commercial actors and, finally, to increase the efficacy of the measures. Legal input will soon be available with the new form of association that has been recently discussed in the context of the formation of the new government. The lack of reliable data about the number of people concerned will eventually be rectified by further studies.

In conclusion, the approval of the legislation and the new regulation framework of the sector reflect the willingness of both the authorities and the social partners to efficiently absorb the disastrous impact of the economic crisis on employment and to fight unemployment generally. At this level, a new measure adds up to a series of employment instruments aiming at the same objective. This is especially the case when we consider the still ongoing financial and economic crisis that unexpectedly had a significant impact on the country and during which many employers have sought to alleviate the repercussions through efficient employment instruments.

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(74) Unemployment rate corrected for seasonable variations.

(75) [http://www.gouvernement.lu/salle\\_presse/communiqués/2009/07-juillet/29-com-conj/index.html](http://www.gouvernement.lu/salle_presse/communiqués/2009/07-juillet/29-com-conj/index.html)

(76) Idem.

# Hungary

A programme for micro, small and medium-sized enterprises to support a shorter working week combined with participation in training

## 1. Introduction

The employment rate in Hungary was 56.7% in 2008, almost 10 percentage points lower than the EU-25 average (66% — see Eurostat, 2009). Although an increase in the employment rate has been one of the primary targets for Hungary for some time, the economic crisis was the critical factor triggering the introduction or announcement of several important reforms. Legislation to decrease social security contributions, reform of the tax system to make work pay better, increase of VAT to shift the tax burden from income to consumption, a further increase in the retirement age and a shortening of the duration of standard maternity benefit are reforms adopted as part of the government's 'anti-crisis package'. These are all important steps, but because of their nature and the time lag in their introduction, only the first measure (a decrease in the social security contributions) can have a potentially positive immediate or short-term effect on employment. Lacking the same structural motivations, other measures aimed directly at addressing the effects of the crisis.

Many measures directly responding to the crisis have mostly an indirect effect on the labour market, such as supported loans provided to companies and insurance for export. These are important policy actions (in the order of billions of euro) and respond to one of the causes of the local crisis — uncertainty and the lack of liquidity. Crisis measures directly affecting the labour market had been, on the other hand, scarce for some time. These, however, do include an extension of ESF-funded ALMPs to those having become unemployed during the crisis, including a programme to keep employees at work, re-employ workers laid off because of the crisis and laying them off in such a way as to prepare them for the next job (in the form of the OFA<sup>(77)</sup> grants, funded to the tune of HUF 5.6 billion or EUR0.02 billion) and its successor.

The programme type discussed here is measure 2.3.3 in the social renewal operational programme (SROP) (referred to as measure 'T233' from now on). It aims to keep already employed individuals in their jobs and provide them with training, if they work for a company which has developed difficulties as a result of the crisis, but has the potential to survive. This particular measure (T233.A) was rolled out to micro, small and medium-sized enterprises, but a similar programme for larger enterprises was to be implemented by the end of summer 2009 (T233.B).

(77) OFA stands for the National Foundation for Employment (Országos Foglalkoztatási Közalapítvány).

The idea of T233 is not entirely new, but, as discussed below, it has certain features that make it an interesting example, including its connections to important EU level policies. The Commission's communication 'Shared commitment for employment' suggests three groups of methods for tackling the crisis: maintaining employment, creating jobs and promoting mobility; upgrading skills and matching labour market needs; and increasing access to employment. The T233 measure is an example of a relatively cautious method of tackling the crisis.

## 2. The programme and its expected impact on the policy challenge

The T233 programme provides financial support to micro, small and medium-sized enterprises with the medium and long-term aim of improving their competitiveness and with the short-term aim of preventing dismissals and an unnecessary decrease in employment due to the economic crisis. There are two identical streams of the programme available to firms in central Hungary and in the convergence regions, allocating 20% and 80% of the total HUF 20 billion (around EUR71 million) programme budget to these areas, respectively. From a financing point of view, there are yet another two streams of the programme. If total costs for a given firm stay below HUF150 million (EUR0.6 million), the programme can be financed without co-payment (version A), but above that a 20–30% co-payment is required (version B). Funding is provided by the Hungarian government and the European Social Fund (with varying proportions). The call for applications is open between May and December 2009.

The direct objective of the programme is to provide training to employees of selected companies within their regular working hours. The support provided is targeted at companies hit by the crisis, but having the potential to survive it; a condition determined by looking at the financial and performance indicators of firms. Micro, small and medium-sized enterprises (as defined in Decree 800/2008/EK) with more than five employees are eligible for support (non-profit organisations and firms with direct or indirect state ownership are not eligible). Training takes place during working hours, the employees are required to attend and they receive their full wages during the training period.

Participating companies have to organise a training programme (either themselves or through a contractor) for at least two employees, covering at least 20% of their usual contractual working time, with a minimum duration of 60 hours (in the case of full-time employees). The training programmes can last from 3 to 12 months. The content and form of the training programmes are not regulated. The support available per worker is 160% of almost all<sup>(78)</sup> wage costs for the time spent in training

(78) Gross wages, plus employers' and employees' social security contributions (both flat fee and proportional) are eligible for support, but the contribution towards vocational training (1.5% of the total wage cost) is not eligible.

(to cover the costs of extra commuting, learning materials, etc.), with a ceiling of twice the minimum wage, and a ceiling of HUF 1.3 million (EUR4815) on the total support per worker, including wages and training costs. Workers can participate in multiple training programmes, but only once in any of them. Companies are required to employ as many individuals as they did when signing the support contract for twice the duration of the contract period <sup>(79)</sup>. There are further minor requirements (cost caps) on the cost of training per worker. Advance payment is available, but the programme provides post-financing only.

Because very little is known about the size and characteristics of the target group and the total cost of administration, it is very hard to judge the potential impact of the programme. Clearly, much of the success of the programme depends on the screening of the potential beneficiary companies — this process is described later.

The programme's target group is clear only from an administrative point of view. For the target companies, the programme's benefit is that they can maintain the desired number of employees at a smaller cost. At the same time, it is the workers, not the companies, who receive the other benefit of the programme — training (depending on the specificity of the training, of course). This potential mix of active and passive support is one of the innovations of the policy, but also the critical point of the programme. On the one hand, indirect targeting of employees makes programme administration more difficult. The programme needs to be compatible with the *de minimis* requirements and other competition regulations. Version A also requires that its support is included in all state aid received until the end of 2010, making it less attractive to companies and thus reducing the likelihood of reaching the targeted workers. On the other hand, targeting companies is inefficient compared to targeting individuals, as there are likely to be inefficient companies which would cease to exist during the crisis, but the same is not true of individuals. Still, the solution chosen can be regarded as one of the better necessarily suboptimal solutions and only *ex post* evaluation will shed light on the size of the loss due to any mis-targeting.

### 3. Organisation, implementation and funding of the programme

The administration of the T233 programme is centralised, but with local stakeholder involvement in the pre-evaluation of the applications. The application framework and package is developed and provided by the National Development Agency, the body responsible for the operational programmes in general.

Necessary documents are provided through a website <sup>(80)</sup> and have to be submitted electronically as well as in hard copy to the ESZA Nonprofit Inc., acting as the intermediate body in many EU-funded grants.

Although the actual application is judged merely on the basis of formal criteria and details of the training programme, a pre-test is performed before the application process. In addition to the plan for the training programme, applicants have to produce a certificate from the tax authority proving the number of employees and a letter of support from the regional office of the Public Employment Service (PES). Through a series of tests, it is the PES office that acts as a *de facto* gatekeeper, transferring the nominally normative support to a regular grant in practice.

The letter of support is issued by the PES office if the company meets two requirements: one on the general standing of the company and another regarding the company's response strategy to the crisis. Both are important to minimise the programme's deadweight loss. The programme has to reach companies experiencing difficulties as a result of the economic crisis, but not because of other reasons, which are covered in the statement as to the general standing of the company. At the same time, the support should not go to companies that are not fit to survive the crisis, characterised by both the requirements for standing and a brief survey of the business plan extending until the end of 2010.

The general standing is assessed on the basis of financial data provided by the company, similarly to the way banks judge creditworthiness. Indeed, the problem is so similar <sup>(81)</sup> that the actual method was developed by the International Training Centre for Bankers, based on experience with the banking industry. The assessment is automatic through a spreadsheet application, comparing the performance in 2007 and 2008.

The feasibility of the company business plan is assessed through a questionnaire. The questionnaire includes parts in which prospective applicants have to provide a brief analysis of their business environment, describe the effect of the crisis on the company as well as their efforts to address it, and provide a brief financial and employment plan for the coming years. This plan is evaluated on a subjective basis and is supplemented by the institutional knowledge of the PES office about the local labour market (for example, more important employers are more likely to receive support).

In the actual application document, companies have to provide information on themselves and about the number of individuals provided with training. This has to be supplemented with

(79) This means that the workers have to be employed for the duration of the contract period and for an equally long period thereafter. The actual individuals employed can change before the programme has been rolled out, but not after that.

(80) Although a high level of professionalism is apparent in the application package, one cannot overlook the fact that obtaining sufficient information required for the application itself is by no means an easy task. Including all forms and pieces of information, the applicants have to download a total of 17 documents from several (connected) webpages. Although a highly legal wording used in the application forms could put administrative capacities of micro-enterprises to test, a fairly concise and informative description is provided in the related pages, which improves its accessibility.

(81) The problem here is slightly different from that faced by a bank (here, the best of the unsuccessful firms have to be selected), but sufficiently similar to build on the experience.

detailed summary statistics on the cost, length and other aspects of the training provided. Although no detailed plan for training is required, a brief discussion of the corporate adjustment strategy has to be provided. The procedure from the submission to signing the contract lasts approximately one month.

After having signed the contract for support, the recipients have to arrange the training programme and administer it. The contract does not prescribe fine details but, to control the successful delivery, the programme authority performs regular checks on the premises of the companies. As is the case with all grants within the operational programmes, actual payment is made only if documentation on expenditure is approved by the programme authority.

The programme is entirely organised and administered by governmental institutions. Within the government administration, there is no extra incentive in place for efficient programme delivery, except for the usual rewards within the public administration.

NGOs or social partners have no direct role in any part of the administration process, but they had the possibility — similarly to any Hungarian citizen or entity — to comment on the programme before its implementation (during May 2009). NGOs and other companies can join the programme as suppliers in the implementation phase, as the actual training programmes can be arranged either in-house, or contracted out to a market provider.

## 4. Performance and achievements

Clearly, good performance of the programme cannot be guaranteed *ex ante*, but adequate targeting, and streamlined and adaptive administration can help efficient delivery, whereas careful monitoring and evaluation can yield *ex post* insights into its success. Evaluation of the T233 programme can have at least two important parts — the evaluation of its targeting and measuring its impact on the performance of the participating firms. The monitoring system in place approaches the first problem in multiple stages. Summary statistics on all applications are provided on a weekly basis, with the trends monitored by public administration officials. The monitoring of statistics also takes place in the quarterly meeting of a monitoring committee, which has the possibility, but not the obligation, to make recommendations and take those into account when administering the programme.

Recent monitoring figures indicate that 275 companies have submitted a pre-application request to PES offices. Of these, 217 were found fit for application. So far, 71 of these have reached the intermediate body, requiring a total budget of HUF 2.3 billion (EUR8.5 million), around a 10th of the total programme budget. Because there are no contracts signed as yet and hence no information available on the geographic location of the applicants or on the size of the target group, the efficiency of targeting is impossible to assess at the moment.

The ultimate success of the programme will be determined on the basis of standard indicators, mostly focusing on the objectives (such as the share of individuals having successfully completed the training programme out of all who enrolled). Such indicators are appropriate if one wants to evaluate the completion of the objectives of the project, but clearly give very little information relating to its goal of increasing the competitiveness of the companies through the training programmes. Because of the very indirect effect the programme has on the labour market and the economy as a whole, there is no indicator in the Commission's compendium that would appropriately reflect it.

To ascertain the effect of the programme, its performance has to be evaluated in depth, looking at the adequacy of the approach, the success of targeting and the effect on later performance of the supported company. As of now, such a comprehensive evaluation is not planned (perhaps because of the relatively quick roll-out of the programme), but nor is it excluded. Proper evaluation of the programme will be difficult as ever, as the comprehensive nature of the crisis makes finding or constructing a counterfactual situation difficult. Still, because information on programme participation can possibly be linked<sup>(82)</sup> to a time series of tax records of the companies, such an evaluation would be possible some time after completion of the programme. Tax records are rich enough to be informative about all elements required for the exercise, including the pre-crisis competitiveness of the company, the effect of the crisis and the performance after participation of the programme.

## 5. Conclusions

The T233 is a measure aimed at mitigating the negative effects of the economic crisis and that provides training in order to enhance future competitiveness and keep workers in their jobs. It features two innovations to minimise the potential adverse effects. On the one hand, it combines training programmes with support for short working time arrangements, to help the selected firms survive and also ensure that some investment is made into human capital during non-working time. On the other hand, it employs a fairly sophisticated pre-selection procedure, based on practices borrowed from the banking sector. The idea is promising as it gives, at least in theory, a chance to address this difficult policy challenge efficiently. The organisation and administration of the programme appear to be efficient, although concrete details are not known yet. Methodologically sound evaluation of the programme seems to be possible, but there is as yet no plan to perform one.

(82) Data can be linked if the companies authorise the grantor to access their official tax records. As of now, such authorisation is not required from participants, but their participation grants the collaborating institution some rights to access financial data of the grantees also after the completion of the programme.

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# Malta

The task force set up to deal with manufacturing companies facing difficulties

## 1. Introduction

The labour force survey (LFS) for Q1 2009 indicates that despite the global recession, when compared to the same quarter of the previous year, there was a marginal increase in Malta's employment rate of 0.2 percentage points (from 54.7% to 54.9%) (NSO, 2009). The effects of the international financial crisis on Malta's financial institutions were contained. According to LFS data, the manufacturing sector shrunk by 2% (to 24 255 workers) between Q1 2008 and Q1 2009. Such data are corroborated by a separate manufacturing survey carried out by the NSO which shows that sales decreased by 23% between Q1 2009 and Q1 2008, a decrease mainly occurring in the radio, TV and communication equipment and chemicals and chemical products sectors. The manufacturing sector has been hit the hardest by the international economic slow-down. Indeed, several enterprises producing parts for the automotive industry experienced considerable difficulties due to a worldwide decrease in car sales. It should also be noted that between Q1 2008 and Q1 2009, investment in the manufacturing industry dropped by a significant 68%. In February 2009, ST Microelectronics, Malta's largest private company, announced that it would be decreasing its staff complement in the country by between 400 and 450 workers. Several other companies have also announced reductions in their staff and/or the adoption of shorter working weeks. Indeed, the situation appears to have worsened during the first quarter of 2009. Statistics derived from the Employment and Training Corporation (ETC) for April 2009 (based on different methodologies from the LFS) indicate an increase of 18% in the registered unemployed compared with April 2008. A parliamentary question revealed that in February 2009, there were nine companies employing 1 208 workers, working on a four-day week in a bid to avoid redundancies. The number of workers put on reduced working hours increased to 2 088 in March 2009.

The measure being described in this article is one of the government's attempts to address the shedding of jobs in the manufacturing sector. In line with the employment guidelines at EU level, this measure seeks to maintain high employment levels by helping a number of key companies to weather the storm of the current global recession. The measure also seeks to increase the flexibility and long-term viability of companies by helping those with a potential for further development. Indeed, it is interesting to note that when, in recent years, the textile industry was dying, the government did not try to intervene, as it was obvious that Malta could not compete in this sector against countries with much lower labour costs, such as China

and Turkey. Also in line with the employment guidelines at EU level, this measure promotes lifelong learning and continuous training among the workforce, which statistics show to be low in Malta when compared to the EU average.

## 2. The measure and its expected impact on the policy challenge

In February 2009, the government set up the Economic Stability Task Force (normally referred to as the 'task force') to deal with specific manufacturing companies facing difficulties due to the effects of the international recession. The task force aims to develop tailor-made solutions for companies in danger.

The innovative aspect of the measure is that rather than focusing on the macro level through blanket aid programmes, as would often happen in larger countries, the government preferred to focus on the micro level and help specific companies. This approach, made possible by the small number of enterprises in Malta, was meant to reduce costs and enhance the impact of the actions.

The task force is working with a number of major companies, assisting them in identifying new investment opportunities. Financial aid, in particular in the form of training for new business lines and the conversion of tax credits into investment aid is being delivered. These actions are being carried out to secure jobs in the present circumstances and strengthen the companies' position to ensure a sustainable growth in the medium to long-term.

While, as indicated above, the task force appears to have been set up specifically to deal with problems in the manufacturing industry, it has started looking at the tourism sector as well. The Minister for Finance was reported as stating that the task force and the Parliamentary Secretariat for Tourism were 'in detailed discussions to find ways of also encouraging some hotels, particularly in the three-star category, to make an investment in this period, to prepare for the eventuality of the downturn passing and more tourists coming to Malta'.

## 3. Organisation, implementation and funding of the measure

As in the case of many other policies and measures in Malta, the responsibilities of this project are at national level. The task force is chaired by the Minister for Finance, Economy and Investment and has representatives of the Malta Financial Services Authority (MFSA), Malta Enterprise (ME), the

Employment and Training Corporation (ETC), the Department of Industrial and Employment Relations, and the Planning and Priorities Coordination Division (PPCD) within the Office of the Prime Minister. The MFSA is the regulator of financial services in Malta, a sector incorporating banking, investment and insurance. The ME is the public agency responsible for the promotion of foreign investment and industrial development in Malta. The ETC is Malta's public employment service. The PPCD is in charge of ensuring the efficient management of European Union and bilateral funding programmes by providing effective coordination among stakeholders. This task force is thus based on a collaborative effort among various different public sector entities, guided by the Minister for Finance, Economy and Investment, who is responsible for the government's budget. In order to achieve its goals, there must be an effective inter-ministerial collaboration, which despite the small size of the country, cannot be taken for granted.

The government did not include any representatives of social partners on the task force. As will be further elaborated below, the main social partners have praised this measure. However, the two largest unions, namely, the General Workers Union (GWU) and the Union Haddiema Maghqudin (UHM) have publicly voiced their wish to be more involved in such actions. The secretary general of the UHM reportedly spoke about the need for unions and public bodies to act in synergy to safeguard jobs. On the other hand, the GWU was more specific in protesting that it 'should participate in the process to prevent misuse of the assistance granted'.

While the government did not disclose the exact provenance of the funds, the participation of the PPCD in the task force implies that the government is using EU funds. However, the extent of such use is unknown. The government did not formally disclose the individual financial packages given to companies, stating that it was a confidential matter. However, a newspaper revealed that EUR3698766 in financial aid was given out between February and May 2009 to four manufacturing enterprises.

## 4. Performance and achievements

By May 2009, agreements with four relatively large companies had been reached. As will be seen in the case descriptions below, the companies were all given funds for the training of employees and capital investment in new technologies and product lines.

### 4.1. Trelleborg Sealing Solutions Limited

The company, which forms part of Trelleborg Group based in Sweden, produces components for the car industry and exports mainly to Germany and the USA. The company, which currently employs about 450 workers, was hard hit by the global crisis due

to a reduction in car sales and a resulting decline in orders. As a first reaction to the crisis, it stopped overtime and changed its three-shift system into two. Then, in October 2008, it switched to a four-day week and laid off several employees over the subsequent months. More recently, the company was reportedly planning to go to a three-day week or make redundant some 102 employees and relocate part of its production abroad. An intervention by the government of an undisclosed amount of funds, announced in March 2009, led the company to decide to invest EUR2 million in its Maltese plant, which will serve to prepare the plant to start creating parts for new generation gearboxes that will be brought over from competing markets. It was announced that this investment should create 85 new jobs by the end of 2010. The company also announced that it would reinstate the five-day week with the fifth day being dedicated to training employees. The training programme, financed by government, will be spread over a period of 17 weeks and aims to increase their skills to be able to work on the new lines of production. The government said that it helped Trelleborg to find new markets for its products. At least part of the government's assistance was derived from the conversion of the company's tax credits into investment aids.

### 4.2. Methode Electronics Malta Limited

The company, which produces switches for automotive and non-automotive sectors, has two plants in Malta employing 750 workers. While the workers in the automotive sector were reportedly put on a four-day week in November 2008, the remaining workers were put on a 3.5-day week. Due to a further lowering in the demand, the company was planning to shed about 100 jobs in 2009. In February 2009, the government agreed with the company to finance employee training and give it investment aid. Following such agreement, Methode decided to invest EUR6.5 million in new lines producing parts for the non-automotive sector. Besides, it was also announced that the company may be investing a further EUR6 million on new production lines in 2010 should the international recession abate, creating an additional 100 jobs. Automotive workers were expected to return to a five-day week in April 2009, while the other workers were expected to work on a 4.5-day week. It was reported that the stimulus package announced for Methode would likely have a spillover effect on other smaller companies (such as Hetronic and Bavarian Technology Systems) which also produce specialised parts for the automotive industry.

### 4.3. Stainless Steel Products Limited

The 107 workers at this company, which manufactures sinks for the British market, moved to a four-day week in January 2009. The company reportedly suffered from a substantial decline in sales in November 2008, resulting in its production being reduced to about 55% of its normal capacity. The company was planning to make redundant an undisclosed number of employees. As a result of intervention by the government, the company decided to invest EUR300000 in new equipment

and tools and take over a production line from China. The Minister for Finance, Economy and Investment stated that 'since Stainless Steel products were intended for the British market, higher shipping costs could balance out whatever would have been saved in wages. Moreover, quality was still a challenge in the China region whereas Malta earned higher customer satisfaction'. The workers returned to a five-day week after the agreement with the government, which includes a plan to give a training programme to all workers intended to increase their long-term employability.

#### 4.4. Dedicate Micros (Malta) Limited

In April 2009, it was announced that Dedicated Micros (Malta) Limited, which produces security and surveillance equipment and employs 170 workers, went on a four-day week due to the international economic downturn. The company, a subsidiary of the UK-based Dedicated Microcomputers Group Limited, announced that this action had to be taken after a drastic reduction in orders. The UK-based group also announced a 10% reduction in its global workforce. An intervention by the task force in the same month resulting in a financing agreement, led the company to return to a five-day week and to announce an investment of EUR 300 000 in the transfer of new production lines from the UK. The new lines are the result of buying out a rival company in the UK and will produce security cameras and domes. The Minister for Finance, Economy and Investment said that the fifth day of the working week will be reserved for employee training for the following four months. It was also announced that the company will be helped through ETC schemes and tax credits. The company will also transfer some back office work from the UK and may create an extra 10 jobs in Malta.

#### 4.5. Impact of the government support

Through the four government interventions described above, the companies which were operating on a four-day week returned to a five-day week and the jobs and the standard of living of some 1 500 workers were protected. Besides, the interventions helped to leverage at least EUR 9 100 000 in new investments by the same companies and the potential to increase the employees by 200 by the end of 2010.

The government's interventions appear to have been very successful. As the Minister for Finance, Economy and Investment stated, had the jobs been lost, it would have taken two or three years to get those jobs back, especially during this period of slowdown.

The President of the Malta Chamber of Commerce, Enterprise and Industry (MCCEI) and the Director-General of the Malta Employers' Association (MEA) praised the government's interventions, viewing such measures as positive ways to assist

the Maltese economy to attenuate the effects of the international recession. Similarly, the GWU and the UHM commended the government on such initiatives. The Secretary-General of the UHM stated that the government is managing the difficult situation properly.

The government has been criticised for not revealing how much money it spent on each company. Critics viewed this as a public relations shortcoming which might be perceived as the government's unwillingness to be transparent in the use of public money. On its part, the government stated that in accordance with the Business Promotion Act, such information cannot be disclosed due to its commercial nature.

Some critics also argued that this measure may encourage companies to adopt reduced working time in order to receive government funds, rather than out of a genuine need. In a particular case in March 2009, the Dragonara Casino, employing some 220 people, which operated through a government concession, announced that it was moving to a four-day week. This action was reportedly taken 'due to the global recession and due to the uncontrolled proliferation of illegal operations in Malta'. However, the government refused the casino's request to adopt a four-day week on the basis of a number of issues, including the fact that the company did not inform the Director of the Industrial and Employment Relations, and that its motives were not related to the international crisis.

The best indicators from the Commission's compendium<sup>(83)</sup> to follow the impact of the measure are 17.M1 Employment rate and 23.M4 Lifelong learning. The measure should help maintain employment levels in the short term and increase them in the medium term. In addition, the measure should also increase the number of workers receiving continuous training.

## 5. Conclusions

The task force has carried out four effective interventions. The government's forward looking approach, enabling enterprises to use this period of recession to introduce new lines of production and retrain their employees is very positive. Of course, the work done is based on the assumption that the recession is not long term, otherwise, the enterprises would still be unable to sustain their new investments. In May 2009, it was reported that the government was negotiating with another eight enterprises in the manufacturing sector in a bid to help them through this economic crisis. The situation of ST Microelectronics, a manufacturer of semi-conductor products and the largest company in Malta, employing some 1 927 workers, is of particular concern. The Maltese economy would suffer a significant blow if this company were to relocate abroad. It is argued that the work being carried out by the task force, complemented by other initiatives such as the strengthening of the business regulatory framework and the avoidance of new taxes, will help maintain such important foreign investments in Malta.

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# The Netherlands

## Short-time working arrangements and part-time unemployment scheme

### 1. Introduction

Although the economic crisis has also hit the Netherlands, the Dutch unemployment rate is the lowest in Europe. Nevertheless, the unemployment rate increased from 4.0% in the second quarter of 2008 to 5.1% in the second quarter of 2009. In addition, the number of vacancies declined by 40% between October 2008 and March 2009.

In March 2009, the government reached an additional coalition agreement which contained a number of far-reaching measures on employment. This agreement is the third crisis package to stimulate employment and to enhance the recovery potential of the Dutch economy. The main objectives of these packages are to:

- support and restore employment;
- improve the efficacy of job matching;
- retrain workers who became redundant in one sector in order to be able to employ them in another sector with a demand surplus;
- encourage students to finish or extend their formal or vocational education;
- increase the pension age from 65 to 67;
- improve the participation of vulnerable groups in the labour market; and
- improve the participation of people with disabilities in the labour market.

The government made an extra EUR 700 million available to contain unemployment and to increase economic strength. A further EUR 250 million was made available to ease youth unemployment.

The following sections examine a new part-time unemployment scheme with two key goals: first, to prevent avoidable cyclical lay-offs; and, second, to enhance the strength of the economic structure. The measure will also be compared to its predecessor, the short-time working arrangement.

### 2. Measures to support and restore employment

To support employment, the Ministry of SZW started by changing the existing short-time working arrangement (*werktijdverkorting* (WTV)) in December 2008. Normally the criteria allowing a short-time working arrangement are very strict and arrangements can only be authorised in extraordinary circumstances, for example when a factory burns down. The company is then allowed to let employees work reduced hours, or not at all. Employees are entitled to unemployment benefits (UB) from the Uitvoeringsinstituut Werknemersverzekeringen (UWV — administrator of unemployment and disability insurance). An employee will receive 70% of their original income (maximum EUR 183.15 gross per day) for the hours they are laid-off.

From 1 December 2008, the Ministry of SZW changed the criteria to allow companies experiencing a sudden, but serious, drop in turnover to apply for WTV. This measure was aimed at companies suffering from a considerable decline in their turnover due to the economic crisis. In autumn 2008 the Ministry decided that WTV should be used as an alternative to prevent massive lay-offs among workers and companies then having to go out and recruit new personnel at a later date (perhaps only a few months later). As such, companies would be able to keep their employees at their disposal without having to bear the full wage-bill.

If a company had experienced at least a 30% cumulative drop in turnover for two successive months between September 2008 and December 2008, compared with its performance over the previous two months, it was entitled to WTV (for a percentage not higher than the decrease in turnover).

WTV can run for six weeks and can be extended, although this is limited to three extensions of six weeks. Thus, in total, a company can be allowed 24 weeks of WTV. For each extension a separate request must be made. A proper request consists of:

- a brief application for WTV;
- the proof of a drop in turnover by means of an auditor's report;
- a plan in which education, training and/or secondment plans are described;
- a list of the employees for whom WTV is requested;
- approval by representatives of trade unions when a request is sent in for more than 20 employees, or proof of a session in which management informs a representative body of the employees when a WTV request is sent in for less than 20 employees.

The management of the company can decide itself how to distribute the hours not worked across the employees. The company is also expected to organise secondment options and/or training and schooling facilities for the hours the employee is not working.

An illustration of the use of the short-time working arrangement is given in Box 1, with the example of Rigo BV.

#### Box 1: Rigo BV

Rigo BV is a family business, in iron products. Its cumulative turnover was EUR 400 000 in October and November 2008; in comparison with a cumulative turnover of EUR 700 000 in August and September 2008. The turnover thus dropped by 42.9%. The management of the company sent in a request for WTV. It was awarded by SZW and the firm received UB from UWV for 40% of the hours of its employees.

Rigo BV has 80 employees, who all work full-time, and the management decided to cut the working hours of 64 employees by half. This resulted in a 40% drop in total working hours. For the hours laid-off, the company arranged education. The 64 employees who worked half-time attended classes for the other half of their contractual work time. The company paid 50% of the wages and paid 70% of the other 50% (i.e. 35% in total) with the money it received from UWV.

Originally, only requests filed between 1 December 2008 and 31 December 2008 were to be processed, but the government decided to extend the opportunity for companies to file requests several times. The implicit argument of the Ministry is that many companies were not able to meet the eligibility requirement in December 2008, but were in such position in January 2009, or even later. Moreover, the Ministry wanted the scheme to be available until a follow-up scheme was implemented. It was decided that as of 21 March 2009 no further new requests could be made and only requests for extension were taken into consideration.

In addition, the Ministry limited the use of WTV by setting a maximum of 760 000 hours per week (extensions not included). This number equals a budget of EUR 200 million.

Originally, WTV was meant to be a temporary measure, designed to help companies to survive the worst of the economic crisis. However, it was based on the presumption that the recession would be of a limited duration and as such it had tight eligibility standards. The Ministry of SZW concluded that this measure was both too constrained and not selective enough. On 1 April 2009, the WTV was replaced by part-time unemployment benefits (*deeltijd WW*). The WW was also designed to be a temporary measure and will run until the end of 2009. The aim of the measure is to help companies suffering from the crisis to keep their skilled personnel employed, even if they do not have sufficient work for them, so that they will be equipped when the economy picks up again. Part-time UB is less constrained than WTV, because it does not require turnover to drop by 30%, and its aim is to be more selective as it is targeted at skilled employees.

The main difference between the part-time UB scheme and regular UB is the fact that employees who are registered for part-time UB are not obliged to look for a job, or to take part in a reintegration programme. Part-time UB can be claimed by any employer who needs part of their workforce to work reduced hours for a period of time, but the plan needs to be approved by employees' representatives. Working hours cannot be reduced by more than half. When a request for part-time UB is awarded by the Ministry of SZW the UWV transfers the appropriate amount of part-time UB to the employer. The employer receives 70% of the wage of an employee for every hour the employee is partially unemployed, with a maximum of EUR 183.15 per day. The employer then transfers it to the employees involved. As with the WTV, employers are expected to organise either secondment or education and training when the employee is not working for the company, but this requirement is difficult to enforce because the authorities lack the means and the time to sanction employers who do not comply.

The duration of entitlement for regular UB is limited. The entitlement period depends on work history. By and large, each work year yields a month of UB entitlement, with a maximum of 38 months. Using part-time UB means that one uses an amount of UB rights, proportionate to the hours for which one is laid-off.

Table 1: Requests for WTV from December 2008 until April 2009

| Date  | Number of requests | Number of awards | Number of hours awarded | Number of denials | Number of first extensions | Number of hours of first extension | Number of second extensions | Number of hours of second extension |
|-------|--------------------|------------------|-------------------------|-------------------|----------------------------|------------------------------------|-----------------------------|-------------------------------------|
| 5/12  | 105                | 63               | 55 000                  | 42                |                            |                                    |                             |                                     |
| 19/12 | 230                | 122              | 118 878                 | 108               |                            |                                    |                             |                                     |
| 26/12 | 280                | 137              | 232 998                 | 143               |                            |                                    |                             |                                     |
| 31/12 | 320                | 164              | 338 674                 | 125               |                            |                                    |                             |                                     |
| 9/01  | 348                | 223              | 260 217                 | 156               |                            |                                    |                             |                                     |
| 15/01 | 494                | 352              | 440 954                 | 142               |                            |                                    |                             |                                     |
| 30/01 | 524                | 398              | 458 326                 | 126               |                            |                                    |                             |                                     |
| 6/02  | 556                | 422              | 467 831                 | 134               | 27                         | 55 000                             |                             |                                     |
| 13/02 | 605                | 461              | 492 952                 | 144               | 71                         | 199 000                            |                             |                                     |
| 20/02 | 648                | 511              | 601 360                 | 137               | 145                        | 293 500                            |                             |                                     |
| 27/02 | 710                | 561              | 644 944                 | 149               | 198                        | 386 500                            |                             |                                     |
| 13/03 | 836                | 665              | 700 960                 | 171               | 254                        | 406 171                            | 12                          | 14 247                              |
| 20/03 | 919                | 770              | 733 267                 | 149               | 297                        | 427 000                            | 27                          | 42 000                              |
| 3/04  | 1 082              | 853              | 810 339                 | 229               | 325                        | 503 350                            | 94                          | 216 600                             |

Source: based on written updates from Minister for Social Affairs and Employment to Parliament (*Tweede Kamer*).

To be entitled to any UB, an employee must have worked for at least 26 weeks during the 36 weeks before being laid off. In the rare situation that an employee is not entitled to UB, the employer has to compensate them during the period of partial unemployment. Employees do not accrue any UB rights during the time they are partially (un)employed.

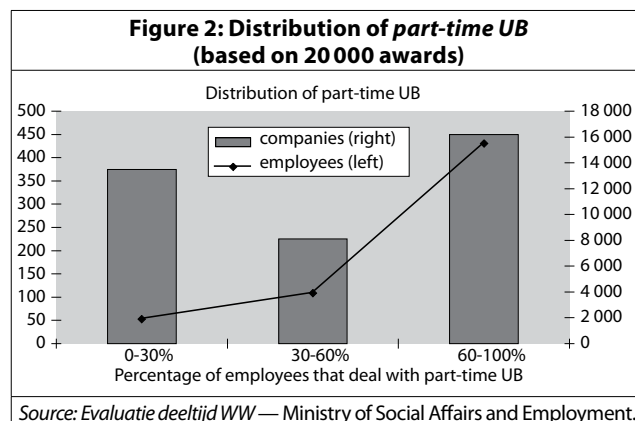
A part-time UB arrangement for a firm lasts for 13 weeks and can be extended by 26 weeks (limited to two extensions), adding up to a maximum of 65 weeks. If the employer decides to dismiss an employee within the period of part-time UB or within 13 weeks after the part-time UB has ended, he is obliged to compensate the UWV. This is meant to act as an incentive for the employer not to dismiss employees who are on part-time UB, and so serves as a measure to protect the employee's job.

A budget of EUR375 million was allocated to the scheme. By 22 June 2009, the budget had been exhausted. According to the Central Statistical Office, 19 000 employees were on part-time UB at the end of June 2009. Table 2 shows the use of part-time UB by sector, based on 11 000 employees. Firms in manufacturing and construction sectors are the main users of this scheme.

The Ministry decided that requests sent in after 23 June would be put on hold. Since the Ministry had decided from the beginning to stop considering requests as soon as the budget was spent, the scheme was suspended from then on. In the meantime the Ministry began to look for opportunities to create extra budget to be able to continue considering requests.

The Ministry also decided to evaluate the programme to find out why it was exhausted so quickly. It concluded that a considerable amount of the allowances had been used improperly. Many of the companies who submitted a request did so for a large part of their workforce; 64% of the companies who were allowed part-time UB requested this for the majority of their employees and 17% of the companies used their part-time UB for all of their employees. Hence, it did not serve the intended target group

appropriately. As a result, the Ministry decided to refine the arrangement, in order for the WTV to serve the purpose it was set up for: to keep skilled personnel in employment<sup>(84)</sup>.



The Minister decided to expand the budget by EUR250 million. As of 20 July 2009, the Ministry was taking up new requests again, but the criteria for receiving part-time UB have changed, and are stricter. Companies who apply for part-time UB now have to decide whether they prefer a longer period of part-time UB for fewer employees, or a relatively short period of part-time UB for a larger part of their workforce. For companies who expect to have problems with keeping some of their expert employees employed for the next year or longer, the first option would be preferable. But for companies who have a workforce that consists of people who mainly do the same job and who suffer from a short but serious decrease in turnover, the second option is preferable. If a company decides to apply for part-time UB for between 60% and 100% of its employees, the arrangements will last no longer than nine months. For companies who request part-time UB for between 30% and 60% of their workforce, the measure is available for a maximum of one year. Companies who request arrangements for less than 30% of their staff can access the measure for a maximum of 15 months.

(84) Ministry of Social Affairs and Employment, *Evaluatie deeltijd WW*, pp. 1–5.

**Table 2: Use of part-time UB by sector**

| Sector                                      | Number of employees in part-time UB | Percentage of population that uses part-time UB per sector | Number of employers |
|---|-------------------------------------|--|---------------------|
| Metal industry                              | 3 424                               | 2.6%   | 54                  |
| Inland navigation                           | 190                                 | 2.5%   | 10                  |
| Textile industry                            | 171                                 | 2.4%   | 5                   |
| Furniture industry                          | 374                                 | 2.1%   | 33                  |
| Wooden products                             | 128                                 | 1.7%   | 10                  |
| Carpenter industry                          | 152                                 | 1.3%   | 15                  |
| Graphic industry                            | 367                                 | 1.0%   | 31                  |
| Dredging companies                          | 46                                  | 0.9%   | 6                   |
| Stonemason industry                         | 4                                   | 0.8%   | 1                   |
| Technical industry                          | 3 017                               | 0.8%   | 287                 |
| Harbour companies                           | 502                                 | 0.8%   | 29                  |
| Stone, concrete, glass and ceramic industry | 177                                 | 0.7%   | 8                   |
| Other industries                            | 405                                 | 0.7%   | 21                  |
| Other sectors of companies and professions  | 264                                 | 0.6%   | 34                  |
| Roofer companies                            | 24                                  | 0.5%   | 2                   |
| Business services                           | 1 839                               | 0.5%   | 233                 |

Source: *Evaluatie deeltijd WW* — Ministry of Social Affairs and Employment.

These changes have been made not only to prevent improper use, but also to be able to keep expenditure at an acceptable level. The Ministry expects about 100 000 employees to be signed up for part-time UB by the end of 2009. If the original scheme had not been adjusted, the total costs would have come to around EUR 1.3 billion. A third reason to refine the criteria was to be able to prevent companies from using part-time UB to postpone restructuring. Part-time UB was not intended to be used by companies who would have to make a large part of their workforce redundant in order to be able to survive the economic crisis.

### 3. Performance and achievements of the measures

Both WTV and part-time UB are meant to be temporary measures. Their purpose is to help companies survive the worst days of the current economic crisis. They are not stand-alone measures but are part of a wider programme to support employment and to enhance the strength of the Dutch economy.

WTV was designed to help healthy companies experiencing a sudden large drop in sales because of the economic crisis. However, it was considered to be too selective, as well as ill-targeted. Part-time UB came as a replacement for WTV. It targets skilled employees, but is open for a much larger group of firms. In the following section we try to assess the strengths and weaknesses of the part-time UB scheme, without (new) data on the use and outcomes of the scheme being available.

#### Upgrading skills

As soon as the government launched its crisis package it stated that the package should consist of measures with a dual purpose: to support employment and to enhance the productive strength of the Dutch economy. In the words of the government, the package is to focus on three main topics: investing in the future; supporting the economy and companies' ability to recover; and proper job-to-job mediation for those made redundant. The WTV and part-time UB are intended to serve the first two of these purposes.

By following a schooling, training or secondment programme, employees who have had their working time reduced are able to broaden and/or deepen their skills and knowledge. When they are fully re-hired after the crisis period, they will be more employable — either because they have broadened their capacities, or because they have deepened their knowledge in a special field. As such, even if the company ceases trading employees still have a better chance of finding a new job as they have acquired new skills. As a result the measure serves both the 'New skills for new jobs' and the 'Lifelong learning' strategies recommended by the European Commission.

#### Increased welfare

Secondly, there are wider social benefits. People's happiness depends partly on whether they are employed or not. Research has shown a positive correlation between suicide rates and unemployment rates. On 15 July 2009, the Dutch daily newspaper, *Financieel Dagblad*, cited *The Lancet* in which an article was published stating that an increase in the unemployment rate in the European Union by 3% leads to an increase of 4.5% in suicides. Moreover, when the Dutch unemployment rate reached its lowest point since 2000 the suicide rate in turn reached its lowest point since 1975<sup>(85)</sup>. Such statistics underscore the social impact of unemployment.

#### Win-win-win

Thirdly, all parties involved gain by the part-time UB scheme. Companies benefit because they do not have to pay for unproductive hours and can improve their human resources. Employees benefit because although their wages (before tax) decrease by 15% (maximum), they are able to acquire new skills, or deepen their current capacities. This also enhances their labour market position, should they lose their job. The Cabinet also proves itself to be a helpful partner in difficult times, which may in turn increase its popularity.

#### Inefficiency

Both the part-time UB and the WTV aim at keeping people in their current employment. For that purpose, part-time UB subsidises part of a firm's wage bill. Such subsidies may have adverse effects if they are used to support inefficient production methods. In other words, the part-time UB may postpone, or even prevent, the curative effects of a crisis to operate. The Cabinet states that the scheme should be targeted towards 'healthy' firms but assessment of the health of firms who claim part-time UB is not an explicit part of the award procedure.

In September, the two directors of the Central Planning Bureau (CPB) published *The Great Recession*, a book on the expected impact of the current economic downturn. The authors are very critical about the part-time UB scheme (van Ewijk and Teulings, 2009). They state that it hides unemployment instead of reducing it. It reduces labour market mobility and, hence, productivity growth.

#### Unclear notions

The Ministry communicated in all its formal documents that it would judge the schooling, training and secondment facilities before it allows initial or prolonged part-time UB. However, it is unclear by which criteria these facilities would be judged. The same problem applies to the concepts of 'skilled personnel' or 'skilled employees'. This label is used to emphasise the fact that part-time UB cannot be used for all the employees of a company. Again, however, it is unclear which employees actually belong to this target group.

(85) CBS, 24 September 2008.

## Cosmetics

According to the latest Eurostat data <sup>(86)</sup>, the Netherlands has the lowest general unemployment rate and the lowest youth unemployment rate across the EU. These low rates are partly due to the fact that those on part-time UB are not counted as unemployed. Disability benefit recipients (8% of the labour force) are also not included in these figures.

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[http://docs.szw.nl/pdf/34/2008/34\\_2008\\_3\\_12624.pdf](http://docs.szw.nl/pdf/34/2008/34_2008_3_12624.pdf)  
[http://docs.szw.nl/pdf/34/2008/34\\_2008\\_3\\_12646.pdf](http://docs.szw.nl/pdf/34/2008/34_2008_3_12646.pdf)  
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[http://docs.szw.nl/pdf/34/2009/34\\_2009\\_3\\_12777.pdf](http://docs.szw.nl/pdf/34/2009/34_2009_3_12777.pdf)  
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[http://docs.szw.nl/pdf/34/2009/34\\_2009\\_3\\_12820.pdf](http://docs.szw.nl/pdf/34/2009/34_2009_3_12820.pdf)  
[http://docs.szw.nl/pdf/34/2009/34\\_2009\\_3\\_12834.pdf](http://docs.szw.nl/pdf/34/2009/34_2009_3_12834.pdf)  
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(86) April 2009.

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# Austria

## Labour foundations — A tool to tackle labour market challenges

### 1. Introduction

Labour foundations are a trusted and comprehensive active labour market policy instrument in Austria to mitigate structural changes. Labour foundations allow workers, as well as companies, to adjust to changing realities and demands, through the direct involvement (and co-financing) of employers and/or different (regional) labour market actors. The main objective is the development and implementation of individualised (re-)integration processes in the labour market. A broad range of possible instruments (see below for details) focus on the upgrading of skills, demand-oriented qualifications and the sustainable improvement of the position of jobseekers in the labour market. These are seen as essential elements and contribute to different EU guidelines; in particular those aimed at increasing access to employment, maintaining employment and matching labour market needs.

Historically, the implementation of labour foundations began in the late 1980s/early 1990s in order to tackle structural changes in certain economic sectors, especially within state-owned industry. The first labour foundation was the Stahlstiftung (Steel Foundation), established in 1987 at the voestalpine company; a former state-owned steel enterprise. Since then, different foundations have been launched; for example, Austria's accession to the EU in 1995 was accompanied by a need for an adjustment in economic structures and the reduction of the workforce in larger companies. In 1995, an initiative by social partners led to the creation of two sectoral nationwide foundations; Aufleb (training and support association for unemployed people from the food sector) and Ausped (haulage training and support association). More recently, it was agreed in June 2009 that a youth labour foundation would be established against the backdrop of the current economic crisis and the fact that young people are more likely to be affected by unemployment. In total, about 170 foundations are currently in existence.

Since the 1980s, the concept of foundations has formed part of an underlying permanent development process. In the meantime, two different main types of foundations exist: outplacement foundations and in-placement foundations. The former are used when there is a threat of redundancies. The latter are implemented to counteract staff and skills shortages and have gained increasing importance. In addition to this general typology, foundations can be grouped according to their level of intervention as: company foundations; regional foundations; sector-based foundations; and insolvency foundations.

## 2. Labour foundations at a glance

Labour foundations are installed for two main reasons: firstly, if one large company or several companies in a certain sector or in a particular region are in economic difficulty and mass lay-offs seem to be inevitable (outplacement type); secondly, if there is a great need for certain skills, for example in growth sectors (in-placement type). In both types of labour foundation the qualification of participants is geared towards the actual requirements of the regional labour market situation or towards the companies concerned.

Labour foundations are based on the initiative of the social partners at company or regional level. They are characterised by cooperation between companies and labour market stakeholders and the concept that the different partners contribute to the financial structure of the foundation (mixed financing). A functioning social dialogue is a key factor for installing labour foundations.

**Outplacement foundations** were the first type of labour foundation to be established and target people who have lost their jobs due to factory closure, mass redundancies or insolvency. Access to participation is thereby determined by the worker's last employer, who has to be involved in funding the foundation (except in the case of insolvency, as insolvency foundations are solely financed by public authorities). Outplacement foundations are supposed to moderate severities and to provide unemployed people with stability through a process of orientation, qualification and jobseeking. The basic elements of outplacement labour foundations are therefore vocational orientation, vocational training or retraining, professional guidance, support to setting up a business (for participants who decide to set-up their own business), and active outplacement.

**In-placement foundations** on the other hand, are more a service for companies and aim at covering structural and regional skill shortages. If vacancies cannot be filled by registered unemployed people because of special skill requirements, in-placement foundations offer the possibility of the targeted qualification of the 'second best' job applicant with regard to the specific needs of the company. The qualification process can take up to four years, so an in-depth qualification can be provided. For the participants, in-placement foundations provide the advantages of a specific qualification combined with a very high probability that they will be subsequently employed by the company concerned.

Foundations can be grouped into four types according to their level of intervention.

- **Company foundations** are the 'traditional' type of (outplacement) foundations. The development and implementation of the foundation is mainly organised and financed by the company, which is about to lay off a large number of employees due to personnel reduction or internal reorganisation. An example of a large company foundation is the voestalpine Steel Foundation.
- **Insolvency foundations** are installed when the company cannot provide the financial means necessary to implement a foundation due to insolvency. These foundations are mostly operated by local authorities and they may also be installed as regional foundations. An example includes the Regional Insolvency Foundation Vienna.
- **Regional foundations** are a regionally based instrument, which often provide both outplacement and in-placement services. Regional foundations often come into effect when several local companies dismiss a large number of employees. In this case both the companies and the social partners at company and regional level are involved in the creation and funding of the foundation, as well as local and regional authorities. An example includes the Provincial Labour Foundation in Tyrol or Styria.
- **Sector-based foundations** aim to support employees (outplacement) and companies (in-placement) in certain sectors that are affected by structural changes. For example, the nationwide foundation Aufleb was founded for employees in the food industry, which was significantly affected by Austria's accession to the EU.

Whereas company foundations are oriented towards bigger companies, regional and sector-based foundations are also open to SMEs. In the recent past, the regulations for several foundations have been amended in order to make them more accessible for SMEs threatened by economic troubles. Examples include the Styrian and the Tyrolian regional foundations. As with many small enterprises, there is no works committee; negotiations are conducted by representatives from regional social partners.

In addition to the types of foundation mentioned above, there are also foundation-style measures. The main difference is that they are implemented and co-financed by the Austrian Employment Service and that their primary target groups are people who are isolated from the labour market, work returners and long-term unemployed people.

Recent trends indicate a current revitalisation of labour foundations in nearly all Austrian provinces — for example, the Automotive Foundation in Styria; and the Provincial Labour Foundation in Tyrol, which is open to all sectors. In times of structural change in the economic sector, labour foundations are more intensively used to tackle challenges (see below for the development of the number of participants in foundations).

As previously mentioned, a further extension of the foundation model was adopted in parliament in June 2009, after negotiations with the social partners in the form of implementing a labour

foundation for young people. Originally, a special foundation for temporary agency workers was discussed, as they are one of the groups being most affected by the current downturn. In June 2009, the number of unemployed people in the temporary agency sector increased by 44.7% on a year-to-year basis, compared with a total increase of 33%.

Finally, negotiation partners agreed on a youth foundation with a special focus on young people having formerly been working for a temporary work agency. The foundation targets young people, aged between 19 and 24 years, who have been working for a minimum of three months in a temporary work agency or at an SME and who have lost their jobs. The foundation will offer vocational orientation, vocational (re) training and outplacement to 2 000 young workers. An essential precondition for participation is the financial contribution by the former employer with an amount of EUR 1 000 per person. The estimated total costs of around EUR 10 million will be shared between companies (EUR 2 million), the Bankruptcy Contingency Fund (EUR 3 million), the federal states (EUR 2.5 million) and the PES (EUR 2.5 million).

As in all foundations, the period for receiving unemployment benefits is extended to a maximum of 156 weeks and 209 weeks respectively in the case of vocational training or for elderly workers (50+). Furthermore, a foundation scholarship (EUR 100 per month) will be paid to the participants.

### 3. Organisation, implementation and funding of labour foundations

The legal basis for labour foundations are the laws concerning unemployment insurance and the Public Employment Service (*Arbeitslosenversicherungsgesetz* (AIVG) — Unemployment Insurance Act; *Arbeitsmarktservicegesetz* (AMSG), Public Employment Service Act), which define the criteria for installation, funding and participation. They are founded through the initiative of the social partners at company or regional level, mainly through the participation of company-based representatives (such as the works council) and regional representatives from the unions and the chamber of commerce. The reforms of the legal regulations, which have come into effect so far, have tended to broaden the range of eligible workers and access to labour foundations. In the beginning the outplacement concept was only available for the employees of specific (e.g. state-owned) companies and/or sectors. As of the late 1990s onwards unemployed people of all professions have been able to participate in labour foundations. Over the past few years, the regulations for regional labour foundations have been modified by some provincial governments to make them more accessible for SMEs — for example the rule of a minimum of 30 labour foundation participants per company was abolished. The last reform of regulations in 2004 allowed for part-time

measures at labour foundations and enabled scholarships for participants who are not entitled to unemployment benefits.

Essentially the costs are covered by AMS (Arbeitsmarktservice Osterreich, PES), the provincial government and the company, or companies, involved. The actual financing structure of a labour foundation is always the result of the bargaining process between company management, the social partners, AMS and other financing authorities (e.g. the provincial government). Resources from the European Social Funds can also be used for co-financing. For example, the regulation for the Styrian Labour Foundation (a regional foundation) provides for the financial participation of:

- AMS: provides unemployment benefit payments during labour foundation participation (maximum period: 156 weeks);
- provincial government: 25 % of training costs (maximum contribution: EUR 1 250);
- company: 75% of training costs. (If the company does not re-employ the participant after leaving the labour foundation, the training costs have to be covered completely by the company.) At most of the foundations, participants receive a monthly 'scholarship' from the company.

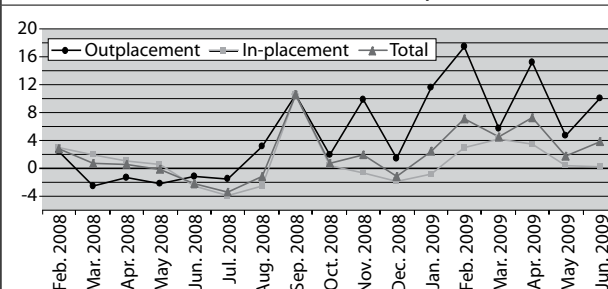
The management and overhead costs of the foundation are financed by social partners, companies, provincial government and AMS.

The expenses for labour foundations cannot easily be entirely displayed. The ALVG funding was up to EUR 70 367 000 in 2006 and EUR 68 425 000 in 2007 (not including training costs or the expenditures of other partners involved, such as the companies, regional authorities and participants themselves)<sup>(87)</sup>. Compared to the late 1990s, expenses have almost doubled. Moreover, the level of the average expenses per person can be compared over the last few years. Since 2002 costs have increased continuously. The annual average budgetary expenditure per new participant in 2006 amounts to EUR 15 644 (again training costs not included) and was therefore twice as much as in 2002. Reasons for this can be seen in the different cost levels of the various types of implemented labour foundations, but also in structural effects (e.g. higher rate of recipients with higher benefit day rates)<sup>(88)</sup>.

Compared to other active labour market measures, this means that foundations are the most cost-intensive instrument. As a comparison, the average costs per participant in socioeconomic enterprises was EUR 7 321 or qualification for employees is EUR 1 470 per participant.

The number of participants in labour foundations has increased during the past few years; in particular since September 2008, when the economic crisis became more and more noticeable (see Figure 1). There was an increase of 10% between August 2008 and September 2008. Since then, outplacement foundations have seen a dynamic development, which is a clear impact of the crisis.

**Figure 1: Change in the number of participants on a month-to-month basis, %**



Source: BMASK (Bundesministerium fuer Arbeit, Soziales und Konsumentenschutz, Federal Ministry of Labour, Social Affairs and Consumer Protection) data on request.

In total, the number of participants rose from 6 418 in June 2008 to 9 276 in June 2009; this equals an increase of nearly 40%. This increase is mainly caused by outplacement foundations. From January to June 2009 the number of participants in outplacement foundations rose by 64% from 2 150 to 3 530. Compared with the corresponding monthly figures for 2008, the number of participants in outplacement foundations more than doubled during last year.

Normally, labour foundations are scheduled to run for several years with the possibility of extension, if necessary. The set-up process is relatively short and the management is provided by an institution, which in most cases is founded by the social partners. In 2006, the average duration of participation was 355 days, but there is a high variance. One quarter of the participants in

**Table 1: Number of participants in labour foundations, 2009**

|               | Participants in labour foundations<br>(total) | Change compared with<br>year before<br>(total) | Participants in labour foundations<br>(outplacement only) | Change compared with<br>previous year<br>(outplacement only) |
|---------------|---|--|---|--|
| January 2009  | 7 306   | + 11.8%  | 2 148   | + 35.0%  |
| February 2009 | 7 828   | + 16.5%  | 2 522   | + 54.7%  |
| March 2009    | 8 183   | + 20.9%  | 2 665   | + 67.9%  |
| April 2009    | 8 776   | + 29.1%  | 3 067   | + 96.1%  |
| May 2009      | 8 936   | + 31.5%  | 3 210   | + 109.9%   |
| June 2009     | 9 276   | + 39.7%  | 3 532   | + 133.9%   |

Source: BMASK data on request.

(87) See BMWA (2008), p. 220.

(88) See BMWA (2008), p. 61.

2006 stayed at the foundation for a period between six months and one year, one third between one and three years. Only 4 % participated longer than three years. Compared to other active labour market measures, foundations are a time-intensive instrument<sup>(89)</sup>.

## 4. Performance and achievements of labour foundations

The assessment of the performance of foundations has to take into account the broad range of applied instruments. Several evaluation studies have been carried out in recent years. One main indicator is the re-employment rate of former participants (at outplacement foundations). Results show very positive effects. According to BMASK-Datwarehouse analysis, the re-employment rate of former participants is about 70 % (measured one year after leaving a labour foundation). This rate is confirmed by a longitudinal analysis.

Compared to the conventional measures of the ALMP, labour foundations offer the possibility to hold companies accountable for labour market policy too and thus relieve public budgets. Furthermore, proponents argue that labour foundations mitigate the consequences of dismissal, prevent social exclusion, promote self-activity and considerably facilitate labour market reintegration.

Critical assessments refer to the foundation possibly making it easier to for companies to make redundancies via labour foundations; and the orientation of the instrument towards the needs of the companies rather than those of unemployed people. In addition, 'creaming effects' were criticised in the past<sup>(90)</sup>, as people with better chances at reintegration are chosen more frequently for participation than people with integration-relevant problems. In order to address this problem, so called foundation-like measures have been established, which are explicitly meant for people with severe difficulties in the labour market.

## 5. Conclusions

Labour foundations are an effective but cost-intensive model to solve regional structural and labour market problems. Due to their relatively positive performance, it can be assumed that labour foundations will continue to have an important role by meeting future labour market challenges — especially in times of economic crisis — and will be a fixed point in the landscape of Austrian active labour market measures.

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# Poland

## The labour market impact of new policy developments in the context of the economic crisis

### 1. Introduction

In the first half of 2009 Poland witnessed an economic downturn, the effects of which translated into the worsening of the financial situation of enterprises and the labour market, despite the fact that the unfavourable changes were less severe than in other EU countries. By the end of June 2009, the unemployment rate amounted to 10.7% and was higher by 1.3% than in the previous year. The number of declared unemployed people increased by 203 300 in comparison with the same period in 2008. There were also more declared dismissals, whereby 474 companies declared the dismissal of 29 400 employees, including 5 000 people from the public sector (in the previous year, the figures were, respectively, 147 companies, 10 500 employees, including 700 people from the public sector) (Central Statistical Office, 2009). In this deteriorating labour market situation, measures were taken to introduce labour market policy instruments, which relate mainly to the first two key priority areas for action as identified by the EU: maintaining employment, creating jobs and promoting mobility; and upgrading skills and matching labour market needs.

Following negotiations, the social partners accepted the 'Anti-crisis action package' in March 2009. The document includes 13 proposals in three problem areas: wages and social benefits; the labour market and industrial relations; and economic policy. Within the framework of the labour market and employment relations the following issues were given particular attention:

- introduction of a 12-month working-time settlement period;
- creation of a company training fund;
- rationalisation of solutions concerning the working day in the context of settling working time;
- social packages;
- flexible working time as the instrument supporting work-life balance; and
- stabilisation of employment through limitation of the application of temporary employment contracts.

The government's responses (already developed or in development) to the resolutions of the Tripartite Committee resulted in a number of regulations, which enabled an adequate policy response. The most important regulations in the anti-crisis package are:

- the 'Act on lessening the effects of the economic crisis for employees and enterprises', signed by the President on 30 July 2009, which introduces a number of instruments new for Poland; this is the most important regulation, from the point of view of its expected influence on the labour market;
- the 'Act on the change of the "Act on personal income tax"', which includes changes in the taxation of allowances and benefits paid by trade unions and company social benefits funds;
- the 'Anti-crisis action package' within the framework of the human capital operational programme (HCOP) presented by the Ministry of Regional Development.

Other related actions include work on the mechanisms for setting minimum pay at up to half of average pay, which is to be developed by the end of 2009. The 'Act on the support of the state in paying some housing credits given to people who lost work' (signed by the President on 13 July 2009) is also of significance for people affected by the crisis. According to the Act, unemployed people who lost their work after 1 July 2008 will be able to get up to PLN 1 200 (EUR 290) of non-interest-bearing (but returnable) allowance per month, from the state, for repaying their mortgages. Below, the most significant anti-crisis measures are examined in more detail.

### 2. The measures and their expected impact on the policy challenge

#### **Measures presented in the 'Act on lessening the effects of the economic crisis for employees and enterprises'**

The regulation aims at the reduction of costs for employers during the economic crisis, without the necessity to reduce employment. Suggested solutions also aim at influencing the quality of human capital through encouraging employees to take part in training and post-graduate studies. Solutions covered by the Act include issues related to:

- increasing flexibility in the organisation of working time;
- partial subsidisation of employment as an alternative for dismissals; and
- financing the development of employees' qualifications and competences.

Detailed solutions were clearly divided into two groups: accessible for all entrepreneurs; and accessible only for enterprises in temporary financial difficulties.

The Act offers the following solutions accessible to all entrepreneurs:

- extending the working-time settlement period to a maximum of 12 months;
- allowing different times for starting and finishing work on particular working days;
- limiting the employment of an employee on a temporary contract for up to a maximum of two years.

The solutions for the group of entrepreneurs who are in temporary financial difficulties because of the economic crisis includes mechanisms of financial support from the Guaranteed Employment Benefits Fund and the Labour Fund. Employers from this category must fulfil the following conditions:

- decreased turnover, understood as sales, by a minimum of 25%, calculated by quantity or value within three consecutive months after 1 July 2008, in comparison with the same three months in the period 1 July 2007 to 30 June 2008;
- not being behind with paying taxes, social insurance and health insurance contributions, and the Labour Fund;
- development of restructuring programmes for the incoming year; and
- not using public support for the equipment of work places for unemployed people from the resources of the Labour Fund after 1 February 2009.

On the basis of the Act, the following solutions, within the framework of the labour law, are accessible to employers who are in temporary financial difficulties:

- economic stoppage and related benefits;
- shortening working time and related benefits;
- co-financing qualifications of employees.

The regulation introduces an instrument for compensation of pay for employees during economic stoppage. Within six months, the benefit from the Guaranteed Employment Benefit Fund can amount to 100% of unemployment benefit. The employer is obliged to cover the difference between the amount of the benefit and minimum pay. Entrepreneurs can also gain resources from the fund, for paying social insurance contributions for employees. However, the entrepreneur commits not to dismiss the employees, who get the benefits (during the period of getting benefits and six months after), excluding dismissals through the fault of employees. Such solution will allow for retaining employment and not burdening employers with the costs of dismissal and recruitment of new employees.

According to the Act, entrepreneurs can shorten working time with proportional lowering of pay, to half time at most, without the necessity to change employment contract, for no longer

than six months. During that time the employee is entitled to benefit, amounting to 70% of unemployment benefit, from the Guaranteed Employment Benefit Fund; however, the total amount of the benefit and pay cannot be lower than minimum pay.

The possibility to co-finance the costs of training and post-graduate studies from the resources of the Labour Fund is a significant new instrument influencing the labour market. The refund amounts up to 80% of the costs of training or post-graduate studies (however, not more than 300% of average pay in the previous quarter) for 6 or 12-month periods. Additionally, employees who decide to improve their qualifications will get a scholarship from the Labour Fund amounting to 100% of unemployment benefit, in the case of economic stoppage. In order to submit such an application, the entrepreneur must have a training fund, which can be a limitation and an additional cost (however, according to the new regulations payments for that fund can be charged as the cost of economic activity at the moment of transferring the money to the fund, not actually spending them). However, the entrepreneur cannot terminate an employment contract due to other reasons than the fault of the employee during the period of the scholarship and six months thereafter.

#### **Measures presented in the 'Anti-crisis action package' within the framework of the human capital operational programme (HCOP) presented by the Ministry for Regional Development**

In view of the deteriorating labour market situation, the ESF HCOP takes over additional tasks related to supporting employees to remain in the labour market or quickly return to vocational activity (Ministry of Regional Development, 2009a). The action package developed in the Ministry for Regional Development assumes, among others:

- increasing the contracting of ESF resources accessible in 2009 and 2010;
- modifying and simplifying existing procedures, and introducing new ones, to allow for the acceleration of financial support from the ESF;
- introducing new support instruments; and
- increasing accessibility to training and guidance for entrepreneurs.

Accelerating the time taken to sign contracts and make payments, in operations carried out within the areas of adaptability and employment, is of particular importance. It is necessary to give rapid support to dismissed people, so as to keep the period of unemployment to the minimum.

The following support instruments are included in the anti-crisis actions planned in the HCOP.

- A one-time relocation allowance will be given to unemployed people who take up work further than 50 kilometres from their place of residence. This can be six times the amount of the unemployment benefit.

- A one-time motivational allowance will be offered to employees included in monitored dismissals programmes who take up work with a new employer for lower pay than previously. The allowance will cover three times the difference between the previous and current gross pay; however, this cannot be more than PLN 4 000 (EUR 970).
- Funds to start economic activity will be given to employees included in monitored dismissals programme.
- Specialist training or post-graduate studies for highly qualified employees dismissed through the fault of employer will be co-financed.
- 'Fast track' assessments (within 30 days) of applications for co-financing projects will be established.

According to the Ministry of Regional Development, new solutions require changes in programme documents of the human capital operational programme, and will be implemented from the third quarter of 2009, as new competitions are announced.

### 3. Organisation, implementation and funding of the measures

The 'Act on lessening the effects of the economic crisis for employees and enterprises' is an expression of compromise amongst the social partners, and partly answers their proposals defined in the 'Anti-crisis action package'. The name of the Act has a conciliatory character, which reflects the search for balance between employers' and employees' needs<sup>(91)</sup>. However, the compromise reached within the framework of the Act is not easy for the representatives of all interested parties, which is reflected in remarks made during all the stages of the legislative process. While the Act was waiting for the President's signature, the representatives of trade unions (NSZZ 'Solidarność' and OPZZ mainly) commented unfavourably and highlighted unsatisfactory regulations, especially those concerning the flexibility of working time.

The 'Act on lessening the effects of the economic crisis for employees and enterprises' provides the overall Labour Fund amounting to PLN 1.46 billion (EUR 278 million), including PLN 960 million (EUR 233 million) for subsidised employment, and PLN 500 million (EUR 121 million) for training and post-graduate studies. The estimation of the results of the regulation, attached to the Act, foresee that: assuming that about 166 000 people acquire entitlements to benefit paid during six months, and a further 83 000 people during a 12-month period, the total cost of benefits for the group of 249 500 people (included in

the regulation) would amount to approximately PLN 1.1 billion (EUR 267 million). The cost of subsidised employment is estimated accurately, assuming that 200 000 people use the refund. However, the calculations concerning the costs of training and post-graduate studies raise doubts. The Act assumes average and stable costs of training and post-graduate studies (at national scale). While the distribution of that instrument nationwide is difficult to predict, training costs are lower in big cities (like Warsaw or Poznan). Increased demand for training can also cause market prices for training to increase. Moreover, the Labour Fund will be burdened with the additional costs of loans under the 'Act on state support in paying housing credits given to people who have lost their work' amounting to PLN 440 million (EUR 107 million), according to government estimates. The resources from the ESF are separate sources of financing. Thus, PLN 695 million (EUR 168.5 million) was allocated for the presented actions of the Ministry of Regional Development in 2009 within the framework of the human resources operational programme.

### 4. Performance and achievements

According to the justification included in the draft 'Act for mitigating the effects of the economic crisis for employees and employers', the proposed changes should be favourable for the labour market through:

- retaining jobs, by entrepreneurs who are in temporary financial difficulties related to the crisis;
- lessening the potential risk of growth in unemployment;
- acquiring new or upgrading old skills and qualifications, by employees employed by entrepreneurs in temporary financial difficulties;
- facilitating work-life balance; and
- decreasing the risk of social inclusion related to the loss of work.

Co-financing training and post-graduate studies should be popular. The instrument can be of significance for increasing the qualifications of employees, increasing their future chances in the labour market, and their productivity in the workplace. Entrepreneurs should also be interested in this type of financing because only training and studies justified by the current or future needs of employers are subject to co-financing.

Whereas some provisions of the Act can be viewed as favourable (e.g. connected with improving qualifications of employees or work-life balance), others raise doubts as far as their real influence on the labour market is concerned.

According to the justification, about 249 500 people employed by entrepreneurs in temporary financial difficulties can be

(91) In the project of 22 May 2009 the name of the act was 'Act on the state support in counteracting termination of labour relation through no fault of employees'.

included in direct financial support, 49 500 of whom can count on getting a refund on the costs of training or post-graduate studies. According to more careful estimations of the expertise developed by the Institute for Structural Research (Baranowska et al., 2009), commissioned by the Polish Confederation of Employers, not 200 000 but only 100 000 employees will profit from compensation for stoppage or shortened working time. Taking those discrepancies into account, and adopting average values, we can expect significant — but limited — influence of the new regulations on the Polish labour market.

This is because it can be assumed that employees who benefit from the new instruments will not become unemployed, especially during the period of the functioning of those solutions and up to six months after. However, the issue which remains open is the growth of the unemployment rate in Poland, especially in the second half of 2009. In the case of increased growth of unemployment, the proposed solutions can prove inadequate; all the more, because the solutions for subsidising employment usually have short-term effects and only if employers view the economic downturn as temporary. In the case of a long-term crisis causing a permanent decrease in labour demand, employers will not be willing to apply instruments which oblige them to retain employees six months after the end of any subsidy.

Another problem is the limited time horizon of the proposed solutions. Support, forecasted by the Act, will be in place until 31 December 2011. Some solutions included in the Act, especially those that concern the flexible shaping of working time including those supporting work-life balance, should be introduced indefinitely because they are of significance for shaping flexicurity in general, not only during the economic crisis. Regulations concerning financial benefits from the Guaranteed Employment Benefit Fund, co-financing of the costs of training and post-graduate studies, and grants for employees can only be applied following EU approval of the public support, and that can prove troublesome. Despite legislative steps already taken, it can delay the enforcement of the regulations of the Act, which are very urgent in a period of economic crisis. Moreover, solutions suggested by the Ministry of Regional Development, within the framework of the HR operational programmes (HR OP), should be accelerated. The efficiency of the proposed solutions will depend on the pace of their introduction. What is more, ESF funding is, de facto, limited to the beneficiaries of the projects financed within the framework of the Sub-actions 6.1.1, 8.1.2 and Action 6.2.

Some experts critically assess issues connected with the suggested amount of pay during stoppage periods, i.e. minimum pay, which — in their opinion — can increase the army of the 'working poor'. In reality, it will transfer costs from the Labour Fund to social welfare financed by the state budget<sup>(92)</sup>. However, the application of suggested solutions allows, especially in the case of economic stoppage, for the stabilisation of income at a level higher than unemployment benefit. Other experts indicate the risk of abuse in the case of shortening of working time (which can only be formal) and informal overtime, which can increase the grey economy (Baranowska et al., 2009).

On the other hand, however, the implementation of the solutions suggested in the Act can significantly be impeded to obtain the approval of employees' representatives, and introduce regulations for company collective agreements. In that context, it will be particularly difficult to make use of economic stoppage, where — apart from the acceptance of employees' representatives — employees themselves have to agree to be included in that solution. The final shape of the administrative Act which will condition the efficiency of suggested solutions is also not known.

## 5. Conclusions

In times of economic crisis the instruments supporting the functioning of the labour market, such as those described above, are of great importance. So are the expectations towards any new and innovative labour market policies that can help maintain employment, create jobs and possibly upgrade skills, as expected by the EU.

Generally speaking, the solutions suggested by the described regulations are moving in the right direction; however, it seems that they are too conservative. They will not suffice, especially if the economic crisis continues and deepens, causing a significant deterioration of the labour market situation. The most severe limitations of the suggested solutions concern: the limited range of enterprises and employees to be covered by the solutions; the limited time of implementation; late implementation; the necessity to get agreement from the representation of employees at company level; and possible bureaucratic difficulties resulting from administrative regulations, which are especially severe for smaller enterprises. Thus, the solutions are significant but inadequate in the context of the continuing economic crisis.

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# Portugal

## Youth internships and employment-training internships

### 1. Introduction

In the fourth quarter of 2008, the worsening of the economic outlook meant that measures were required to foster economic growth and jobs in line with the European Council communication 'A European economic recovery plan' (COM(2008) 800). According to the forecasts at the time, Portuguese GDP was set to decrease by 0.8% in 2009 and unemployment was expected to rise by 0.8 percentage points to 8.5%. The government presented the *Iniciativa para o Investimento e Emprego* (IIE, Initiative for investment and employment) with measures aimed at lessening the impact on the most vulnerable groups. Instead of broad-based measures, it opted in favour of targeted and temporary measures (most, up to the end of 2009). In the employment area, the focus was placed on young people (in particular those with higher education), unemployed people in lower income brackets, unemployed people from regions with high unemployment, and workers aged over 45.

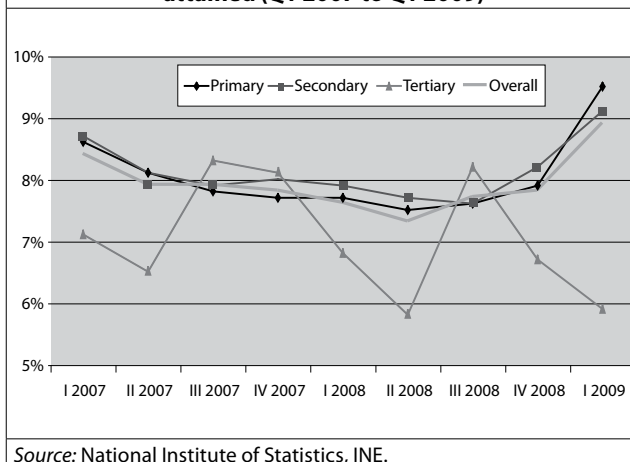
In the following section of this article, we examine further the difficult labour market position of young people who have higher education, before moving on to discuss the measures put in place to assist them.

### 2. Graduate unemployment

This section describes how unemployment affects graduates and compares the figures for this group with unemployment as a whole. Our analysis is based on a bi-annual report from GPEAR, a public body under the Ministry of Science, Technology and Higher Education, using data on registered unemployment collected from job centres; it is particularly useful because it covers key dimensions for a study of this nature.

The upward trend in overall unemployment since the second quarter of 2008 is shown in Figure 1. This is explained by the rise in unemployment among those with primary and secondary education. In contrast, the rate of graduate unemployment has dropped since the third quarter of 2008, following a similar pattern to 2007. This type of unemployment is seasonal as the unemployment rate goes up in the months students finish their university degrees. Despite this trend, the measures outlined by the government highlight the perception that young people are particularly vulnerable to unemployment and therefore shifts in this variable are crucial to the population's welfare.

**Figure 1: Unemployment rate by highest education level attained (Q1 2007 to Q1 2009)**



Unemployed graduates are mainly female (69%), are registered in job centres for less than one year (76%), and are usually aged under 35 years of age (72%). These people see registering in job centres as part of the transition from school to employment. The proportion of first-time jobseekers among unemployed graduates is therefore higher than in registered unemployment (39% and 8%, respectively).

**Table 1: Unemployment duration by educational level**

| Unemployment duration | Educational level   |                                  |
|-----------------------|---|----------------------------------|
|                       | People with educational level lower than higher education (%) | People with higher education (%) |
| < 3 months            | 31.6  | 32.5                             |
| 3–6 months            | 15.5  | 25.7                             |
| 6–12 months           | 16.2  | 17.3                             |
| 12–24 months          | 15.1  | 15.7                             |
| ≥ 24 months           | 21.6  | 8.8                              |

Source: IEFP and MTSSS.

One of the most important dimensions of this analysis is the distribution of unemployment by scientific field. Not only does this allow an assessment of the education system's ability to meet labour market needs and identify possible shortages and surpluses, but it also provides evidence of trends in demand for skills.

The scientific fields with the highest proportion of unemployed are: business sciences, social sciences, and education sciences (19%, 12%, and 10%, respectively). These three areas account for 41 % of graduate unemployment. There has been a marked upward trend in unemployment in social sciences (8% in 1997/98; 16% in 2006/07). In contrast, the trend in education sciences has been downward (16% in 1997/98; 10% in 2006/07) while that of business sciences has remained almost unchanged.

The fields with the lowest graduate unemployment are: transportation (0.1 %), public safety and law enforcement (0.2%); veterinary sciences (0.3%); mathematics and statistics (0.6%); computer sciences (0.9%). Information on the composition of unemployment per scientific area is important but the

proportion of graduates per scientific area should also be taken into account. There is a positive gap between the two in the following areas: social sciences, environmental protection, and communication and journalism. On the other hand, the gap is negative in transportation, mathematics and statistics, health sciences, and computer sciences.

**Table 2: Unemployed people with higher education by scientific area (2008)**

| Sciences                          | Subtotal (%) | 2007–08 change (percentage points) |
|-----------------------------------|--------------|------------------------------------|
| Education sciences                | 10.4%        | – 5.3                              |
| Visual and performing arts        | 5.7%         | 1.2                                |
| Humanities                        | 5.6%         | – 1.2                              |
| Social sciences and psychology    | 12.4%        | – 0.6                              |
| Communication and journalism      | 3.4%         | 0.6                                |
| Business sciences                 | 18.6%        | 2.4                                |
| Law                               | 3.3%         | 0.3                                |
| Life sciences                     | 1.7%         | 0.3                                |
| Physical sciences                 | 1.8%         | – 0.3                              |
| Maths and statistics              | 0.6%         | 0.0                                |
| Computer sciences                 | 0.9%         | 0.1                                |
| Engineering and mechanics         | 8.4%         | 0.0                                |
| Manufacturing sciences            | 2.0%         | 0.1                                |
| Architecture and construction     | 5.2%         | 1.0                                |
| Agricultural studies              | 2.6%         | – 0.1                              |
| Veterinary sciences               | 0.3%         | 0.1                                |
| Health sciences                   | 6.7%         | 0.5                                |
| Social services                   | 4.7%         | 0.2                                |
| Personal services                 | 3.4%         | 0.6                                |
| Transportation                    | 0.1%         | 0.0                                |
| Environmental protection          | 1.9%         | 0.2                                |
| Public safety and law enforcement | 0.2%         | 0.1                                |

Source: IEFP.

The most common duration of unemployment is less than three months in all scientific fields with the exception of education sciences and social sciences where the average is longer (three to six months).

### 3. A description of the measures

To mitigate the effects of weaker economic growth on youth unemployment, the government boosted the resources allocated to different types of internships or work placements to facilitate the transition from school to employment. The *Instituto do Emprego e Formação Profissional* (IEFP —Employment and Vocational Training Institute) had already foreseen an increase in resources for internships, whereby 24 000 people would benefit from this aid (Table 3).

Recent graduates give particular importance to internships. A problem facing employers is that some degree courses do not match industry requirements as they are sometimes too theoretical without enough practical components. As a result, new graduates find it difficult to meet employers' expectations. Short internships provide work experience welcomed by both the future employer and employees.

It should be noted that 60 % of the internship trainees remain in the firm after the internship. This means that internships increase the employability of trainees. These programmes are particularly effective when academic and entrepreneurial organisations cooperate with each other. The success of youth internships has been recognised by an evaluation study conducted by the IEFP (OEVA/IEFP, 2004). Data demonstrate that nearly 75.1 % of those enrolled in internships were previously searching for a job. Three months after completing the placement, 71 % of the trainees had already found jobs. Those unable to find a job said the main reasons were lack of job vacancies in their region and in their area of expertise (35.1 % and 20.1 %, respectively). Nearly 76 % of the former trainees classified the placement as crucial to their integration in the labour market. This type of intervention seems to be an effective way of facilitating the transition from the education system to the labour market and compensates for the recognised inadequacy of much of the educational system to provide work-based knowledge. It therefore comes as no surprise that the government has decided to increase investment in internship programmes in an attempt to overcome the effects of the recession among the younger population.

Until December 2008, the main internship programmes offered by the Public Employment Services (PES) were youth internships and INOV-JOVEM internships. Table 4 describes the key features and objectives of these two programmes, and also describes the new employment-training internship programme recently introduced by the government.

**Table 3: Internships per year and resources allocated (2007–09)**

|                       | 2007            |                           |                  | 2008            |                           | 2009            |                           |
|-----------------------|-----------------|---------------------------|------------------|-----------------|---------------------------|-----------------|---------------------------|
|                       | Expected target | Financial resources (EUR) | Effective number | Expected target | Financial resources (EUR) | Expected target | Financial resources (EUR) |
| Youth placement       | 20 592          | 54 883 768                | 20 576           | 19 991          | 54 601 268                | 18 750          | 53 877 569                |
| INOV-ART placements   | –               | –                         | –                | –               | –                         | 200             | 4 000 000                 |
| INOV-JOVEM placements | 1 114           | 5 966 042                 | 693              | 1 207           | 5 688 211                 | 5 034           | 20 000 000                |
| Total                 | 21 706          | 60 849 810                | 21 269           | 21 198          | 60 289 479                | 23 984          | 77 877 569                |

Source: IEFP

Table 4: Internships offered by the IEFP

|                                       | Programme  |   |  |
|---------------------------------------|--|---|--|
|                                       | Youth internships  | Employment-training internships   | INOV-JOVEM internships   |
| <b>Objectives</b>                     | To complement and enhance social and professional skills of unemployed under 36 years of age in order to accelerate transition from university to employment | <ul style="list-style-type: none"> <li>— To facilitate the integration of first jobseekers in employment</li> <li>— To create retraining conditions for the unemployed over 35 years of age by providing them with work-based opportunities to complement school-based education or vocational training</li> </ul>                              | <ul style="list-style-type: none"> <li>— To foster innovation among small and medium-sized enterprises (SMEs)</li> <li>— To facilitate the integration of graduate jobseekers in the labour market, providing them with the conditions to develop their skills and gain work experience</li> </ul>   |
| <b>Trainees</b>                       | Jobseekers under 35 years of age with secondary or tertiary education  | <ul style="list-style-type: none"> <li>— First jobseekers</li> <li>— Unemployed over 35 years of age searching for a job who during the past three years concluded an education level or training course: primary, secondary or higher education; certified training courses with at least 250 hours; specialised technology courses</li> </ul> | Unemployed aged under 36 years of age with higher education in one of the following areas: arts, social sciences; business sciences; life sciences; physical sciences; maths; statistics; computer sciences; engineering; manufacturing sciences; architecture; construction; health sciences; personal services; environmental protection |
| <b>Duration</b>                       | 12 months  | 9 months  | 12 months  |
| <b>Organisations</b>                  | Public and private organisations (non-profit or for-profit)  | Public and private organisations (non-profit or for-profit) and local authorities   | SMEs from the following sectors: agriculture, forestry and fishing; mining and quarrying; manufacturing; construction; trade; transport; tourism; and other services   |
| <b>Other requirement</b>              | A supervisor for each trainee  | A supervisor for each trainee   | A supervisor for each trainee  |
| <b>Financial support trainee</b>      |  |   |  |
| <b>Grant</b>                          | 2 × IAS for trainees with higher education; 1.75 × IAS for trainees with post-secondary education; 1.5 × IAS for trainees with secondary education           | 2 × IAS for trainees with higher education; 1.75 × IAS for trainees with post-secondary education; 1.5 × IAS for trainees with secondary education; 1.25 × IAS for trainees with basic education.   | 2 × IAS  |
| <b>Lunch allowance</b>                | Yes  | Yes   | Yes (11 months)  |
| <b>Work accident insurance</b>        | Yes  | Yes   | Yes  |
| <b>Transport and housing benefits</b> | Not available  | Not available   | Housing benefits are received when the trainee lives more than 50 km from the workplace; maximum amount: 30%*IAS; transport allowance is the cost of public transport (only given to trainees not receiving housing benefits)  |
| <b>Legislation</b>                    | Decree No 129/2009 dated 30 January 2009   | Decree No 131/2009 dated 30 January 2009<br>Decree No 262/2009 dated 12 March 2009  | Decree No 1103/2008 dated 2 October 2008; Decree No 586-A/2005   |

Source: IEFP

NB: The IAS is the Social Support Indexation, which was introduced in 2006 and replaced the minimum wage as a reference to set and update contributions, pensions and other social benefits. At the start of 2007, pensions and social benefits like unemployment assistance insurance started to be indexed and updated in line with the IAS, instead of the national minimum wage. IAS has been lower than the national minimum wage since 2008.

The programmes cover neither placements for the acquisition of professional qualifications required to practice a specific profession, i.e. organised by professional associations, nor placements that are part of degree courses.

In relation to the European employment strategy guidelines, these measures come in the context of guideline 18 as they contribute to fostering 'employment pathways for young people and reduce youth unemployment'. Nevertheless, they respond also to guideline 17: 'Implement employment policies aiming at achieving full employment...and strengthening social cohesion'. The motivation is to improve employability among young age groups in order to reduce the youth unemployment rate. With a view to boosting overall productivity, the integration

of more qualified workers in small and medium-sized firms is aimed at stimulating both modernisation and innovation.

In terms of the key priority areas identified by the Commission in the communication 'A shared commitment for employment' (COM(2009) 257), these measures relate to 'increasing access to employment', as the aim is unquestionably to minimise the impact of the recession on young people. Placements provide school leavers and new graduates with the opportunity to increase their experience and therefore their employability.

Many firms offer unpaid placements in an attempt to obtain highly qualified workers at no cost. First-time jobseekers and other unemployed people sometimes accept these offers in the

hope of being hired at the end of the placement, because they value the experience, or due to lack of other job opportunities. However, especially during a period of high unemployment, this is not an option for people from lower income households who need to find paid work even if it means accepting a job for which they are over-qualified. The PES placements overcome this problem because the trainee receives a grant.

The key innovation of the youth placements and the employment-training placements are the provision of opportunities for work-based experience intended to improve the employability of those making an effort to increase their education levels and, for the youth placement programme, a focus on higher education courses in areas of low employability.

The proportion of IEFP funding for each trainee depends on the type of organisation and the age of the trainee (Table 5).

**Table 5: Internships and IEFP funding**

|  | Youth internships<br>Training-employment<br>internships |
|--|---|
| <b>Type of organisation</b>  |   |
| Private non-profit organisation  | 60 %  |
| Private for-profit organisation with less than 50 employees                  | 55 %  |
| Private for-profit organisation with 50 or more but less than 100 employees  | 50 %  |
| Private for-profit organisation with 100 or more but less than 250 employees | 35 %  |
| Private for-profit organisation with 250 or more employees                   | 25 %  |
| <b>Age</b>   |   |
| Trainees over the age of 45  | 60 % (irrespective of the type of organisation)         |
| <b>Disability</b>  |   |
| Trainees with disability   | An additional 10% on the above figures                  |

These measures were complemented with incentives to foster job creation for this age group (financial benefits and two years' exemption from payments social security years).

## 4. Organisation, implementation and funding of the measures

The programmes are managed by the IEFP. In operational terms, job centres receive the applications for the placements and then conduct a selection process. Firms can propose the integration of one or more trainees. In most cases, the IEFP supports a large proportion of the trainee-related costs, as can be seen in Table 5.

The INOV-JOVEM programme also pursues greater involvement from relevant stakeholders and better results by providing benefits for organisations that want to offer at least

10 internships. These institutions can be professional or industrial associations, trade unions, universities, research units, other relevant organisations in specific areas of an economic sector, and public administration bodies. They receive EUR 225 for each placement approved and the incentives are not available for other internships.

All the aforementioned placements (youth, INOV-JOVEM, and training-employment) receive 70 % of their funding from the European Social Fund and the remaining 30 % from the state budget.

## 5. Performance and achievements

In previous years, the results achieved have been very close to the target set by the IEFP which suggests that the framework of financial incentives for previous placement programmes was successfully delivered. Although the government did not announce specific mechanisms or instruments to assess the effective performance of these two measures, this analysis can be made by examining their effects on the unemployment rates in these age groups and, more specifically, on unemployment rates by highest education level.

The youth unemployment ratio (18.M1) is the most appropriate of the Commission's compendium indicators<sup>(93)</sup> for monitoring the impact of these programmes. It would also be useful to follow up participants in regular activation measures (19.A4). A previous study conducted by the IEFP (OEVA/IEFP, 2004) made this assessment and concluded that the PES placements had been effective.

A call for applications for these placements was open in summer 2009, a timing coinciding with the months when most students graduate and the graduate unemployment rate tends to rise.

## 6. Conclusions

In December 2008, the government outlined a strategy to overcome the effects of the financial crisis on employment and growth and announced temporary and targeted measures. In the employment area, there was a considerable increase in the resources allocated to placements so as to facilitate the transition from the education or vocational training system to the labour market. In the past, this type of instrument had proved effective in speeding up the transition from unemployment to employment. Over 70 % of those doing internships find a job in the three months following the end of the placement.

(93) Available on the Internet (<http://ec.europa.eu/social/main.jsp?catId=477&langId=en>).

New placements will be created for 12 000 graduates from scientific areas with low employability and for 10 000 unemployed people who finished an education or vocational training course in the last three years with a view to improving their employability.

These new placement programmes are based on an instrument that has proved effective in the past and they seem appropriate, given the evolution in the unemployment rate of young people and particularly among graduates. Nevertheless, the recession has exposed a structural problem in the Portuguese labour market, namely that the skills required by the labour market are different from those produced by the education system. This gap can only be closed with ongoing action involving all key stakeholders. In the future, the number of places in university degree courses should be defined in accordance with future labour market needs.

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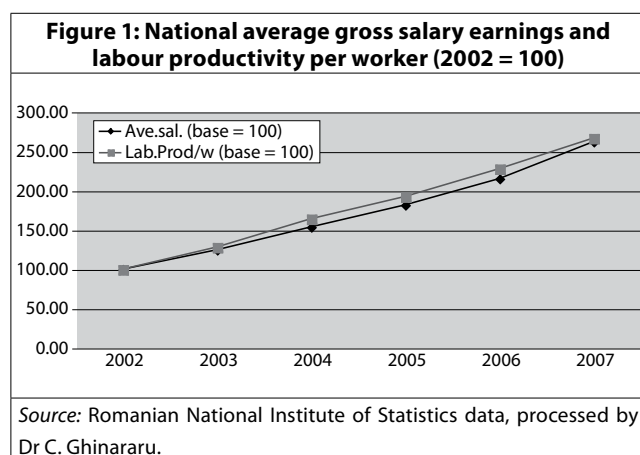
# Romania

Keeping wage developments in line with productivity and building a unitary salary system in the public sector

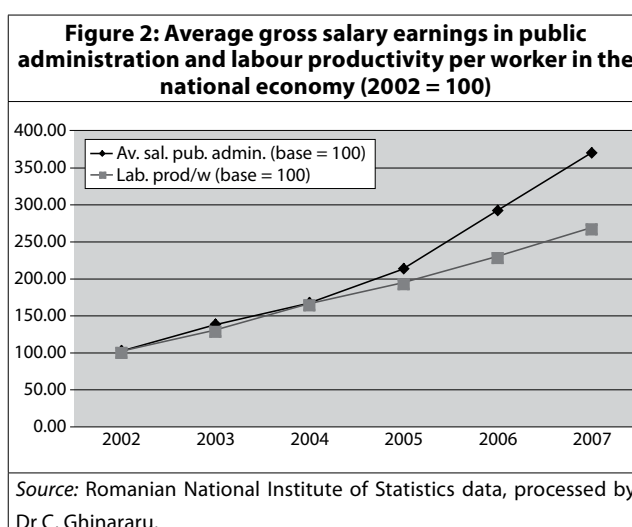
## 1. Introduction

Salaries have been growing fast in Romania during the last decade. Boosted by increased productivity, the price of labour increased from its very low levels at the beginning of the decade. For most of the period under analysis (2000–08) this increase was strongly in line with productivity gains (see Figure 1, which shows no gap between the salary and productivity increases). However, towards the end of the period and especially during 2007, salary gains for the first time visibly outpaced productivity gains.

While in relative terms salaries have been increasing, in absolute terms they take up only a small part of productivity gains. This means that whilst personal purchasing power has been growing throughout the decade of growth, the lion's share of growth results (around 60 % to 70 %) went to enterprises.



However, salary earnings in the public sector have increased more substantially (see Figure 2). Their share in productivity far exceeded 60% annually, which is 20 percentage points above the national average. Whilst economy-wide salary gains increased but never actually caught up with the productivity gains, salary gains in the public sector caught up and outpaced productivity gains.



The fact that economy-wide salary gains increased more than productivity gains (just on the verge of the world economic downturn in mid-2007) may be attributable to the salary gains in the public sector.

Therefore, taking into account the commitments of the memorandum of understanding (MoU) with the European Commission and the loan agreement with the IMF, the Romanian Government decided to promote a law unifying the salary system in the public sector.

The draft law has been intensely debated throughout the spring of 2009. In September 2009, the government adopted the unitary pay scale law and it will enter into force on 1 January 2010.

## 2. Links with the EU-level policy priorities

The immediate impetus for the changes stems from the country's dire conditions in the context of the economic crisis, worsened by the negative media reports and by hastily promoted measures (for example, the law aiming to increase education personnel salaries by 50 %, adopted by the Parliament in autumn 2009 and deferred from application by the minority liberal government). However, even without the crisis, an overhaul was necessary due to the extraordinarily complicated regulations that had built up in the sector throughout the last 20 years and had rendered the system not only cost-inefficient, but also impossible to govern. Accordingly, such regulation was necessary to improve the wage setting mechanisms in the whole economy, given that the public sector serves in many cases as a benchmark for private enterprises.

Thus, while the immediate impetus is more than clearly linked with the explicit provisions of both the MoU and the loan agreement with the IMF, a more profound impetus was already present. Moreover, it was a necessity expressed also in several assessments by the European Commission, which repeatedly urged successive Romanian governments to move towards

a more cautious wage policy in the public sector, so as to use salary policy in the sector as a 'cooling agent' for wage-inflation pressures developing into the wider economy (in accordance with integrated guideline 22).

The measure also has several links with the three key priority areas for action as identified by the EU in response to the economic crisis<sup>(94)</sup>.

## 2.1. Maintaining employment, creating jobs and promoting mobility

Given the context of the sharp economic downturn, reducing salary expenditures can also act to save jobs. Otherwise, it is probable that a large number of government employees would leave their jobs and would find it difficult to find private sector work. However, the statements from the government that such salary reductions will generate new jobs need to be taken with caution. This may happen when the recovery starts; a better regulated and streamlined public sector will be more able to provide a certain number of job openings and even attract job-seekers. But this will only happen if the downturn actually lasts longer than commonly thought. Only then will low salaries which use the national guaranteed minimum wage as a reference render such jobs really attractive. If the downturn is short-lived, however, with a salary tied strongly to the minimum guaranteed wage and still pending constraints because of the loan agreements, it is arguable that public sector jobs will again be unattractive as has been the case at the beginning of the current decade. However, this might have a positive effect on the private sector, which was complaining prior to the crisis about talented people being poached by the public sector.

## 2.2. Upgrading skills and matching labour market needs

As mentioned above, a clear-cut structure should, theoretically at least, encourage investment in skills. However, a system that combines practically all performance-related elements into the basic payment (this is proposed in the current draft law) will surely not be conducive to skills investment. Of course, if the law is implemented and if the downturn is short-lived, it will help in releasing people for the private sector, thus easing the deficits of labour present in the labour market prior to the crisis. However, if the downturn is prolonged, imbalances will be more significant since, despite the lower salaries, public servants will prefer the security of the public sector. Thus, the most unfortunate process of negative selection (when the best people leave), which plagued public administration, education and health systems throughout the 1990s, is likely to return.

## 2.3. Increasing access to employment

This effect is particularly difficult to estimate. It is probable that in the mid-term, especially if the measure remains in its current shape and in the context of a short economic downturn, some of the excess labour that might exist in the public sector (for example, in the education system) will start moving to the private sector. However, no one knows the duration and severity of impacts of the downturn for the Romanian economy. Secondly, the impact of the loan agreements that helped propel the measure on the agenda will weigh down on the economy for years to come, hampering its growth potential. Finally, even if the downturn proves to be short-lived and the consequences of the recent surge in sovereign debt are not as difficult as currently foreseen, it may still be desirable for the economy not to return to its pre-crisis situation. So, re-balancing the labour market remains only a scant probability. In the immediate term, since the measure is seen as an additional brake on public expenditure, accompanied by an almost complete hiring ban in the public sector<sup>(95)</sup>, the measure will, indirectly, contribute to a more than probable increase in the unemployment rate of young people who would otherwise have been hired in the public sector.

## 3. The measure and its expected impact on the policy challenges

At the core of the draft law is the concept of unifying the pay scale for all employees in the public sector, including all civil and armed services. This also includes public education and public health sectors. Moreover, the basic tenet of the new system is to simplify a complex web of bonuses and other types of performance or working conditions related payments, which, in some cases, double the (otherwise not very high) basic salary packages. The approach proposed by the current government therefore aims to combine all of these benefits (or at least most of them) into the basic, and thus more easily controllable, salary package.

Accordingly, the system that underpins the newly proposed law is based on a unitary pay scale, with a reference point to the national minimum salary (RON 600 or EUR 143 as of July 2009). This reference point is multiplied by a range of coefficients to create three basic payment levels:

- the lowest level, initially established at 3.8 times of the national minimum wage, and subsequently downgraded by the Ministry of Labour to 2.3 times the national minimum wage;
- the intermediate level, set initially at 6.5 times the national minimum wage; and

(94) 'A shared commitment for employment', communication from the Commission, 3 June 2009 (<http://ec.europa.eu/social/main.jsp?langId=en&catId=89&newsId=514&furtherNews=yes>).

(95) The public institutions are only allowed to occupy one in seven vacancies.

- the upper level, set at 8.5 times the national minimum wage, and subsequently reduced to 5.4 times the national minimum wage.

Another stated aim of the changes proposed is flattening the salary scale to compress the ratio between the highest and lowest salaries in the public sector to 15:1, down from an approximately 30:1, currently. Finally, the draft law aims to rank the different branches of the civilian and military administration, including the judiciary, public education and health, in one single scale to create equivalents between different positions in accordance with their relative importance in the whole public sector system.

The end result after more than three months of heated negotiations shows the military, the judiciary and the services of the Ministry of Interior at the top of the scale, with salary ratios close to the maximum 15:1. In education the only position at the top of the scale is that of a full university professor, which is equated to a brigadier (one star) general. A primary school principal, although at the top of the scale, is only the equivalent of a colonel. Another example, using the military reference ranks for the sake of simplicity, puts a second-rank high school teacher on a par with a lieutenant. In this way, the crucial details of the changes proposed are provided in the annexes of the draft law.

## 4. Organisation, implementation and funding of the changes

The Ministry of Labour has been responsible for the process of drafting the law, including a wide consultation and negotiation that took place for the whole of spring 2009. Following the likely approval of the law in September 2009 by the Parliament, all ministries, central and local government agencies, the judiciary and the military will have to start its implementation through a phased-in process of three years following the adoption of the law.

Needless to say, negotiations with the social partners have been stormy. In the final round of negotiations, the chief negotiator from the government's side has announced a 40% cut in the value of the coefficients agreed in the negotiations as the government realised that the resulting basic salaries would be impossible to pay under current budgetary constraints. In addition, the approaching presidential election campaign and the fact the current government coalition is formed by two former bitter adversaries who will confront each other in the autumn race for the presidential office has not been helpful.

However, most of the unions, especially in the education sector which were promised in autumn 2008 a 50% rise in their salaries have voiced open dissent. This is also the case among unions in the public administration and police, with the most vocal

opponents amongst the magistrates. The draft law is now open for public debate.

The funding for the measure will come from the state budget as well as from the state social security budget<sup>(96)</sup>. There are several measures expected to shield against any liquidity shortage that might arise, to stabilise the exchange rate and help both the state budget and the social insurance budget to meet their commitments. These include the loan agreements that Romania concluded during the first part of 2009 and the National Bank's action to reduce the mandatory reserves of commercial banks, to broaden the range of collaterals accepted and possibly to reduce the key interest rate in September 2009.

## 5. Performance and achievements

The law in itself will prove a rigid framework, very suitable for a period of austerity, but probably highly unsuitable in the long term. It is likely to dissuade many from seeking a job within the public administration or in the public education and health system and may adversely affect recruitment into the armed services. If the downturn lasts long enough, even with relatively low salaries and with severe constraints regarding performance-based payment, public sector jobs may still be in demand. But after the recovery sets in, the public sector system might find itself in a problematic situation.

No pre-assessment of the measure by an independent third party has been commissioned. Regular monitoring of the measure implemented will be shared between the Ministry of Labour and the National Civil Servants Agency, with the involvement of military services and the judiciary for relevant provisions.

The most likely indicators, from the Commission's compendium, to be used to monitor the measure's performance are the following, all under guideline 21: unit labour cost growth (22.M1); labour productivity (22.A1); and growth in labour productivity (17.M5).

## 6. Conclusions

Generally speaking, this measure has been and still is an absolute necessity. However, it seems that the more immediate motivation of saving funds for the country's state budget has been an over-riding goal. Considering all of its features, the law appears more like a pro-cycle policy, than the intended anti-crisis, anti-cycle measures. This in practice means that potential for its reversibility and/or subsequent alteration of it, beyond recognition, is high. In conclusion, it is likely that the

(96) Under this generic denomination, the autonomous budgets of the main state-administrated social protection schemes (pensions, unemployment, health, work accidents, salary liabilities guarantee fund), all of them funded via contributions collected from both employers and employees are usually considered.

government will succeed in adopting the law in autumn 2009, but the law itself will stand poor chances of survival in the mid-term, not to mention the long-term, for which it should have been implemented.

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# Slovenia

## The partial subsidy of full-time work

### 1. Introduction

The global financial and economic crisis reached Slovenia in the fourth quarter of 2008 and altered the positive trends in the economy and labour market of recent years. In the third quarter of 2008, Slovenia achieved the highest activity and employment rates as well as the lowest unemployment (registered and LFS) rates in its history as an independent state.

Since this period, the economic and labour market situation (with reduced demand for products and services) began to deteriorate quickly. Slovenia is now officially in recession (with a third consecutive quarter of GDP decline (– 8.5% in the first quarter of 2009)).

Slovenian companies responded to such circumstances mostly by reducing the number of their employees. This was done, in the first wave, in a 'soft' way by not prolonging fixed-term contracts, reducing the number of other forms of flexible employment and reducing the number of foreign workers in companies.

The second wave of dismissals, this time of employees with permanent contracts, was much harder. Dismissal of workers with permanent employment contracts have been used rather cautiously as a last resort, due to the legal obstacles and, in some cases, due to the costs to people involved. As Rojec (2009) has noted, 'In the case of workers with permanent employment contracts, employers are much more keen [to] use the measures of shorter working time and/or temporary periods of leave. The reasons for the preference of the latter are several. First, their use is stimulated by the government subsidies, second, this measure is much easier to be negotiated with trade unions, and, third they enable companies to keep the core number of workers at place in case of economic revival'.

However, registered and LFS unemployment rates increased noticeably. In May 2009, the registered unemployment rate was at 8.9%. The LFS unemployment rate stood at 5.4% in the first quarter of 2009. More recently, the economic and labour market situation has still continued to deteriorate, although at a slower pace than at the beginning of 2009. By the end of June 2009, the number of registered unemployed people increased to 86 481, which is increase of 30.6% in comparison with December 2008 and 42.4% in comparison with June 2008.

**Figure 1: Registered unemployed people in Slovenia, January 2007 to June 2009**



Source: ESS (2009a).

The response of the government to the consequences of the global financial and economic crisis was rather cautious and perceived by many actors involved or affected by the crisis as too slow. Nevertheless, taking into account the numerous active labour market policy measures which have already been introduced, the government decided to follow a step-by-step approach. Thus, in the last quarter of 2008 and during the first half of 2009, the government introduced three anti-crisis packages which somewhat alleviated the situation in the economy and labour market.

While the first package concentrated on measures relating to the financial sector, and budgetary stimulus measures<sup>(97)</sup>, the second package introduced, following similar examples from other EU countries, the partial subsidy of full-time work, which was then one of the rare measures directly aimed at maintaining employment rates<sup>(98)</sup> at the highest level.

Following the relative success of the measure and many recommendations from employers' and trade unions' representatives, the government introduced, in a third anti-crisis package, another measure — partial reimbursement of payment compensation. The aim is to preserve as many jobs as possible (up to 25 000) by introducing a 'temporary wait for the job' — workers on the waiting list are entitled to 85% of the wage (50% of the costs are covered the state and 35% by the employer). Furthermore, workers on the waiting list are entitled and expected to spend at least 20% of their waiting time in education and training (financed by the ESF to the amount of EUR 500 per worker).

(97) Aiming at slowing down the impact of the crisis on enterprises, enhancing enterprises financial liquidity and safeguarding existing jobs, and increasing expenditure in research and education to improve the growth potential of the economy.

(98) Thus, this measure is directly linked to integrated guideline 17 (aiming to achieve or retain full employment) and responds to the first key priority area for action as identified by the EU: maintaining employment, creating jobs and promoting mobility.

## 2. The measure and its expected impact on the policy challenges

The Act on partial subsidies of full-time work was approved by the parliament (National Assembly) on 14 January 2009.

The Act aims to ease the effects of the advancing financial crisis by providing assistance to employers in case they decide to preserve their workforce by shortening working time (from 40 to 36, or down to 32 hours per week) instead of dismissing employees. The Act is based on the principle that economic measures taken during the financial crisis should seek to ensure employment and maintain jobs, including incentives to shorten working time by partly subsidising full-time work.

This measure is a new instrument of active employment policy. For workers, it ensures full years of service, while decreasing employers' salary costs and protecting the Social Security Fund. In accordance with the Employment Relationship Act, the primary duty of an employer is to provide work for the employee as agreed in the employment contract. Full-time employees must undertake full-time work. Should an employer fail to do this due to the market situation, and ensure only shorter working hours (32 hours per week), the employer must still pay a full-time salary in accordance with the law, which is also the basis for calculating the benefits paid. The legal status of employees remains unchanged and they retain all the rights granted to full-time workers.

The Act defines the conditions under which an employer can apply for a subsidy, which include a commitment not to lay off employees and not to pay bonuses and rewards to management and supervisory boards. Should an employer breach the terms or fail to pay the social security benefits which are being subsidised, they will have to return the funds provided.

## 3. Organisation, implementation and funding of the policy

The government earmarked EUR240.3 million for the implementation of this policy by revising the 2009 state budget. European Social Fund resources are not being used to finance this measure. It is envisaged that the government (through the Employment Service of Slovenia) will subsidise a shortening of full-time work from 40 to 36 hours per week, by EUR60 per person. In addition, if there is an explicit written agreement between employer and trade union representatives at the

company level on further shortening of the weekly working hours, down to 32 hours, the government will subsidise this further (up to an additional EUR60). Shorter working weeks are as a rule included in company level collective agreements. In the case of a change of working time, collective agreements are changed accordingly. If employees in a company are not organised in a trade union (this may be the case in very small entities), then the trade union association at the industry level acts as a signatory.

Thus, subsidies for full-time work are:

- EUR60 per person per month for a 36-hour working week; or
- EUR75 per person per month for a 35-hour working week; or
- EUR90 per person per month for a 34-hour working week; or
- EUR105 per person per month for a 33-hour working week; or
- EUR120 per person per month for a 32-hour working week.

The original Act foresaw that the subsidy would expire after six months.

The responsibility for implementation, monitoring and evaluation of the policy was given to the Employment Service of Slovenia as the main institution authorised to perform activities in the areas of employment, employment programmes, the awarding of grants, careers guidance, unemployment insurance, the brokering of temporary and occasional work to pupils and students, and the employment and work of foreign workers. Its tasks are regulated by numerous laws, rules and other regulations (ESS, 2009b).

The introduction of this measure received mixed responses from the social partners. On the one hand, the Association of Employers of Slovenia did not fully support the approved Act. While many employers saw this measure as an opportunity to avoid layoffs and retain their workforce in preparedness for an improvement of the labour market and economy, at the same time they believed that it 'does not provide flexibility or legal security to employers, and that the principle of equal treatment doesn't apply to all employers who are affected by the economic recession' (ZDS, 2009).

On the other hand, trade unions and their representatives welcomed this measure as the opportunity for workers to keep their jobs and thus protect their security. Trade unions are involved in the implementation of the measure in two ways. Firstly, the reduction of working time below 36 hours per week (35 to 32 hours) is regulated by a written agreement between employer and trade union representatives at the company level. Secondly, it was implicitly expected by the authorities that the trade unions would supervise the measure's implementation at the local level.

## 4. Performance and achievements

Despite the mixed reception of the Act, the number of employers interested in applying for subsidy and the number of approved subsidies are increasing.

The latest data available on received applications for subsidies (8 June 2009) show that 706 companies applied for 67 373 subsidies (IMAD, 2009:25). On 17 July 2009, there were 58 555 people with subsidised jobs in 642 companies (ESS, 2009).

Table 1 shows that the overwhelming majority of approved subsidies are in manufacturing activities (87.4%) and construction (5.2%), and a minority in services — especially in wholesale and retail trade, repair of motor vehicles and motorcycles (1.7%), professional, scientific and technical activities (1.2%) and administrative and other support service activities (1.0%).

A closer look at the manufacturing sector shows that the activities with the greatest number of subsidies are in textiles, production of electrical appliances, the metal industry and furniture production. Recent analysis (IMAD 2009) confirmed that the same sectors were recipients of the various subsidies in the past and have also been most severely hit by the ongoing recession.

To ensure effective performance of the measure, the Act demands from each employer monthly reports on the number of employees subsidised which should be submitted to the Employment Service of Slovenia. At the same time, the Employment Service of Slovenia should regularly check the

records of the Health Insurance Institute of Slovenia for paid taxes for medical insurances on employees. In theory, any deviation from the signed contract between employer and ESS should be punished by reduced or abolished subsidies and refunding of already paid subsidies. But in reality, possibly due to poor supervision, there have as yet been no detected cases of breaking the contract. Moreover, so far there are no available in-depth evaluations on the policy measure.

The Act has been criticised for the following deficiencies.

- It has over-complicated application and implementation procedures.
- The small amount of the subsidy makes it unattractive for companies.
- Subsidies are subject to taxes which reduces the net amount.
- Trade unions would like the subsidies to be used directly for salaries, meaning that employees would receive the same amount of salary for less working time.
- To be eligible for subsidies, an enterprise should not dismiss workers in the 'contracted' period, which is a difficult commitment.

Although this measure was introduced as an active labour market policy, its long-term effect is more or less passive since it does not influence the change of the structure of the economy nor improves knowledge or competencies of employees (the policy does not envisage any additional activity, such as education

**Table 1: Number of people with approved subsidies for full-time work and their proportion in the wage/salary receivers, by sector (until 22 April 2009)**

|   |   | Number of people with approved subsidies for full-time work | Their proportion in the wage/salary receivers in the sector |
|---|---|---|---|
| A | Agriculture, forestry and fishing                                   | 238   | 5.6   |
| B | Mining and quarrying  | 139   | 4.3   |
| C | Manufacturing   | 44 241  | 24.8  |
| D | Electricity, gas, steam and air conditioning supply                 | 6   | 0.1   |
| E | Water supply, sewerage, waste management and remediation activities | 40  | 0.5   |
| F | Construction  | 3 005   | 5.6   |
| G | Wholesale and retail trade, repair motor vehicles and motorcycles   | 879   | 0.9   |
| H | Transport and storage   | 285   | 0.8   |
| I | Accommodation and food service activities                           | 211   | 1.1   |
| J | Information and communication                                       | 62  | 0.3   |
| K | Financial and insurance activities                                  | 86  | 0.4   |
| L | Real estate activities  | 17  | 0.5   |
| M | Professional, scientific and technical activities                   | 586   | 1.8   |
| N | Administrative and other support service activities                 | 513   | 2.3   |
| P | Education   | 47  | 0.1   |
| Q | Human health and social work activities                             | 71  | 0.2   |
| R | Arts, entertainment and recreation                                  | 95  | 1.0   |
| S | Other service activities  | 114   | 2.1   |
|   | <b>Total</b>  | <b>50 635</b>   | <b>7.4</b>  |

Source: IMAD (2009), p. 26.

and training, for those employees involved). Furthermore, it relies significantly on a presumption that the crisis and its effects would be rather short in duration. Additionally, it does not improve the actual position of workers after the end of the 'contracted' period. Many criticisms of this measure (and similar measures) relate to its passivity and the overall lack of proactive measures for improving the position of employers (improving technological and innovation competitiveness) and of employees (offering active labour market policy measures) in the labour market and economy as a whole.

Regardless of the above, and given the relative success of the measure<sup>(99)</sup>, the government proposed an extension of it until 31 March 2010 (MLFSA, 2009a), allocating EUR 50 million for the year 2009 and EUR 73 million for 2010. This was unanimously accepted by the Slovenian Parliament on 15 July 2009. Under this extension, companies could receive subsidies until the end of 2010.

Such an extension could be considered as counterproductive since it ensures subsidies for companies which may not be required at the end of 2009. One of the negative effects of the measure could, therefore, be disadvantaging non-subsidised companies in the labour market.

## 5. Conclusions

The Act is a part of the packages adopted by the Slovenian Government to ease the effects of the financial and economic crisis. More precisely, the aim is to slow down the growth of unemployment and preserve as many jobs as possible by subsidising reductions of working hours.

The main intention of the Act was to preserve 10–20% of the whole number of subsidised jobs. Given the current number of subsidised workers, it could be deduced that the measure was relatively successful. Currently, 10 000 to 14 000 jobs have been preserved by implementation of this measure.

Simultaneously, this policy has been criticised (as have other measures prepared and implemented by the government). The fear is that all implemented measures are only postponing the real structural changes needed for a quicker and more efficient adaptation of the economy and labour market to the globalisation demands and competition.

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(99) Since the main aim of the measure is in accordance with the EU goal to implement employment policies aiming at achieving full employment, the best indicator from the Commission's compendium to follow the impact of the measure should be the employment rate.

# Slovakia

## Anti-crisis measures and the employment recovery package

### 1. Introduction

The Slovak labour market showed favourable developments in the past five years. The number of employed people increased by a sizeable 2.8% p.a. between 2004 and 2008<sup>(100)</sup>, while unemployment fell from 18.1% in 2004 to 9.6% in 2008. Such promising trends, accompanied by an encouraging decrease in long-term unemployment in recent years, induced the image of a stabilising situation, unparalleled in the local labour market since the political and economic changes in 1989/90.

The current global financial and economic crisis hit Slovakia intensely at the end of 2008. A small economy with dominant export-oriented industrial production experienced a significant downturn due to falling external demand. GDP fell by 5.6% in the first quarter of 2009 after periods of strong growth in the preceding years (10.4% in 2007 and 6.4% in 2008)<sup>(101)</sup>. The crisis forced an increasing number of enterprises to curtail or even close production and heavily affected the labour market. As of June 2009, labour offices counted an increase of almost 120 000 jobseekers, compared with October 2008<sup>(102)</sup>. The unemployment rate jumped from 8.7% in the fourth quarter of 2008 to 10.5% in the first quarter of 2009<sup>(103)</sup> and is expected to peak in the second half of 2009, possibly reaching 13%<sup>(104)</sup>.

The government initiated an adoption of several recovery packages in order to mitigate the negative effects of the crisis<sup>(105)</sup>. In February 2009, the cabinet approved a special set of measures in support of employment. It builds on the widening of active labour market policies and the introduction of a flexible working time and remuneration arrangement. The eight measures, discussed in depth in this article, are broadly in line with the key priorities for recovery as identified by the EU and also the long-term policy objectives at the EU and national levels.

## 2. The measures and their expected impact on the policy challenges

The employment recovery package was agreed at the first meeting of a newly created high-level Economic Crisis Council<sup>(106)</sup> on 29 January 2009. The package was approved by the government and the parliament in a shortened legislative procedure in the beginning of February 2009<sup>(107)</sup>. It contains the following eight measures in the field of labour market policy, which aim to support the preservation of threatened jobs and create new jobs.

1. The first measure is to **increase support to the creation and retention of social enterprises**. This policy is already embodied in legislation (the Employment Services Act) and the adopted changes merely seek to intensify its application<sup>(108)</sup>. The substance of the changes is to relax conditions for the creation and operation of social enterprises. According to the new regulation, the obligations of the founder of a social enterprise to employ disadvantaged jobseekers (at least 30% of staff), to invest part of revenues (at least 30% of funds) into creation of new jobs, and to provide support and assistance to employees to find jobs in the regular labour market are considered to be fulfilled. The loosened conditions are seen as a means to improve the employment situation at the regional and local levels. In particular, the changes should motivate municipalities and regional governments to set up new social enterprises.

2. A new practice introduces financial support to employers for the **retention of employment in enterprises which are affected by the economic crisis**. An employer which retains jobs despite serious operational problems and pays a wage compensation of at least 60%, and agrees with the respective labour office to temporarily restrict its operations, may be granted a contribution covering part of the social security contributions paid by the employer and employee. The contribution covers, for a maximum period of 60 days per calendar year, the costs of health insurance, social insurance, and old-age pension saving, up to an amount calculated from the average wage in the economy reported in the first three quarters of the previous year. The practice is seen as a way to support existing jobs which are directly threatened by the crisis.

(100) Source: Slovstat — online statistical database of the Statistical Office of the Slovak Republic.

(101) Source: Statistical Office of the Slovak Republic.

(102) Source: Central Office of Labour, Social Affairs and Family.

(103) Source: Slovstat — online statistical database of the Statistical Office of the Slovak Republic.

(104) Data are derived from market and author's expectations.

(105) The number of anti-crisis measures counted more than 60 in July 2009.

(106) The Economic Crisis Council is composed of ministers from key departments, the Governor of the Central Bank, top representatives from employers' organisations and trade unions, the President of the Slovak Banking Association, the Chairman of the Association of Towns and Communities, and a representative of the political opposition. The main mission of the council is to put forward proposals and solutions to mitigate the impacts of the global economic and financial crisis in Slovakia.

(107) See the Internet (<http://www.rokovania.sk/appl/material.nsf/0/34E44F58F4968DA0C12575510050E94D?OpenDocument>).

(108) The founder of a social enterprise is entitled to receive a financial contribution amounting 50% of total labour costs per employee during 12 months. Financial support may be extended for another 12 months in case the employee was not placed in the open labour market, at 40% of labour costs.

3. A further measure is to increase the **motivation of jobseekers to find and retain employment**. A financial allowance is granted to full-time employees who have salaries up to 1.7 times the minimum subsistence amount, and who were previously unemployed for a minimum of three months and received material need benefits. The allowance is 22% of the average wage in the economy in the first year and 11% of the average wage in the remaining period of employment, for up to 22 months in total.

4. With an aim of **intensifying inter-regional labour mobility**, the contribution for commuting to work has been increased. Up to EUR 135 monthly, depending on the distance of the workplace, may be granted to an employee or self-employed person, who was previously unemployed for at least three months, to cover part of travel costs, for up to a period of 12 months. For people who were registered as jobseekers for less than six months, the allowance will be granted for a maximum period of six months.

5. A new contribution has been implemented to **increase incentives to engage in self-employment**. People who have been unemployed for at least three months and in receipt of material need benefits, and who commence self-employment, may apply for a financial contribution to cover health insurance and, subsequently, social insurance costs. The payment is granted through the sum calculated from the minimum assessment base (a statutory minimum wage) for a maximum period of 22 months to reimburse health insurance costs and, after 18 months since commencing self-employment, for a period of up to four months to also reimburse social insurance contributions. A precondition for the provision of the contribution is that self-employment is carried out consecutively for a period of at least 24 months. The allowance may not be combined with other financial contributions in support of self-employment.

6. A similar measure has been introduced to **support self-employment activities in the agricultural sector**. The contribution is provided under identical conditions as the allowance in support of self-employment (see previous measure) and aims to encourage jobseekers to commence self-employment in the field of processing and sale of agricultural products.

7. Another newly installed measure is aiming to **support new job creation**. Employers who create jobs and hire jobseekers (who have been unemployed for three months at least) may apply for a financial contribution of 15–30% of the total labour cost (wage and social security contributions) <sup>(109)</sup> for a maximum of 12 months. The supported employer is obliged to preserve the job(s) for at least 12 months and must prove an increase in jobs or employees.

8. The introduction of flexible working time accounts enables employers and employees to agree **flexible working arrangements for companies experiencing financial difficulties** during the economic crisis. This is the most innovative measure in the whole package, aimed at enabling employers to grant periods of leave to their employees, with wage compensation. Such leave periods will be covered by work carried out later, without compensation. The employer keeps the records of leave periods and the working time during which the leave periods are worked 'back' (the so-called flexi accounts). The measure was inspired by a practice introduced by VW Slovakia and is expected to serve mainly larger enterprises to avoid and/or minimise reduction of jobs and employees, during periods of weak product demand.

All of these measures were put into practice by legislative amendments to the Employment Services Act and the Labour Code <sup>(110)</sup>, which stipulate the new tools for a limited period from 1 March 2009 to 31 December 2010 (31 December 2012 in case of flexible working time accounts) <sup>(111)</sup>.

The government expects the measures to support the retention and/or creation of 63 000 jobs in 2009 and the same number in 2010.

### 3. Organisation, implementation and funding of the measures

There are no special organisational arrangements associated with the package. The active labour market measures are administered by regional labour offices within their territorial competences. This includes the receipt and assessment of applications, signing of agreements with recipients of financial support, administration and control of their implementation. The Central Labour Office (CLO) prepared methodical guidance on the new policies for the regional offices and assumes supervisory functions over the entire set of policies. With respect to the discussed measures, the CLO decides about the granting of the status of a social enterprise. The CLO is also responsible, in cooperation with the regional offices, for the publication of regular statistics on the policies (usually on monthly and quarterly basis) and for the preparation of special analyses and forecasts. The results are submitted to the Ministry of Labour, Social Affairs and Family, which is the central administration body in the area of labour market and social policies.

(109) The sum is regionally differentiated with preference given to non-Bratislava regions (30% of total labour cost calculated from the average wage in the economy reported in the first three quarters of the previous year, with a maximum ceiling of 50% of total labour cost for an employee hired for the job), while the respective contribution in the Bratislava region is lower (15% of labour cost calculated from the average wage in the economy, maximum 50% of labour cost per employee).

(110) See the Internet (<http://www.nrsr.sk/Default.aspx?sid=zakony/zakon&MasterID=2711>).

(111) The purpose is that leave periods with wage compensation will be provided to employees mainly in the first two years when the crisis is expected to peak (2009–10), while in the following two years (2011–12) the unworked hours shall be worked 'back'.

**Table 1: Main indicators pertaining to the measures**

| Measure  | 2009                             |                                 | 2010                             |                                 |
|--|----------------------------------|---------------------------------|----------------------------------|---------------------------------|
|  | Estimated number of jobs created | Estimated funding (million EUR) | Estimated number of jobs created | Estimated funding (million EUR) |
| 1. Support to the creation and retention of social enterprises                                 | 20 000                           | 103.2                           | 20 000                           | 125.9                           |
| 2. Support to the retention of jobs in enterprises dealing with the consequences of the crisis | 20 000                           | 13.6                            | 20 000                           | 14.7                            |
| 3. Support to the motivation to find and retain jobs   | 7 000                            | 10.8                            | 7 000                            | 13.9                            |
| 4. Intensified inter-regional mobility   | 5 000                            | 5.1                             | 5 000                            | 6.2                             |
| 5. Increase support to self-employment   | 5 000                            | 2.1                             | 5 000                            | 4.8                             |
| 6. Support to self-employment in the agricultural sector                                       | 3 200                            | 1.3                             | 3 200                            | 3.0                             |
| 7. Support to new job creation   | 2 500                            | 5.3                             | 2 500                            | 6.9                             |
| Total  | 62 700                           | 141.4                           | 62 700                           | 175.4                           |

Source: Draft set of measures to mitigate the impact of the global financial and economic crisis on employment (impact assessment clause), Session of the Government, 2 February 2009 (<http://www.rokovania.sk/appl/material.nsf/0/34E44F58F4968DA0C12575510050E94D?OpenDocument>).

The implementation of flexible working time accounts is carried out directly by employers and employees. Employers are obliged to agree the application of the practice with the company trade unions.

The costs of the package are projected at approximately EUR 316.8 million (0.5 % of GDP), of which EUR 141.4 million are envisaged for 2009 and EUR 175.4 million for 2010. Active labour market measures are co-financed from the European Social Fund (85 %) and the state budget (15 %) <sup>(112)</sup>. The new measures were incorporated by an addendum to the *de minimis* scheme on employment support.

An overview of projected costs and achievements in terms of created/preserved jobs is shown in Table 1.

## 4. Performance and achievements

The employment package has been effective since 1 March 2009. However, the real operation of active measures started on 25 March 2009 with the publication of the addendum to the *de minimis* scheme in the official trade bulletin.

The measures are subject to regular statistical monitoring carried out and published monthly by the Central Labour Office (CLO). Data provided by the CLO serve as background information for the Ministry of Labour and the government's quarterly reports on the implementation of measures to overcome the impacts of the financial and economic crisis. The implementation report covering the first quarter of 2009 was submitted to the cabinet's session on 3 June 2009 <sup>(113)</sup>, but since the package had been in place for such a short time, it provided little information on the new measures. So far, there is no assessment available of

the achievements of the employment package <sup>(114)</sup>. Information released by the CLO is mostly of quantitative nature and does not include any critical discussion. Basic performance indicators covering the period 1 March to 30 June 2009 are presented in Table 2.

**Table 2: Basic performance indicators of the measures, 1 March to 30 June 2009**

| Measure  | Achievements   |
|--|--|
| 1. Support to the creation and retention of social enterprises                                 | 26 applications filed for the award of the status of a social enterprise, 21 applications approved (as of 16 June 2009), creation of more than 700 jobs envisaged<br>Five agreements signed on the provision of contribution for the creation and retention of jobs in social enterprises, 70 supported jobs expected (as of 11 June 2009) |
| 2. Support to the retention of jobs in enterprises dealing with the consequences of the crisis | 148 agreements signed, which should support and preserve 30 133 jobs   |
| 3. Support to the motivation to find and retain jobs   | 61 agreements signed, 50 supported employees   |
| 4. Intensified inter-regional mobility   | 4 324 people supported   |
| 5. Increase support to self-employment   | 1 agreement signed, 1 job supported  |
| 6. Support to self-employment in the agricultural sector                                       | No agreement signed  |
| 7. Support to new job creation   | 849 agreements signed, 1 887 supported jobs  |

Source: Central Labour Office.

No aggregate data are yet available on the implementation of flexible accounts of working time. Fragmented information from the business community suggests that the practice is being taken up mainly in larger enterprises in the sectors most affected by the drop in foreign demand.

Despite the short period of implementation and absence of official impact assessment, some conclusions can be drawn.

(112) An exception is the funding of the contribution for the support of self-employment activities in the agricultural sector, which shall be entirely financed from national sources.

(113) See the Internet (<http://www.rokovania.sk/appl/material.nsf/0/023581D1D48B309AC12575C5003D26FE?OpenDocument>).

(114) The Ministry of Labour, Social Affairs and Family prepared a preliminary evaluation of the implementation of the measures so far for the bilateral Lisbon/recovery meeting of the European Commission and the national Lisbon representation, held on 9 July 2009 in Bratislava.

Overall, the employment recovery package does not build on innovative ideas (for the most part). It rather reflects the efforts of the government and other stakeholders to support employers and employees by way of direct financial aid to alleviate the effects of the crisis. The preliminary achievements suggest that this crucial goal is thus far somewhat out of reach, as the package has had a relatively minor effect on labour market recovery. It must be noted, however, that expecting more than supplementary effects on employment would be irrational. Nevertheless, existing evidence implies that shortcomings thus far outweigh the benefits of the package.

Several measures from the package give the impression of ineffective use of the Structural Funds and the already stretched public finances. This concerns particularly the increased support to social enterprises. Social enterprises are allocated a decisive portion of funds from the package, while the effects of this policy on employment have been negligible even prior to the crisis. Thus, this measure as a convincing response to the impacts of the crisis is highly questionable. Moreover, media reports have pointed to suspicions of fraud and misuse and engagement of political representatives from a coalition party<sup>(115)</sup>. Relaxed conditions for the creation and operation of social enterprises could lead to increased incentives for misuse.

The CLO admitted that the contribution to new job creation has been misused by employers who created jobs for jobseekers — their former employees. According to media reports, the provision of financial support for the retention of jobs in enterprises threatened by the crisis has been suspended due to a cessation of funding from the ESF<sup>(116)</sup>. This measure is an example of unproductive and selective subsidising.

Another flaw of the package is that it introduces additional active labour market measures without addressing the efficiency of existing tools. Measures which largely overlap with existing ones (e.g. new contributions for support of self-employment versus existing contribution for self-employment) increase the intricacy of the schemes and impair their use.

To point out the main positive feature, the flexible working time accounts are the real innovative measure in the field of employment policy, which is implemented in response to the crisis. Although the real utilisation of the measure is unknown to date, it may be seen as a systemic improvement of labour legislation, benefiting both employees and employers. Businesses see the practice as highly useful, but point to a gap in the regulation, which does not deal with situations in which an employee resigns when his or her working time account includes unworked hours.

## 5. Conclusions

The employment recovery package focuses on financial motivation of employers, employees and self-employed people to deal with the difficult employment situation caused by the economic crisis. It includes a set of active labour market measures and a flexible working time and remuneration arrangement.

The outcomes and achievements of the individual policies have so far had a minor influence on labour market developments. Their implementation shows several shortcomings which need to be addressed in order to improve the efficiency of the package. Furthermore, a general reassessment of the package appears to be inevitable in view of the worsening labour market situation, the tightening of public funds and the demand for systemic and structural reforms.

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(115) See, for example, the Internet (<http://ekonomika.sme.sk/c/4946591/socialne-podniky-vela-prace-nepriniesli.html>).

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# Finland

## Youth unemployment and transition from vocational education to the labour market

### 1. Introduction

Finnish youth unemployment and the low rate of employment have long remained national problems. In 2008, the employment rate of under-25-year-olds continued to be lower than the level prior to the great depression of the 1990s. Finnish young people have a lower employment rate than their peers in small EU countries such as Denmark and Austria (Table 1).

There are various reasons for the low participation rate of young people in the labour market and the high level of youth unemployment. High unemployment among young people is accounted for in part by their internationally high participation in secondary education (high school and vocational education). For this reason, the employment rate of young under-25-year-olds is characteristic of the typically weak employability of those who leave with only basic-level education.

By way of international comparison, the difficulties Finnish young people encounter in finding employment are strongly influenced by structural differences in the education system. In central European countries, mid-level vocational education is organised in a German-type apprenticeship, where most of the vocational mid-level schooling, which lasts on average for three years, is carried out as on-the-job learning. Apprentices receive wages for the duration of the on-the-job learning and therefore are registered in the labour force survey as being employed. For instance, in Austria and Denmark almost 40% of mid-level vocational education aimed at 15- to 20-year-olds is carried out as apprenticeships. In Finland the corresponding share was about 5% in 2007.

Learning in apprenticeships and other paid on-the-job learning provides an immediate employment benefit, which makes employment statistics look more positive and improves students' income during their studies. The most important element, however, of on-the-job learning is that the student is better integrated into working life and his/her career planning is clearer at an earlier stage. The more work experience students

have, the better the match between the education supply and demand on the labour market.

Work on reforms to increase the correspondence of vocational education with working life began at the beginning of the 1990s. Largely experimental reform projects emphasised the need to make education more effective in responding to changes in business structure and demands for vocational knowledge. More precise vocational knowledge was demanded from vocational education. Another challenge was to stem the rise of youth unemployment and prepare for the decrease in supply of labour brought on by the change in the age structure of the population.

The strategy to renew vocational education was two-fold. At the same time as education was being developed as an equal path to further studies, it was adjusted to respond better to changes in working life.

### 2. Links between vocational education reforms and the EU employment strategy

In line with the EU's Lisbon strategy, Finnish employment policy requires an increase in the work-life orientation of education at all school levels. This objective is made concrete in the present government programme. The objective of the government is to speed up the process by which young people enter the labour market, so that study periods would shorten by a year by 2012.

According to the government programme, study periods can be shortened by extending on-the-job learning in basic vocational training and increasing competence-based qualifications and apprenticeships. In 2007, there were about 126 000 young people under the age of 25 in vocational schools, so they comprise a noticeably large labour potential. Additionally, the government objective is to extend apprenticeships to additional training in upper-level education in the autumn of this year.

Structural measures to further improve the work-life orientation of youth education are firmly related to two of the EU employment strategy guidelines. Guideline 23 emphasises the positive effects on human capital of increasing work-life orientation. This requires more on-the-job learning and apprenticeships to be added to different levels of schooling to support future careers.

**Table 1: Youth employment and unemployment rates (15–24 years old)**

|                   | Finland    |              | Denmark    |              | Austria    |              |
|-------------------|------------|--------------|------------|--------------|------------|--------------|
|                   | Employment | Unemployment | Employment | Unemployment | Employment | Unemployment |
| 2000              | 39.8       | 21.4         | 67.1       | 6.7          | 52.5       | 5.2          |
| 2008              | 43.2       | 16.2         | 67.0       | 7.7          | 55.9       | 8.0          |
| Percentage change | + 3.4      | – 4.2        | + 0.1      | + 1.1        | + 3.4      | + 2.8        |

Source: Eurostat, Statistics of Finland.

Increasing working-life skills in education decreases wasted investments in education in the long term, e.g. by decreasing demand for retraining and by boosting graduation rates. 'By including on-the-job learning in the education programmes and in the workplace, education institutions can adapt their study plans to correspond better to the skills requirements of the business field in question (guideline 24).

Increasing the work-life orientation of education is also in harmony with the newest joint employment policy statement of the EU (3 June 2009). Section 2.2 of the statement presents direct measures to alleviate the recession in order, for example, to expand the apprenticeship programmes of young persons and to implement labour and education policy measures to improve the possibilities for employment and trainee programmes.

### 3. Measures taken and their impact

The most significant measures to increase on-the-job learning in vocational education which have been completed in the current decade are:

- increasing apprenticeship positions in vocational education <sup>(117)</sup>;
- the adoption of the competence-based qualification system in supplementary vocational education <sup>(118)</sup>;
- renewing the vocational degrees to being three years long and tripling the on-the-job learning requirements (minimum of six months of on-the-job learning) in institutional education;
- the adoption of performance-based funding of education.

Work on the reform of vocational education was carried out by local education institutes and other organisers of vocational training. Significant freedom was granted, for instance in applying the curriculum to specific institutes of education. In addition, more choices were added to degree requirements and the guidance counselling of students was individualised. The network-based operating model of education providers also made possible the completion of degrees in other education institutes in the same area.

(117) Vocational education can also include an apprenticeship, a practical work-based learning. The student, together with the employer, enters into a fixed-term contract which is confirmed by the school and the apprenticeship office. Apprentices learn in the workplace through working about four days a week and the fifth day is used to study the theory.

(118) The competence-based scheme was introduced in 1994, since when it has been extended and developed for initial and additional training. Competence-based qualifications criteria have been drawn up for a total of 360 qualifications. There are 174 tripartite admission committees.

The most recent reform of work-life oriented vocational education was carried out in 2006, when competency-based tests were also included in youth-level vocational degree requirements.

When measured in terms of student numbers, the working-life based reform of vocational education has had significant positive effects (Table 2). Although apprenticeships and vocational competence-based qualifications were originally created for adult students, these forms of education have also increased in popularity with under-25-year-olds, even faster than the basic vocational education offered by educational institutions (Table 3).

**Table 2: Vocational upper secondary education students (all age groups)**

|            | Total              | School-based education | Apprenticeship | Competence-based qualifications |
|------------|--------------------|------------------------|----------------|---------------------------------|
|            | per 1 000 students |                        |                |                                 |
| 2001       | 184                | 119                    | 39             | 23                              |
| 2007       | 266                | 126                    | 63             | 77                              |
| Change (%) | + 45               | + 6                    | + 62           | + 192                           |

Source: Finnish National Board of Education, Wera database.

**Table 3: Vocational upper secondary education students in basic education (15–24 years old)**

|            | Total              | School-based education | Apprenticeship | Competence-based qualifications |
|------------|--------------------|------------------------|----------------|---------------------------------|
|            | per 1 000 students |                        |                |                                 |
| 2001       | 112                | 105                    | 5              | 3                               |
| 2007       | 127                | 115                    | 6              | 6                               |
| Change (%) | + 13               | + 10                   | + 21           | + 116                           |

Source: Finnish National Board of Education, Wera database.

Another significant positive impact of the reform is evident in the percentage of students completing their vocational education. At the end of 2007, some 61 % of students completed their programme in the recommended three-year period. At the end of the last decade, the share of students completing their studies was 57%. According to the statistics of the Board of Education, the drop-out rate for vocational students has fallen during this decade from 12.5 % to 9.5 %.

Vocational education based on on-the-job learning has also gained greater emphasis in labour market policy. Employment via apprenticeship-based labour market policy measures has increased its share of placement programmes. In 2001, those employed in apprenticeships accounted for about 8 % of all public job placements, with this share rising to 10 % by the year 2007. According to Ministry of Labour statistics and a 2006 report on the efficiency of placement measures, apprenticeship training in the private sector is one of the most efficient labour market policy measures in all stages of unemployment.

Qualitative evaluations indicate that vocational education reforms are seen in a positive light. The educational institutions are especially satisfied with the expansion of trainee programmes and eligibility to continue studies facilitated by completion of

a degree. Cooperation with the business community has also increased. Representatives of employers' organisations were engaged in cooperation with almost all 168 certified schools and were also networking with schools in other fields. Some 75% of the schools participated in mutual cooperation while 50% of the vocational schools engaged in cooperation.

In 2007 the Finnish Education Evaluation Council carried out its own study of on-the-job learning in basic vocational education. The study covered participation in both on-the-job learning and apprenticeship programmes stipulated by the curriculum. The study was carried out on the basis of descriptions provided by the educational institutions and self-evaluation. Some 88% of the vocational education institutions participated in the study. According to the results of the study, the general goals of on-the-job learning had been well achieved. The most successful organisers of education were municipal boards and municipalities. The on-the-job learning of large institutions located in cities was of higher quality than in small institutions in the countryside. The economic resources for arranging on-the-job learning are good and costs are under control. The development of on-the-job learning, training of job placement personnel and the familiarisation of teachers with working life have been funded to a significant extent via various sources — especially the ESF programme. According to the educational institutions, the reform of vocational education would not have succeeded without ESF funding.

## 4. Organisation, implementation and financing of the reform

The increase in work-life oriented basic and supplementary vocational education has been a long process and its realisation at local level has required many actions, taking into consideration the views of various interest groups.

The main role of centralised administration in vocational education has been the dissemination of information and oversight of the reform. The main guidelines for reforms of work-life oriented degrees were drafted in the Ministry of Education. The Finnish National Board of Education has been responsible for legislation regarding implementation guidelines and drafting the principles for new vocational qualifications.

A performance-based funding system was adopted as a local-level incentive for the 2002 reforms. Its main indicators are employment after graduation, proportion of students completing their programmes and students continuing on to further studies. An additional incentive is the vocational education award of excellence given by the Ministry of Education to the top three schools each year. The excellence award competition has been organised annually since 2001. The evaluation criteria used in the competition are based on

the European Framework for Quality Management (EFQM) excellence award criteria. Furthermore, each year in the competition there is a different education policy theme. In 2008 the theme was on-the-job learning.

The labour market organisations have taken a positive stance towards the vocational education reforms. In 1998 the central labour market organisations took a joint stand that education and working life should be closer. The employers' and employees' organisations consider it necessary for vocational qualifications to include at least 20 study weeks of on-the-job learning and practical competency tests will be used as indicators of vocational expertise. The organisations announced that they will participate in the vocational education development work initiated by the EU (the Copenhagen process).

The reform of vocational education boosted the growth rate of educational expenditure. According to Statistics Finland the greatest growth in operating costs during 2000–07 occurred in vocational education. Also, the financial support of the European Social Fund (ESF) for developing vocational education was significant. ESF and matching domestic funds represented an average of 2% of the annual expenditure on vocational education. The EU support for vocational education was granted primarily via the horizontal Target 3 programme. Most of the projects are administered by the educational institutions themselves.

**Table 4: Share of education expenditure in different educational institutions**

|                      | 2000  | 2007  | Change (%) | ESF funding (*) |
|----------------------|-------|-------|------------|-----------------|
| Universities         | 36.8  | 35.4  | – 1.4      | 0.9             |
| Polytechnics         | 14.1  | 15.4  | 1.2        | 1.8             |
| Vocational education | 27.4  | 29.2  | 1.6        | 2.2             |
| Adult education      | 8.0   | 7.6   | – 0.4      | 3.9             |
| High school          | 13.6  | 12.4  | – 1.1      | 0.0             |
| Total                | 100   | 100   |            |                 |
| Total (million EUR)  | 3 771 | 5 101 |            |                 |

(\*) Average per year in the years 2000–05

Source: Statistics of Finland.

## 5. Performance and achievements of the reform

In the wake of the vocational reform the prerequisites for employment in the open market have improved and the time to complete a degree has shortened more than in other education. Competition between the educational institutions has increased and teachers have had to update their knowledge of working life.

One of the clearest benefits of the reform has been the increase in apprenticeships for young persons and adults. The apprenticeships are typically intensive training where the schooling lasts about a year less than the basic curriculum. The employers contribute to a considerable degree of the costs

of the education by paying students the minimum wages stipulated by the collective agreements.

Also, with respect to labour market policy, active measures in the form of apprenticeships have generated higher employment compared to other measures.

In their 2005 report, state auditors drew attention to the development of apprenticeships. According to the auditors, apprenticeship opportunities for young people should be further developed. There are more young people interested in apprenticeships than there are available positions. Private sector employers should make it more attractive for young people to sign apprenticeship agreements. Resources spent on these programmes pay for themselves many times over as young people become integrated into working life as a part of their studies.

The rigidity of nominal wages deters companies and other employers from offering apprenticeships and trainee positions. The threshold for employers to hire trainees or apprentices is higher in Finland than in other EU countries because the starting wages are not downwardly flexible enough.

According to Eurostat, in the 2002 collective agreement the starting wage relative to the average wages of all employees is about 10 percentage points higher in Finland than for example in Denmark or Austria.

The scattered regional structure and low number of small and medium-sized companies compared with these comparative countries also constitute constraints on the expansion of apprentice and trainee programmes.

In Finland, vocational education is still organised in institutional form and the trainee period does not necessarily motivate students in the appropriate manner. Trainees in many educational fields do not receive compensation and the students are in many cases dependent on student aid alone. This is one of the key reasons the Finnish young people have such a low rate of employment.

## 6. Conclusions

Vocational education has developed strongly in recent decades by emphasising work–life cooperation, lifelong learning and cooperation between educational organisations. Vocational

education programmes include on-the-job learning periods where students are offered better possibilities to learn job skills in a real working environment than in traditional common knowledge-based classroom teaching. These programmes take advantage of the knowledge of experienced workers and interaction with the entire working community. In addition, increasing apprenticeships provides direct employment benefits, enhances employment statistics and improves students' incomes.

Cooperative groups covering different administrative fields (including representatives of working life) have been established to make action plans and strategies for improving the competencies and employability of young persons. New work–life oriented solutions have also been utilised with young people for whom traditional vocational education does not suit for some reason. For the time being, new models have been tried and developed primarily in the Ministry of Labour, based on EU project funding, but structural reforms in active labour market policy have still been rather modest.

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# Sweden

## Job security councils and job security foundations

### 1. Introduction

One of the salient features of the Swedish Model is a strong contractual tradition, based on the existence of powerful social partners who enjoy considerable autonomy from the public authorities. The specificity of the Swedish system of industrial relations, together with the contractual nature of labour market regulation, creates a favourable institutional environment for the emergence of negotiated compromises aiming to balance flexibility and security in the labour market. Sweden constitutes, therefore, a good illustration of a regime of flexicurity and negotiated flexibility, where the social partners are largely involved in the shaping of labour market regulations and working and employment conditions at industry and local levels (see Anxo, 2007).

This specific institutional environment has resulted in innovative practices and solutions for dealing with job losses and structural changes. Particularly notable are the creation during the early 1970s of the so-called job security councils that were established by social partners on a bipartite basis to support employees and companies affected by restructuring. In the context of the current economic crisis, internal restructuring and plant closures leading to mass redundancies, the role of these innovative instruments appear to be particularly interesting.

The main objective of this article<sup>(119)</sup> is to identify the key instruments used by the Swedish social partners to accommodate and manage structural changes, namely through the set up of the aforementioned job security councils or similar 'transitional agencies' aimed at reducing the negative consequences of restructuring on employees, firms and society as a whole.

### 2. The measure and its expected impact on the policy challenge

In the case of collective redundancy due to restructuring or individual notice due to shortage of work, the Swedish social partners have, since the early 1970s, negotiated security and adjustment agreements in order to help workers who have been given notice to find new jobs quickly, by way of adjustment measures and financial support. By supplementing the role of public employment agencies, these agreements, covering

about half of the labour force, contribute to improving the security of employees and to enhancing matching efficiency and geographical and occupational mobility in the labour market. These agreements also reinforce the social legitimacy and the positive attitude of trade unions towards structural changes and productivity-enhancing restructuring. The support programmes are administrated by organisations, the so-called trygghetsråd (job security councils) and trygghetsstiftelser (job security foundations), specially designed for this purpose. It is also important to note that all employees covered by these agreements are included in the activity, regardless of whether they are union members.

The first job security councils were established in 1974, in a context of declining economic conditions and significant job losses, as well as important waves of industrial restructuring (textile, shipyard industries, etc.). During this period the main instruments used to address labour market imbalances were traditional active labour market policies, provided by the Public Employment Service (PES). The PES was responsible for delivering education and retraining schemes for workers, although at the time it was increasingly criticised for not providing adequate support to displaced white-collar workers. Besides, the PES would rarely get involved in ongoing restructuring processes since its primary target group was unemployed jobseekers rather than employees affected by restructuring. One of the rationales behind the development of these innovative transitional practices and the creation of the first job security councils was therefore that the services provided by the public employment agencies were regarded as inadequate and ineffective to meet the requirements of dismissed white-collar workers (Diedrich and Bergström, 2006).

For a long period of time, job security councils and transitional employment agreements, i.e. agreements between social partners on active measures and financial support for job transition during restructuring, have primarily covered white-collar employees in the private and public sectors and employees in the cooperative sector. Corresponding arrangements have existed for government employees (The Job Security Foundation, TS) and for employees in banking and finance (Employment Security Foundation, BAO) since the early 1990s. More recently, in 2004, a job transitional agreement (Omställningsavtal) was concluded between the Landsorganisation (LO — Swedish Trade Union Confederation) and the Svenskt Näringsliv (Confederation of Swedish Enterprise), encompassing almost one million blue-collar workers in the private sector and administered by the Job Security Foundation, TSL. It should be noted that municipal and county council employees, however, do not yet have a corresponding structure<sup>(120)</sup>.

There are currently 14 different job security councils in Sweden, covering around two million employees (Bäckström 2005 and Bergström and Diedrich, 2006). Close to half of Swedish dependent employees<sup>(121)</sup> are today covered by such job security and transitional arrangements (see Table 1 for a description of the main job security councils).

(120) The municipal sector is currently witnessing the establishment and development of job security councils.

(121) In 2008, just over 2 million wage earners out of approximately 4.1 million dependent employees were covered by such agreements.

**Table 1: Main job security councils and job security foundations**

| <b>Name of the council/agreement<br/>(date of the latest agreement)</b>   | <b>Number of organisations/<br/>firms involved and<br/>number of salaried<br/>employees covered by<br/>the agreement</b> | <b>Sector/industry; category<br/>of dependent employees</b>   | <b>Social partners involved in the agreement</b>   |
|---|--|---|--|
| Trygghetsfonden, TSL Job Security Fund, 2004 (2004)<br>( <a href="http://www.tsl.se">http://www.tsl.se</a> )  | Approx. 1 million dependent employees and 100 000 companies  | Manufacturing industries and trade;<br>blue-collar employees in the private sector  | Svenskt Näringsliv (the Confederation of Swedish Enterprise) — the Swedish Trade Union Confederation (LO)  |
| Trygghetsrådet TRR Job Security Council 1974, (1998)<br>( <a href="http://www.trr.se">http://www.trr.se</a> )   | Approx. 700 000 employees and 32 000 companies   | Manufacturing industries and trade; mainly white-collar employees in the private sector                                       | Svenskt Näringsliv (the Confederation of Swedish Enterprise) — Federation of Salaried Employees in Industry and Services (PTK)   |
| Trygghetsstiftelse TS, The Job Security Foundation, 1990 (1998)<br>( <a href="http://www.tsn.se">http://www.tsn.se</a> )  | 245 000 employees and 250 public companies and organisations   | Central government employees  | Arbetsgivarverket (Swedish Agency for Government Employers) — Public Employees' Negotiation Council (OFR), Confederation of Professional Associations (SACO-S), Union for Service and Communications Employees (SEKO)  |
| Trygghetsfonden BAO/finansförbundet, BAO/Financial Sector Union Employment Security Foundation 1992 (1997)<br>( <a href="http://www.trygghetsfonden-bao-finansforbundet.se">http://www.trygghetsfonden-bao-finansforbundet.se</a> ) | Approx. 45 000 dependent employees and 150 companies (banks, brokers companies and other financial institutions)         | Banking and financial sector; white-collar employees  | The Swedish Employer Association of the Banking Institutions (BAO) and the Finansförbundet (Financial Sector Union)  |
| KFO-Handels Employment Security Agreement for Salaried Employees 1974 (1982)<br>( <a href="http://www.kfo.se">http://www.kfo.se</a> )   | Approx. 35 000 salaried employees  | Cooperative businesses and non-profit organisations; shop assistants, warehouse workers, hairdressers, white-collar employees | The Cooperative Employers' Association (KFO) and the Handelsanställdas förbund (the Commercial Employees' Union)   |
| KFS-Companies' Employment Security Fund 1994 (1994)<br>( <a href="http://www.kfs.net">http://www.kfs.net</a> )  | Approx. 30 000 employees, 500 municipal/county owned or privately owned municipal-related companies                      | Service and communication, health education, etc.; both blue- and white-collar employees                                      | Organisation for Local Enterprises (KFS) Municipal Workers' Union, Union of Commercial Employees, Union for Service and Communications Employees, Association of Health Professionals, Teachers' Union, Association of Graduated Engineer and Local Government Officers. |
| Trygghetsrådet TRS Employment Security Foundation (1974) 2004.<br>( <a href="http://www.trs.se">http://www.trs.se</a> )   | Approx 400 companies/organisation and 30 000 employees   | Culture and non-profit organisations; mainly white-collar employees   | Arbetsgivarealliansen (Employer Alliance), Svenskt Scenkonst (Swedish Performing Arts Association) and Federation of Salaried Employees in Industry and Services (PTK)   |

Source: Trygghetsrådet ([www.trs.se](http://www.trs.se)), Bäckström and Otosson (2006) and Diedrich and Bergström (2006).

### 3. Organisation, implementation and funding

The job security councils were established in order to administer and perform the various support activities stipulated in the respective Job Security Agreements. Each job security council has a supervisory board of representatives from the different social partners involved in the agreement, with the membership split equally between the employer and employee representatives. The board decides upon the scope and content of the support that is to be granted. The job security councils' employees, i.e. both advisors and consultants, have a high degree of freedom to prepare, based on the decisions made by the supervisory board, the individual support for each and every redundant employee. This possibility of providing support tailored to the

needs of the individual is considered to be one of the strengths of the Swedish job security councils.

The activities of the job security councils are financed by the employers through an annual contribution amounting to 0.3% of a company's wage bill. In certain circumstances, local agreements can be drawn up, which provide less comprehensive support but also lower payroll contributions — ranging from 0.18% to 0.3% for affiliated companies and from 0.7% to 0.58% for non-affiliated companies (EMCC, 2009).

The type of organisations that provide and implement the support activities also varies between the various Job Security and Job Transitional Agreements. Some job security councils have created their own organisation with 'in house' advisors or consultants, while others entirely or partly engage private consultancy companies and temporary work agencies, currently operating in the 'transitional job market' that emerged in Sweden in connection with the deregulation of the

market for outplacement and the end of the public monopoly of job placement in 1993<sup>(122)</sup> (Bäckström, 2005). To illustrate: Trygghetsrådet, TRR (the TRR Job Security Council, see Table 1), for white-collar employees in the private sector has created its own structure, TRR Outplacement, designing and performing the support activities 'in house', including guidance and training activities. On the other hand, the largest council in terms of affiliated employees, Trygghetsfonden, TSL (Financial Sector Union, see Table 1) for blue-collar workers in the private sector, outsources all the support activities and has signed contracts with nine suppliers of outplacement services. Based on the contract signed between the TSL Job Security Council and the suppliers, the local partners can order specific, tailor-made restructuring programmes, which are then implemented in the workplace. It should also be noted that the cooperation between these actors and the councils, i.e. the restructuring activities, may start during the notice period, that is, as soon as the notice of dismissal is given.

As also stressed by Bäckström (2005) and Dietrich and Bergström (2006), one of the most striking features of the Swedish job security councils is the seniority and expertise of the advisors who work directly with employees affected by restructuring. For example, the advisors of TRR Outplacement have often previously worked as a human resource manager and/or have held leading posts and have excellent knowledge of the local market, companies and type of assistance required by their clients. Furthermore, these advisors often have personal experience with the type of companies and/or sectors in need of restructuring and almost all of them have a university degree (EMCC, 2009).

## 4. Support activities and measures

The job security council plays an important role at different stages in the restructuring process. In the early stage of the process, counsellors provide the employer as well as trade union representatives with expertise related to the restructuring process per se. Once the decision has been taken on which restructuring strategy to pursue, the second phase entails guidance and support to the employees affected by the restructuring activities.

As stressed by EMCC (2009) and compared with other countries like Spain and Italy, the Swedish approaches are strongly focused on providing support for workers already affected by restructuring, i.e. focusing on curative and compensatory measures, with preventive measures to date being limited. The support measures offered by the job security councils

take several forms, including severance payment and complementary unemployment compensation above the standard unemployment benefit, in order to guarantee a decent level of income during the transitional period. According to individual rights stipulated by the various Job Security Agreements, financial support can be ensured through paid leave, earnings supplements, sponsorship enabling individuals to try out a new job to see if it suits both parties, extended occupational health services, early retirement and pension benefits (EMCC, 2009 and Thorsson, 2007). Some Job Security agreements also provide a wage differential between the wage of the previous job and the wage of a new but lower paid job (Diedrich and Bergström, 2006).

Besides financial support and economic compensation, individual plans are designed and developed through a number of meetings with the advisors appointed by the job security councils. The first step is often an assessment of the worker's skills and requirements. Redundant workers are assisted in drawing up a professional training path aimed at enhancing their employability and promoting their occupational mobility. The most recurrent measures for individuals affected by redundancy include the following readjustment measures: information about labour market and training possibilities both locally and globally; personal guidance, advice and counselling (advice on education and career choices); coaching on job search processes; personal development activities individually or in groups; financial support for further education and training; and support in finding new employment through the councils' own channels or other routes, or support in starting a new business. The measures provided are flexible and the support activities are tailored to the actual needs of each individual, taking into account their qualifications and professional interests, as well as personal concerns. The relationship between the displaced worker and the job security council advisor continues as long as the person remains a client. In the case of TRR, the support activities may last for a maximum of five years or until the client has found a new job or chosen to discontinue their relationship with the council. A typical average duration is six to eight months (Diedrich and Bergström, 2006).

## 5. Performance and achievements

There are still no comprehensive, evidence-based evaluation studies on the impact of job security councils. However, in early 2000, the Swedish Government commissioned some research to assess the effectiveness and successes of the job security councils (Arbetsmarknadsdepartementet, 2002). As stressed in the evaluation report, the councils are given an important role in providing workers with support in the event of restructuring and are described as highly valuable, not only from an individual perspective but also from an economic as well as societal perspective. Those affected by redundancy tend to receive support from their job security council soon after receiving notice and largely succeed in finding new employment or starting their own business. A relatively large share of redundant workers

(122) The actors performing the support activities range from private temporary work agencies, public and private outplacement consultants, regional organisations working with restructuring, private insurance companies, web-based services and the job security councils. Among the largest private companies operating in the outplacement market there are both national and international companies such as Poolia, Antenn Consulting, Manpower and Adecco but also public or semi-public actors such as Arbetslivstjänster (subsidiary to the Labour Market Board AMS), Aventus, Samhall Resurs and TRR Outplacement.

proceeds to further education. The committee also found that most of the displaced employees receive the same or higher pay in their new jobs. The risk of long-term unemployment is also reduced. As a result, the fiscal effects of job security councils are found to be positive for the state, particularly since the cost of unemployment benefits and active labour market measures are reduced when the support activities of job security councils are implemented (EMCC, 2009).

According to statistics from the second largest private sector job security council in Sweden, TRR, the council has during the last decade supported 158 000 redundant employees from 20 000 affiliated companies (TRR, 2008). Over 60 000 have received additional redundancy payments from TRR and 8 out of 10 people looking for a new career or new employment have succeeded in doing so. More recent statistics, which focus on the short-term effect of the support measures, reveal that more than two thirds of TRR clients have found new employment, often implying upward mobility, and 70% received the same or a higher salary in their new job (TRR, 2008). Most of these jobs were in small or medium-sized companies with fewer than 100 employees.

An opinion survey undertaken in 2007 revealed that a significant majority (90%) of clients had either a very positive or positive overall impression of TRR (TRR, 2008). Nearly the same percentage of clients felt equally positive about the way that the advisors understood their situation. Three out of four managing directors in affiliated companies have found TRR useful in situations where their company has had to reduce the number of their employees. Surveys have found that they particularly appreciate the competences and skills of the TRR, advisors who are considered to be easily accessible when their help is required.

## 6. Conclusions

The Swedish job security councils play a crucial role in the restructuring process and constitute a good illustration of a regime of flexicurity and negotiated flexibility, combining individual security for employees and flexibility for employers with regard to necessary restructuring and readjustment measures. One possible explanation of the relative success of the job security councils, in limiting the negative individual consequences of structural changes in particular, is the significant degree of flexibility and freedom concerning the choice of measures implemented to help redundant workers. Being a comparatively small organisation also makes it easier for these transitional agencies to intervene quickly, the rapidity of intervention being crucial for a successful transitional process. The joint management structure of social partners appears also as a clear advantage, reinforcing the social legitimacy as well as the positive attitude of Swedish trade unions towards structural changes and productivity-enhancing restructuring. It should also be stressed that the job security agreements, by regulating the redundancy compensation, may make it less

costly for an individual employer to restructure. These lower costs might also explain why restructuring processes seems to be shorter in Sweden compared to other EU countries (Sjögren and Wadensjö, 2006).

The role of these transitional agencies has to be considered as complementary to the measures implemented by the public employment agencies and the job security councils are not intended to replace traditional active labour market policy. On the contrary, there are strong reasons to believe that well-functioning job security councils and a reinforcement of the cooperation between these and the Labour Market Authority are essential in order to cope with the current imbalance in the labour market.

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Trygghetsstiftelsen TSN (TSN) (<http://www.tsn.se>)

Trygghetsfonden TSL (TSL) (<http://tsl.se>)

Trygghetsfonden BAO/Finansförbundet  
(<http://www.trygghetsfonden-bao-finansforbundet.se>)

Trygghetsrådet (TRS) (<http://www.trs.se>)

KFS-Företag Trygghetsfond (<http://www.kfs.net/avtalochmallar/trygghetsavtal.asp>)

# United Kingdom

Measures to respond to the economic crisis announced at the employment summit, January 2009

## 1. Introduction and objectives

By the end of 2008 the United Kingdom (UK) economy was firmly in the grip of a severe recession with GDP showing a second quarter of negative growth (amounting to -2.0% cumulatively) and growing evidence of how this was beginning to affect the labour market. Unemployment had increased to 6.1% and within this overall figure there were worrying trends. For example, while the overall employment rate had hardly changed over the past few quarters, there had been a noticeable decline in full-time jobs and a growth in part-time working<sup>(123)</sup>. In addition, the increase in unemployment appeared to be disproportionately affecting young people as employers cut back on new recruitment and training positions.

To some extent the pre-budget statement made by the Chancellor to Parliament in November 2008 had anticipated the growing economic problems and set out a range of measures to help stimulate the economy — the most controversial of which was a temporary cut (to the end of 2009) in the rate of VAT from 17.5% to 15.0%. New measures introduced specific to addressing the problems in the labour market included an extra GBP 1.3 billion (EUR 1.5 billion) of funding mainly focused on improving job search and support activities, largely delivered through Jobcentre Plus (JCP). In addition, some existing programmes would be refocused to help those facing redundancy or recently unemployed. For example 'Train to gain', the main in-employment support package could help retrain workers facing redundancy, and the local employment partnerships (see Figure 1) would now be able to offer vacancies to those recently unemployed rather than just the long-term unemployed (six months or over).

(123) This trend does not necessarily suggest that those working full-time have moved to part-time working in the same job — it could be, for example, that full-time workers are becoming unemployed and other workers are finding part-time employment.

**Figure 1: 'Train to gain' and the local employment partnerships**

### **'Train to gain'**

'Train to gain' was introduced in 2006 by the Learning and Skills Council (LSC) as a way of encouraging the training of those in employment. It works by offering an employer advice on skills development along with harnessing financial support where required. A particular aim of the programme is to increase the number of employees with at least a level 2 qualification and good basic skills. The idea is that a training broker works with the company in identifying skills needs (in association with the relevant sector skills council (SSC)) and then develops a package drawing on external training providers where appropriate. The programme has been subject to evaluation and, for example, the latest round of inquiries (June 2009) indicates that there is a continuing high level of satisfaction with the service among employers.

Further information can be found on the Internet (<http://www.traintogain.gov.uk>).

### **Local employment partnerships**

Local employment partnerships (LEPs) were introduced in 2007 as a way of getting employers to look more favourably at the long-term unemployed. Essentially they are an agreement between JCP and an employer who has vacancies to fill whereby the employer agrees to consider candidates who have been pre-selected by a JCP office (on the basis of the employer's needs) and made job ready. The package may also include short periods (up to four weeks) of training geared to the needs of the job. Key to the success of the programme is the close working relationship between the account managers at JCP and the employer. The programme has been particularly popular with larger employers who are opening new premises (retail stores in particular have been a mainstay of the LEPs) and who agree to fill a proportion of their new workforce from those eligible for LEP vacancies.

On balance the initiative has been reasonably successful in getting employers to consider recruiting from those groups they may have hitherto dismissed. However, many of the jobs created are part-time and paid at the minimum wage and their sustainability has yet to be proved.

Further information can be found on the Internet (<http://www.jobcentreplus.gov.uk/JCP/Employers/lep>).

However, growing concern over the labour market and a heightened perception that employers would need to do more if the problem was to be ameliorated, led to the Prime Minister convening a special employment summit held at 10 Downing Street on 12 January 2009<sup>(124)</sup>. The invited audience of major employers, employer representative bodies (such as the Confederation of British Industry (CBI) and trade unions and the Trades Union Congress (TUC)), were given an outline of a series of new measures aimed at intensifying the help given to those out of work and guaranteeing education or training for all school leavers. More prosaically the Prime Minister stated that: 'With the steps we take today; with the guarantees of support for young and old alike; and with the public investment that this government is prepared to make — it is our determination that Britain lead the

(124) This article focuses on the limited range of measures announced at the employment summit. However, other measures to help combat the growing labour market problems can also be found in the devolved administrations for Scotland, Wales and Northern Ireland.

world in showing what we can do to help the unemployed and create the jobs for the future — and we can do it in partnership: Britain working best when Britain works together.’<sup>(125)</sup>

This was of course a high profile event. It was also an attempt to position the current economic situation and ensuing labour market malaise as (not unreasonably) a shared problem that could only be solved with collaborative action. The social partners were strongly represented at the summit, although this should not be taken as a sign that they were involved in the design of the measures outlined. All the representatives at the event were there to be informed of what the government had decided and for the government to ask for their support in making it a success.

The Prime Minister outlined the key elements of the new measures but it was left to the relevant Secretary of State for Work and Pensions (James Purnell) to provide more details and it was only some time after the summit itself that the precise measures on offer became clearer. Basically the new provisions would amount to an extra GBP 500 million (EUR 590 million) for the following:

- provision of recruitment subsidies for employers taking on unemployed people;
- financial help for new business start-ups; and
- enhanced training opportunities for those out of work.

It was estimated that the new measures would help around half a million people over the next two years — indicating that the package would be spread over a relatively long period of time. In addition it was confirmed that an extra 35 000 apprenticeship places would be funded (which was first announced the week before the summit).

The Prime Minister encapsulated the aims of the series of measures announced at the summit with the following statement: ‘We cannot always prevent people losing their last job, but we can help people get their next job’.

This essentially recognised that even in a severe recession there was still a lot of churn in the labour market with around half a million vacancies registered at Jobcentre Plus alone and 10 000 new ones registered each day.

## 2. Organisation, implementation and funding of the measures

The detailed provisions of the measures announced at the Employment Summit emerged somewhat later and the key elements are summarised below.

(125) The summary of the Prime Minister’s speech is on the Internet (<http://www.number10.gov.uk/Page17982>).

- Recruitment subsidy — in effect this is a recruitment and training subsidy or ‘golden hello’ package that applies to employers taking on an unemployed person who has been looking for work for six months or longer. The subsidy is GBP 1 000 (EUR 1 180) with an additional amount of up to GBP 1 500 (EUR 1 770) to provide in-work training to give the recruit the skills needed.
- Self-employment support — in addition to the existing support available, those unemployed wishing to start their own business can receive GBP 50 (EUR 59) per week for a maximum of 13 weeks without having to sign on at JCP.
- Work-focused training — access to around 75 000 new training opportunities.
- Work-focused volunteering — providing access to 40 000 volunteering placements in England, Scotland and Wales.

The main element of the package — the recruitment subsidy — has emerged as a recruitment and training subsidy of which only GBP 1 000 (EUR 1 180) is non-training related. The other GBP 1 500 (EUR 1 770) is to provide in-work training so that the recruit can do the job, but this is a maximum amount and all payments have to be justified.

It represents a relatively small proportion of the costs of employing another worker — even if the recruit was paid the national minimum wage<sup>(126)</sup> — and as such its value as an incentive to recruit must be called into question. Nevertheless reports from the Department for Work and Pensions (DWP) in April<sup>(127)</sup> suggest that over 140 employers (including large employers such as Nestor Healthcare, Royal Mail, Poundland and Dunelm mill) were in talks with JCP about the new subsidy. However, two months on from this, it is not clear whether such dialogue has actually translated into the take-up of the subsidy and, if so, at what level of training support.

The self-employment support is quite innovative in that it provides financial support to those unemployed but not necessarily claiming benefit. Benefit claimants have access to a comprehensive set of support measures under ‘New deal’ which culminates in a ‘test trading period’ of up to 26 weeks during which the newly self-employed person can remain in receipt of benefits and receive ongoing advice. This is in addition to any support from Business Link<sup>(128)</sup> or bodies such as The Prince’s Trust<sup>(129)</sup>. However, under this new measure the amounts of funding available are modest at just GBP 50

(126) Currently the adult national minimum wage is GBP 5.73 an hour, which equates to an annual wage of around GBP 10 500, making the subsidy equivalent to under 10 %.

(127) See, for example, the Internet (<http://www.whitehallpages.net/print.php?sid=187897>).

(128) Business Link is the business support service in England, while in Scotland a similar service is provided by Business Gateway and in Wales by Business Eye.

(129) The Prince’s Trust is a registered charity which was founded by the Prince of Wales. Its aim is to help disadvantaged young people and it offers a range of opportunities including training, personal development, business start-up support, mentoring and advice.

(EUR 59) per week and are only paid for a maximum of 13 weeks so may not act as a great incentive. No information is currently available on the take-up of the option or how much of the total extra funding is allocated to it.

The work-focused training places are designed in association with key training providers and are based on sectors where there are (or are expected to be) vacancies. There is an element of choice for the jobseeker under guidance from their JCP adviser, but the emphasis will be on developing skills for jobs likely to be in demand. Preparatory training spread over two weeks will cover basics such as health and safety and this will be followed by training for a recognised qualification while receiving any necessary support, for example for basic skills. During the training the expectation is that the jobseeker will continue to look for work, and should an opportunity arise then plans would be made for the person to continue with their training while in a job.

The work-focused volunteering initiative is an obvious response to the current economic conditions whereby finding a job in the regular labour market has become more challenging, and so the view is that volunteering can help develop and maintain the skills of jobseekers while doing useful work for various agencies. Up to 40 000 places are anticipated over the next two years and only those claiming jobseekers allowance (JSA) for six months or longer will be eligible — but participation in the initiative is not mandatory. Around GBP 8 million (EUR 9.4 million) has been set aside to fund the development of a brokerage service in a few key volunteer organisations (such as Volunteering England, Volunteer Development Scotland and the Wales Council for Voluntary Action) and these will respond when a client is referred to them by JCP. In all, this is a modest scheme in terms of funding — for example there will be no additional financial support paid to the voluntary organisations (in effect they will receive free labour) and while jobseekers are volunteering, in order to continue to be eligible for benefits they must continue to fulfil the entitlement conditions. However, these conditions include that they must be available for work and actively seeking work — but this may be difficult to prove while doing their voluntary work.

The overall cost of the measures announced at the summit is not absolutely clear and will depend on their take up, though the employment and training subsidy budget is expected to be GBP 500 million (around EUR 552 million) over two years. Any ESF contribution to this was not made explicit and is unlikely given the current focus and commitments for EU funding.

### 3. Performance and achievements

The Prime Minister was questioned closely on the measures he announced at the employment summit and from the employer side the comments were not particularly encouraging. The British Chambers of Commerce were unsure whether the

proposed GBP 2 500 (EUR 2 950) subsidy<sup>(130)</sup> would help to encourage firms to take on extra workers and the CBI generally felt that the policy emphasis should be on restoring the availability of lending to employers, rather than a subsidy of the sort outlined. There was also a view that the success of the strategy would depend on the support of the private sector and so the potential contribution of the public sector was raised. The SME representatives complained that they needed support for survival through tax and national insurance breaks to lower costs for existing employees, rather than employment subsidies to take on more staff.

There was also a question of the simple mathematics of the proposals. For example, if all those unemployed for over six months (and there were 262 000 in January 2009) benefited from the jobs subsidy, it would cost a total of around GBP 655 million (EUR 773 million) — well in excess of the whole budget of GBP 500 million (EUR 590 million) that was supposed to last for two years.

Furthermore, the problem with any job subsidy is that it runs a high risk of invoking significant negative effects. Firstly, the prospect of a substitution effect cannot be ruled out where a subsidised worker takes the place of an existing worker who could be fired or not recruited in the first place. Secondly, there is the risk of displacement where the subsidised worker may unfairly benefit the firm to the extent that it gives an unfair advantage over another firm in a similar line of business but not benefiting from the subsidy. In the former case it is more possible to control for this in the design and conditions applied to the measure (for example maintaining payroll numbers) but it can be an administrative burden. However, in the latter case the low level of subsidy is unlikely to cause too many problems of this sort. But there is more of a problem with a deadweight effect whereby employers who were going to recruit in any case simply take the subsidy, though for this to be a significant effect it would mean that these employers were also likely to recruit the long-term unemployed, a scenario that is less likely in the current labour market conditions where supply conditions are easy.

Also, the relaxation of the rules on the use of 'Train to gain' and apprenticeship budgets (essentially making them more accessible to a wider group of recipients) has put these under strain from increased applications and this will inevitably lead to some disappointment.

However, allowing access to LEP vacancies for those recently unemployed is perhaps the most controversial aspect of the revised approach — effectively allowing this group to take precedence over those more difficult to place. This manifestation of the 'inverse queue' is not going to help reduce the stock of long-term unemployment even if it may prevent some of those recently unemployed from adding to it in six months.

(130) At the time, it was not clear that the GBP 2 500 comprised a recruitment subsidy element of just GBP 1 000 — the remainder being for training and so the reaction may have been even less encouraging had this been known.

Unfortunately, because the provisions of the employment summit did not come into play until April 2009, there are no readily available statistics to show take-up. Furthermore, the measures were expected to last for two years (so until April 2011) with take-up spread over much of this period. In the event it is not therefore possible to make any assessment of the measure and it is likely to be well into the latter half of 2009 before any useful data emerge.

## 4. Conclusions

The new measures announced at the January employment summit do not demonstrate a significant level of innovation. The main aspect of the measures, the employment subsidy, is actually a combination of a relatively small cash payment with additional funds for training and this may prove to be too small to attract many takers. While some larger employers are likely to take up the subsidy (but mainly those who had recruitment plans already), the SMEs may be less enthusiastic given their current low level of recruitment and focus on retaining existing employees in the present economic climate.

Of the other measures, the work-focused volunteering option sounds attractive and offers the opportunity for unemployed people to maintain their work experience while making a useful contribution to the work of the sponsoring organisations.

However, there has been no relaxation in the rules for claiming benefit in terms of availability for work and active job search and so it is not clear how compatible this is with holding and performing well in a volunteering job — and how the organisations are geared up to cope with this in terms of, for example, supporting job search activities.

Overall, therefore, the new measures, while representing a direct response to the worsening unemployment situation, raise a lot of questions about their appropriateness, scale and value for money that cannot be answered until they have had time to take effect and information emerges about take-up.

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# Croatia

## Lifelong learning measures to improve employability and address the economic crisis

### 1. Introduction

Despite a significant growth in the number of employed people and a decrease in unemployment, many people in Croatia are unemployed. More than half of them have been unemployed for more than a year. There are several main causes of long-term joblessness.

- Low levels of employability due to poor education and lack of work experience. This results in people being uncompetitive in the labour market.
- Employer recruitment practices that tend to discriminate against the long-term unemployed. Long-term unemployment is often used by employers as an indicator of lack of motivation and other undesirable personal characteristics.
- Being passive in seeking work and reluctant to accept those jobs (mostly low-paid) that do become available. The long-term unemployed frequently blame others for their predicament and see no worthwhile financial benefit in accepting low-paid work (sometimes for good reasons, but sometimes incorrectly).

Thus, many people are unemployed or badly paid due to their low level of employability. According to the ILO (2002), employability is defined broadly. It is a key outcome of education and training of high quality. It encompasses the skills, knowledge and competencies that enhance workers' ability to secure and retain a job, progress at work and cope with change, secure another job if necessary and enter more easily into the labour market at different periods in the life cycle. Individuals are most employable when they have broad-based education and training, basic and portable high-level skills, including teamwork, problem solving, information and communications technology (ICT) and communication and language skills, learning to learn skills, and competencies to protect themselves and their colleagues against occupational hazards and diseases. This combination of skills enables them to adapt to changes in the world of work. Employability also covers multiple skills that are essential to secure and retain decent work. In other words, employability is not about high-level technical skill or about specific vocational expertise. It is a set of basic skills and characteristics that apply in most, if not all, jobs, encompassing observation and measurement, analysis, communication, team work and motivation.

Enhancing labour force employability is of concern to society, government, social partners, firms and education institutions for a number of reasons. For example, it means that employers would be able to find and hire employees with required and modern knowledge and skills. The economy would develop better and have higher international competitiveness due to the lower costs and higher productivity. Furthermore, people would more easily find a job and long-term unemployment would be reduced, social expenditures for unemployed people would be lower and available resources could be directed towards projects linked with development. Notwithstanding important redistribution measures such as tax deductions for poor working families, the poor are expected to learn their way out of poverty, with training seen as the primary means of alleviating economic distress and enhancing 'employability' skills. On the other hand, a low level of employability could, among other factors, seriously and directly endanger economic growth and development and contribute to a higher level of unemployment, and especially a high percentage of long-term unemployment. This could cause deterioration of available human capital of people faced with long-term unemployment because of the obsolescence of their skills.

In the knowledge-based economy, rapid changes force workers constantly to update and acquire new skills throughout their lifetime. Changes in technology, organisation and management have instigated changes in forms, methods and length of education. Knowledge and skills of employed people are invisible factors in business, whose values constantly change but are rarely systematically assessed and almost never objectively measured. Workers participating in some kind of adult education (AE), lifelong learning (LLL) and training are more adaptable, mobile and successful at work.

### 2. The situation in Croatia

Croatia has its own experience of adult learning and education of over more than 100 years. However, current participation rates in adult learning and education are significantly lower than those in the EU, although not all forms of adult learning and education are included in the statistics. In 2006, 2.1 % of the population aged 25 to 64 (2.0 % of women and 2.1 % of men) participated in lifelong learning over the four weeks prior to the labour force survey, while in the EU-27 countries 9.6 % of the population aged 25 to 64 (10.4 % of women and 8.8 % of men) participated in lifelong learning. The data from the Croatian Statistical Bureau reveal that the importance of lifelong learning is already increasing. But it is still surprisingly low, mostly because participation in training declines substantially for workers over 50, with very low levels of participation for the low-skilled.

There are at least five main obstacles to further improvement in LLL and AE in Croatia.

- Unfavourable attitudes exist among Croatian employers, who are mostly unwilling to invest in education and training of their employees because of a fear of poaching and due to the logistical and financial difficulties of replacing employees in training. Although not enough is known about the behaviour of Croatian employers and how they select new employees, some conclusions can be drawn from a survey by Pološki Vokić and Frajlić (2004). According to the survey results, employers still very much respect loyalty and obedience in their employees, and some basic requirements of the modern economy such as creativity, self-reliance and team-work capabilities are less sought after. Of course, the value placed on particular worker characteristics differs between jobs with diverse requirements. Furthermore, whilst employers are inclined to praise the knowledge and reliability of older workers, in reality they are looking for younger employees. Employers see young people as being free of the negative attitudes of many older workers, more energetic and having greater initiative and customer care skills, as well as more adaptable and affordable.
- There is a lack of awareness of the benefits of lifelong learning. One should not be surprised that workers are not very motivated for participation in LLL and AE programmes because very often their income and/or professional promotion is not linked to the acquired knowledge and skills. One reason is an overvaluation of formal (regular) education rather than of the real knowledge, skills and capabilities of a person. Furthermore, there is a significant amount of undeclared work in Croatia, although the estimates of its extent vary widely. Some people really do not have the time or possibilities to participate in LLL and AE programmes. Many people might find it more worthwhile to keep a low or medium-paying job and earn extra money through part-time and/or unregistered work, rather than increasing their qualifications to be promoted in their main job. The narrow margin between unemployment benefits and the minimum wage makes training leading to employment unattractive for low-skilled unemployed people. Finally, the pay differences between the higher and the lower-qualified and skilled people, especially in the public sector, are rather small. Thus, due to relatively lower incomes and weaker possibilities for professional promotion (based mostly on seniority rather than proven knowledge, skills and efficiency), primarily in the public administration, there is serious negative motivation for participation in LLL and AE. The non-participation in LLL and AE programmes of one individual could easily have an adverse influence on the behaviour of the whole group or all workers in the plant.
- There is a high level of centralisation. The requirement for decentralisation of educational policy builds on the recommendation of the European Charter of Local Self-government, which says that public authorities should be as close to citizens as possible. The constitution of the Republic of Croatia also includes educational services within the scope of activities of local self-government.

- Huge regional differences exist in economic development, employment possibilities and consequently demand and supply for LLL and AE services. For a long time, the need for defining a regional policy has been evident due to a deepening of economic inequalities and differences in living standards between various parts of the country. Key strategic documents are in the process of adoption, which will help in the implementation of regional policy measures. Adoption of the regional development strategy is expected soon.
- There is inadequate preparation and/or insufficient coordination between and among various ministries and organisations involved. Thus, for example, there are programmes where available resources are not spent because of insufficient preparation, weak coordination and inadequate implementation. The number of interested (informed) participants is small because public announcements are insufficiently promoted, for example only on the Internet and/or in inappropriate periods, such as the summer months.

### 3. The policy and institutional framework

The strategic approach for the period 2008–10 is defined by the government programme, as well as by other strategic documents.

The 'Strategic framework for development 2006–13' (prepared by the Central Office for Development Strategy and Coordination of EU Funds) gives significant attention to employment and states the objective of development and employment in a competitive market economy operating in a European welfare state of the 21st century. The basic starting point, and also the message of this strategy, is that growth, development, employment, social inclusion and justice can only be attained by synchronised and coordinated action in a number of strategic areas. Adequate attention is given to LLL and AE, and it is stated that: 'An increase in the level of total education and the strengthening of the readiness and ability for lifelong learning and development require the extension of the duration of compulsory education, that is, the introduction of compulsory secondary schooling. In addition to preparing young generations for future challenges in the working world, the educational system should also improve the opportunities for adult education.'

Similar attention to the LLL and AE is contained in the 'Operational programme for human resources development 2007–09, Instrument for Pre-Accession Assistance' (also prepared by the Central Office for Development Strategy and Coordination of EU Funds) which includes the following call: 'As part of developing a coherent HRD policy and national qualifications framework, increase the overall efficiency and quality of the education and training systems to promote greater employability. Strengthen human capital investment

through better education and skills and the promotion of knowledge, research and innovation. Improve the labour market relevance of initial and continuing vocational education and training. Develop the overall offer, access and quality of adult provision as part of a lifelong learning strategy'.

In the area of employment, the national employment action plan for 2005–08 has been adopted, which is the first national plan of this kind in Croatia. Its preparation is a result of a process of consultations carried out with a wide circle of individuals and institutions throughout the country (and adopted by the government and the parliament in the form of an overall strategic framework of the measures to be adopted in the labour market in the forthcoming years).

In line with the accession partnership, the government has prepared, together with the European Commission's Directorate-General for Employment, Social Affairs and Equal Opportunities, a 'Joint assessment of Croatia's employment policy priorities' (JAP). This document presents an agreed set of employment policy objectives necessary to advance the country's labour market transformation, and prepare for accession to the European Union, in particular by adapting the employment system so as to be able to implement the European employment strategy in the future. The assessment analyses the economic and labour market situation as well as Croatia's employment policies and sets out, on this basis, employment challenges and priorities for action. Progress in the implementation of these priorities will be monitored in the follow-up process to the joint assessment of the employment policy priorities, taking account of developments in the EU labour market policies.

A Commission for Adult Education has been established, which drafted a strategy for adult education in 2004. The strategy addresses individual learning needs as well as those of society in general and the labour market in particular, and creates legal and professional bases for establishing adult education as an integral part of the education system. The overall objectives are to expand and develop lifelong learning where a system of adult education offering equal opportunities and quality learning is essential. In addition, yearly action plans have been adopted, and the Council for Adult Education and the Agency for Adult Education were established in 2006. This agency has the task of monitoring, regulating and developing adult education activities. Finally, a law on adult education was adopted in February 2007.

Briefly, the basic activities in 2007 and 2008, aimed at the reform and development of lifelong learning, were related to defining the legislative and political framework of the reform, as well as inclusion of people with developmental difficulties into education for employment and other measures defined by the Adult Education Act. Funds from the pre-accession programme are available to Croatia for the implementation of this strategic goal.

## 4. The measures implemented and their impact on the policy challenge

The Agency for Adult Education (AAE) is implementing a project on 'Investment in occupations in short supply'. This project, in cooperation with the regional and local governments and the Croatian Employment Service (CES), will identify skills which are in short supply and, in partnership with local authorities and interested employers, enable education and retraining of several hundred citizens in several pilot counties. Some HRK 1.7 million (EUR 250 000) has been earmarked for this project. Within the framework of another project, professional training of AAE employees has been conducted and plans are under way for the implementation of a further project, 'Strengthening of AAE institutional capacity'.

Furthermore, there are various activities related to the promotion of human capital development and lifelong learning, such as support for employment and education of unemployed people. Through the implementation of active policy measures by the CES, around 10 000 people were included in education and training activities per year, of which around half found jobs after participating in the programmes. A significant number of participants were included in training for a known employer (professional development grants), but the majority of the people were included in training for an unknown employer. Of the total number of people covered by the measures, more than half were women. From the beginning of the implementation of the measures until the end of 2007, HRK 150.3 million (EUR 20 million) was spent on such activities, with a similar sum spent in 2008. The results achieved indicate that, after the implementation of these measures, the people most frequently employed are those with secondary, college and higher education qualifications, by small and medium-sized employers.

In 2009, a year characterised by the global economic crisis, measures are planned to include unemployed people in training programmes to increase the employability of particular groups through an emphasis on LLL and AE. Measures are targeted towards various groups of unemployed people (long-term unemployed, people willing to undertake seasonal jobs and in particular professions, treated addicts, disabled people, women who have suffered violence, human-trafficking victims, asylum seekers and former prisoners). Planned performance indicators include, among others, the number of people from the target group participating in the training activities. It is necessary to emphasise that the evaluation of various measures is planned, as well as their further adjustment according to the achieved outcomes.

## 5. Conclusions

Croatia began to promote adult learning and education as a right and an obligation for all its citizens. All stakeholders are active in encouraging adults to remain in learning and increase their educational attainment. It is necessary to ensure a system of adult education that offers equal opportunities for quality learning throughout the life course to all people and where education is based on the demand and need for learning. This would maximise the contribution of education and training to economic performance and equal regional development, as well as to raising standards in teaching and learning and ensure equality of opportunity for all. An important element for success depends on the joint and coordinated action of the relevant ministries, social partners and educational institutions. This includes encouraging the use of new information and communication technology in lifelong learning and adult education, thus enabling an individual approach to learning and education. There is a need to speed up the integration of labour and learning, thus, creating a continuous link between education and labour, instead of the traditional separation between formal education and lifelong learning and adult education.

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# Turkey

## Upgrading skills as an anti-crisis measure

### 1. Introduction

This article describes and analyses labour market practices and policies in Turkey in response to the global crisis. Turkey has not had any innovative labour market policies in this context and some argue that the government delayed openly acknowledging the fact that the country was affected by the crisis. Turkey had municipal elections at the end of March 2009 and although the ruling AKP (Justice and Development Party) party has lost some ground, many believe that it would have fared worse if the extent of the effects of the crisis was known at the time of the elections.

### 2. Growth and employment challenges

The record high March 2009 unemployment rate became known in mid-June 2009, since the monthly labour force survey results come with a two-and-a-half-month publication lag. In just six months, the unemployment rate increased to 16% from a pre-crisis rate of 10% and the economy contracted by 14% in the first quarter of 2009, a post-war record. Growth is not expected in 2009 and a recovery is barely forecast in 2010, with unemployment remaining high through 2011 and 2012.

The government's latest 'employment package' in May 2009 allowed private-sector agencies to provide temporary workers for public-sector organisations. The measure was strongly opposed by the public and social partners. Officials of the Ministry of Labour and Social Security (MoLSS) did not consult the social partners on this piece of legislation with widespread effects.

Independent experts have urged the government to allow a freer use of Turkish Employment Agency (ISKUR) funds for upgrading ALMPs in affected industries. Measures to compensate and train workers would prevent some lay-offs and upgrade worker skills. The ISKUR announced a modest programme to do so in June 2009, although this had not yet started in July 2009, almost a full year after the crisis affected the Turkish production statistics. The policy would have been fully in line with the two of the three key priority areas for action as identified by the EU — maintaining employment and upgrading skills.

Another challenge was the sudden loss of jobs from November to March 2009. Over 1 million jobs lost added four full points to the unemployment rate. Less than 10% of those affected qualified for unemployment insurance, as the requirements for unemployment benefits are stringent when 45% of Turkish employees are unregistered. Therefore, the government has announced the intention of employing 500 000 people in infrastructure and municipal maintenance projects in April 2009. This figure fell to 120 000 as the budget figures were proposed; it was put to parliament as 'an intention, not a target' in May 2009, and was dropped thereafter. The measure would have addressed the third priority area of the EU, namely, increasing access to employment, as it was planned to have some proportion of this new employment allocated to first-time job seekers who have few chances to find a job in the midst of the crisis.

The anti-crisis 'measures' are listed in Table 1, in the context of upgrading skills.

After a few run-of-the-mill 'incentive' packages and one temporary consumption tax deduction, the government specifically targeted employment issues directly in the May 2009 package.

**Table 1: ALMP and internship components of the May 2009 crisis package**

| Policy area  | Description of measure | Aims and objectives  | Legislative status           | Position of social partners | Preliminary assessment of the measure against:   |   |
|--|------------------------|--|------------------------------|-----------------------------|--|---|
|  |                        |  |                              |                             | criteria for the measure to succeed in the short term  | criteria for the measure to succeed in the long term                                      |
| Increasing labour productivity                               | May employment package | Labour supply and demand (human capital investment for presently employed) | Adopted, not implemented yet | Positive                    | The target is 200 000 ALMP recipients who are in employment. It should show later in ISKUR (PES) bulletins.              | Increased productivity (to be seen in later statistics)                                   |
| Increasing labour supply                                     | May employment package | Internship facilitation in firms.  | Adopted, not implemented yet | Positive                    | The aim is for 100 000 young interns to be supported in firms with financial support from the Turkish Employment Agency. | The proportion in employment after the support measures expire in six months (to be seen) |
| Investment in human capital, increasing access to employment | May employment package | Labour supply and demand (human capital investment for the unemployed)     | Adopted, not implemented yet | Positive                    | The target is 200 000 ALMP recipients in present unemployment rosters. It should show later in ISKUR (PES) bulletins.    | Increased productivity (to be seen in later statistics).                                  |

Source: Ercan 2009.

The government did not revise its forecast growth rate target of 4% for 2009 until April 2009. All expected budgetary targets were severely off the anticipated targets by then. The revision of the growth rate in April 2009 was to -4%. There were thus few spare funds available for ALMP measures, apart from the ISKUR funds, the use of which is strictly defined by law. The government did not have a concerted strategic approach with clearly identified priority areas in order to allocate the ISKUR funds accordingly and effectively (Turkey has not yet agreed with the Commission on a joint assessment paper for employment challenges and it does not prepare national reform programmes, as the EU-27 do). There could have been an early ALMP and internship-based drive to upgrade skills with full support of social partners in workplaces, which would have had benefits after the economic crisis.

Two measures had some effects. One was a temporary reduction in the special consumption tax that gave a boost to automotive and consumer durable sales; this ended in mid-June 2009 (no final statistics are thus available at the time of writing). The second was short-term work compensation that maintained some employment (see Table 2).

The ISKUR defines short time as at least a one-third reduction of normal working hours for at most three months or total or partial work stoppage for at least four weeks. The general economic crisis or *force majeure* are cited as causes for temporary work reduction for all or some of the workers in the workplace. Table 2 provides data for 2009 (this measure was not widespread before the crisis; in 2007, there were 40 recipients of this measure).

**Table 2: Short-time work compensation recipients from the Turkish Employment Agency**

| Month (2009) | Number of recipients | Total payment (1 000 TRY) | Average pay (TRY) | Per recipient (EUR) |
|--------------|----------------------|---------------------------|-------------------|---------------------|
| January      | 651                  | 492                       | 756               | 360                 |
| February     | 6 935                | 1 679                     | 242               | 115                 |
| March        | 27 491               | 12 397                    | 451               | 215                 |
| April        | 41 753               | 18 217                    | 436               | 208                 |
| May          | 66 405               | 24 348                    | 367               | 175                 |
| June         | 82 439               | 23 925                    | 290               | 138                 |

Source: <http://www.iskur.gov.tr>.

Turkstat's definition of undeclared work is falling to between 40% and 45% of the workforce. Undeclared workers felt the brunt of the employment losses and their proportion is diminishing in the workforce. The government does not suggest increased audits of undeclared work, as this would have a detrimental effect on low-skilled workers in this crisis. The ISKUR had a record number of beneficiaries in April 2009 (318 000), but the number of unemployed is 12 times this level. The reach of official statistics and ALMPs is thus limited. How to design effective policies for the informal unemployed people, who are unskilled, remains an open question.

### 3. Performance of the measures

The Turkish Employment Agency, ISKUR, will do its best to ensure effective performance in ALMP and internship targets as mandated. However, its capacity is limited; it has less than 2 000 employees while the Turkish labour force is close to 24 million, with approximately 3.8 million unemployed (and this with only a 45% labour force participation rate, March 2009 values). A possible move by the government would have been to increase direct employment in the ISKUR.

The success of the measures will be evaluated from the statistics in ISKUR bulletins, reported as the number of recipients of ALMP measures and their breakdown (for the employed and unemployed) and the number of industry interns. These statistics will be compared with their pre-crisis levels.

A key output in the long-term would be an increase in worker productivity levels, corrected for capital investment per worker. (However, even then the measure would be flawed, as someone before training would not benefit from increased machinery and equipment investment). In any case, the impact would be desirable. For now, one must await the implementation of the measures.

### 4. Conclusions

In Turkey, the municipal elections in late March 2009 meant delayed policy reactions to the economic crisis and a delayed appreciation on the politicians' part of how deeply and severely the global crisis has hit the country's economy. This delay, together with an IMF standby agreement that has still not been signed, has cost the use of substantial IMF funds (equivalent to over EUR 14 billion).

As Turkey did not have large funds itself, with its tax revenues deteriorating because of the crisis, it had insufficient funds to support its priority employment measures, and instead announced a package of 'incentive' measures. This article has made a preliminary assessment of these 'measures' in terms of general labour market indicators.

The economic crisis has affected the country relatively late, but it hit hard and swiftly. Most employment adjustment was over in late 2008 and early 2009, with an increasing unemployment rate, especially amongst young people. This problem was exacerbated because of demographic pressures (including rural to urban migration). Recovery prospects, if the 2001 crisis and

ensuing jobless recovery are any measure, appear to be bleak and the country must brace itself for a long-term fight for job creation. Piecemeal answers without coherence or a strategic understanding will not help towards effective implementation of available funds (ISKUR had EUR 238 million at the beginning of 2009 for its training programmes).

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# Norway

## Measures undertaken to address the economic crisis: targeted tax relief and temporary lay-offs

### 1. Introduction

The Norwegian economy is affected by the international financial and economic crisis, but the downturn is not as severe in Norway as in other European countries. Norway entered the crisis after a period of strong economic expansion, high rates of growth, decreasing unemployment and increasing employment. In recent years, economic expansion has actually been so strong that there has been a lack of labour supply. The immigration of workers from other European countries, especially from Poland and Sweden, has been necessary to meet labour demand. After the bankruptcy of Lehman Brothers in September 2008 and the following international financial crisis, the Norwegian economy experienced, as other countries, a decline in growth rates, increasing unemployment and decreasing employment. In this article, some of the measures initiated by the government to lessen the negative effects of the crisis are discussed. The measures could be linked with the employment guidelines of the European employment strategy, and the aims to improve adaptability of workers and enterprises and to promote flexibility combined with employment security (integrated guidelines 20 and 21).

### 2. The developments in Norway during the economic crisis

According to Statistics Norway (2009), the rate of unemployment increased from 2.40 % to 2.90 % in the fourth quarter of 2008. In the first quarter of 2009, the unemployment rate increased additionally by 0.30 percentage points to 3.2 %. In the second quarter of 2009 there was a small fall in the rate of unemployment, of 0.10 percentage points, to 3.1 %. However, the Ministry of Finance still estimates that the unemployment rate will reach 3.75 % in 2009 and 4.75 % in 2010 (St.meld. nr. 2, 2008–09). Compared to other industrial countries, the increase in the unemployment rate has been modest. Several European countries are experiencing rates of unemployment above 10 %. Also, the neighbouring countries of Sweden and Denmark, two political economies often considered to be very similar to the Norwegian one, are experiencing a higher increase in the unemployment rate and a greater decrease in GDP.

Despite the financial crisis, in 2008 Norway still experienced growth in its mainland GDP of 2.6 %. Even though the government has introduced several measures to lessen the negative effects of the crisis, the Norwegian Ministry of Finance estimates a decrease in mainland GDP of 1 % in 2009. This is, however, modest compared to the growing output gap in several other industrial countries. The IMF is projecting that GDP in the advanced economies will decline by 3.8 % in 2009. Both Sweden and Denmark estimate a decrease in GDP around 4 % in 2009. This decline is, however, lower than the projection for the euro area, where a decline in GDB of nearly 5 % has been forecast. The IMF projects a decline of 2.6 % in the United States and 6.0 % in Japan. Hence, the forecast for the Norwegian economy is brighter than for other advanced economies.

Even though the increase in the overall level of unemployment in Norway should be considered as modest, and the growth forecasts seem stronger than in many other countries, some sectors are experiencing difficulties due to the international fall in demand. In particular, the export sector is facing serious challenges as a consequence of lower demand in the international market. According to Statistics Norway, the output in Norwegian manufacturing decreased by 2.8 % from March to May 2009. The output in basic metals went down by 9.4 % in this period, and has seen a drop of 34 % in production since July 2008.

Some of the negative effects of the financial crisis seem to have been avoided so far. This could partly be ascribed to the several measures initiated by the government to stabilise the financial market and prevent increasing unemployment and decreasing growth. Since autumn 2008, the central bank has reduced the interest rates by 5 percentage points to 1.25 %. The government has increased the use of petroleum revenues from NOK 55 billion (EUR 6.3 billion) in 2008 to NOK 130 billion (EUR 14.8 billion) in 2009, as well as several measures that will not have immediate effect on the fiscal budget (e.g. the guarantee schemes for banks and firms).

### 3. The spending/ revenue mix in the stimulus packages

Watt (2009) shows in a study of the stimulus packages in the EU Member States that the packages in general (in 10 to 14 EU countries) are divided almost equally between the revenue side (52 %) and the expenditure side (48 %) of the budget. In Norway, however, most of the government's efforts have been oriented towards the expenditure side. Only a few tax relief measures have been implemented to respond to the crisis. In the NOK 20 billion (EUR 2.3 billion) stimulus package launched in February 2009, 84 % was on the spending side, while 16 % was on the revenue side of the budget. As mentioned above, the government has increased the use of petroleum revenues from NOK 55 billion (EUR 6.3 billion) in 2008 to NOK 130 billion (EUR 14.8 billion) in 2009. In addition to the NOK 20 billion stimulus package, the government used petroleum revenues

to compensate for the decline in tax revenue and increases in government expenditures, e.g. unemployment benefits (automatic stabilisers), as well as increased public spending in the revision of the government budget in May 2009. Hence, only approximately NOK 3.5 billion in tax relief measures has been introduced to address the crisis, and the relief measures are temporary with a defined time limit.

It is not surprising that the Social Democratic government in Norway, ideologically speaking, would prefer public spending over tax relief as a measure to prevent the economic downturn. It could, however, also be that this is a more effective way to handle the crisis, considering that public spending is often regarded as a more effective measure against economic downturns than tax relief measures. Households are likely to save some of the increased disposable income resulting from a tax relief and some of the increased income will be used to purchase imported goods. Hence, the spending/revenue mix in the Norwegian stimulus packages could be one of the reasons why the development in the Norwegian economy seems brighter than in other countries. When the right-wing opposition parties suggested more tax-relief measures as a way out of the economic crisis, this was rejected by the government with reference to tax relief measures being less effective than public spending and less targeted since it would also benefit companies which do not need any stimulus.

## 4. Targeted tax relief measures

Although few tax relief measures have been introduced, the government launched some targeted tax relief measures, with an explicit time limit, in the stimulus packages in February 2009. To ensure that industrial companies will continue their investments despite the current economic downturn, the government changed the tax deduction rates for industry sector purchases of machines, cars and other equipment in 2009. For investments in 2009, the companies can deduct 30% of their purchase, instead of the 20% previously (Stortings prp. No 37, 2008–09).

For 2009 and 2010, a cyclical tax relief has been introduced which provides a temporary possibility to reallocate deficits up to NOK 5 million (EUR 0.6 million) against an earlier surplus. The main goal is to help companies that are profitable in the long run through difficult times. Each company could have a refund of NOK 2.8 million (EUR 0.3 million) for the two years (28% of NOK 10 million, or EUR 1.1 million). In both years, this will mean a cost of at least NOK 7 billion (EUR 0.8 billion) in lower taxes and enhanced liquidity of these companies. The recorded effect in 2009 is estimated at NOK 3.25 billion (EUR 0.4 billion) in reduced tax revenues (Stortings prp. No 37, 2008–09). The actual effect on the budget is, however, difficult to estimate as the companies' deficits are uncertain in this period. One of the advantages of this measure is that the dimension of tax relief is dependent on how deep the economic downturn for the companies will be. The tax relief is also to be considered a very

accurate use of fiscal stimulus since it only benefits companies that are experiencing a deficit as a result of the economic downturn and falling demand.

This kind of tax relief is also in accordance with the Nordic model. Companies that are not profitable in the long-term will not be subsidised, while companies that are profitable in the long term, but are experiencing difficulties due to a temporary decrease in demand, will be helped through this difficult period. With this measure the government ensures that tax relief is not wasted on companies that did not make money even during the latest period of strong economic expansion. Furthermore, the government wants to back the companies that are most exposed in the recession. At the same time, the measure is treating all businesses and companies equally.

As mentioned, the right-wing opposition has argued that the government should consider larger tax reductions as a measure against the crisis. The challenge with tax reduction as a measure against economic downturn is, however, that it is politically difficult to raise the taxes back to earlier levels when the markets improve. If the government has an ideological desire to keep the level of taxation on the current level in the long term, it is also difficult to lower it on a more temporary basis. The fact that the government has defined an explicit time limit for the tax relief introduced in the stimulus package allows it to avoid a difficult question: at which level of unemployment would it be acceptable to raise the taxes back to their pre-crisis level?

## 5. Temporary lay-offs

In a European comparative perspective, the protection of collective lay-offs in Norway could be characterised as weak, while the protection of individual lay-offs is strong, compared with countries like Germany, the UK and Denmark (OECD, 2004). Another feature is that the unemployment benefits for dismissed employees are universal and at a relatively high level. Also, those who are temporarily laid off receive unemployment benefits. These rights are regulated by the length of the temporary lay-off period, as well as by the reduction of the working hours. As mentioned in the introduction, despite the financial crisis, the unemployment rate in Norway is low compared to most other countries in Europe: in June 2009 it was 3.1%. Nevertheless, several measures have been introduced to meet the financial crisis. In this section, we focus especially on the changed rules for temporary lay-offs in Norway.

To maintain employment, there have been several changes in the rules for temporary lay-offs during 2009. In January 2009, the government proposed, in its stimulus package, a change of the rules for temporary lay-offs as a measure to make it easier for companies, strongly exposed to competition, to respond to the financial crisis. The decrease in exports made these enterprises vulnerable. The construction sector was affected by the crisis as well.

The changes in the rules for temporary lay-offs came after requests from the Norwegian Confederation of Trade Unions (LO) and the employers' organisation, the Confederation of Norwegian

Business and Industry (NHO). They strongly recommended changes in the rules as one of several measures undertaken to reduce the effects of the international economic crisis. The demands were most strongly articulated by the export industry.

In the initial package, it was proposed to extend the state-financed unemployment compensation from 30 to 42 weeks when workers are temporarily laid off. The government decided to extend this period further, by an additional 10 weeks, after suggestions from the LO and NHO and requests that came directly from several Norwegian companies. According to the changes, an employer can now temporarily lay off employees for 52 weeks during a period of 18 months. This change was implemented on 1 February 2009.

From 1 April 2009 other important changes were introduced. Companies' obligations to pay unemployment compensation in the case of temporary lay-offs were reduced from 10 to five days. Before the changes, the employer had a duty to pay wages for the first 10 days of the temporary lay-off period (and 15 days if working hours were reduced by less than 40%) and after that the Norwegian Labour and Welfare Administration (NAV) took over this duty. From 1 April 2009 the NAV is responsible for paying unemployment benefits after the first five days. However, an employee had previously to get his/her working hours reduced by half in order to get unemployment benefits from the NAV. This rule was changed from 1 July 2009.

According to the latest changes in the rules for temporary lay-offs, an employee who gets his/her working hours reduced by 40% has rights to unemployment benefit from the NAV after a period of five days. At the same time, the employees can work temporarily in the enterprise for a period of six weeks without violating the rules for temporary lay-offs. This means that an employer can take on the temporarily laid off person to work for six weeks if needed, without starting a new period of temporary lay-off with a duty to pay the salary. Before July 2009, this period of work was four weeks.

One important reason for this change is to increase predictability for the employee and the employer. Following these changes, employees have a longer period with a secure income. The changes also give enterprises the possibility of holding on to needed competences and skilled workers in a period of low activity in the economy. It is also easier for the employer to distribute lay-offs completely or partly among the employees and over a longer period of time.

Table 1 shows that the number of temporarily laid-off workers has increased.

**Table 1: Numbers of temporary lay-offs**

|  | Average in 2008 | March 2009 | Change from March 2008 |
|--|-----------------|------------|------------------------|
| Laid off completely (for a temporary period) | 1 530           | 10 142     | +8 472                 |
| Laid off partly (for a temporary period)     | 1 033           | 6 999      | +5 800                 |

Source: Statistics Norway <sup>(131)</sup>.

(131) <http://www.ssb.no/samfunnsspeilet/utg/200903/08/tab-2009-06-15-02.html>

The numbers show a major increase of (complete and partial) temporary lay-offs from March 2008 to March 2009. It is reasonable to expect that the increase will continue, as an effect of the financial crisis and the changes in the rules for temporary lay-offs. During May 2009, the NAV received notices of dismissals and temporary lay-offs from 74 companies. Some 1 430 employees could be 100 % temporarily laid off, and most of them are from the industrial sector. Meanwhile, 17 % of the dismissed employees are from the industrial sector. For the moment, dismissals are more frequent in the commercial service sector and in real estate.

Temporary lay-off is a measure directed at enterprises that will be able to provide employees with full employment, again, within a 'reasonable time' <sup>(132)</sup>. The change of rules is a response to the obstacles that Norwegian enterprises are facing as a result of the economic and financial crisis. It is too early to say how the latest changes will affect the level of temporary lay-offs, but, as already mentioned, it is reasonable to expect an increase in the coming months.

## 6. Conclusions

In this article we have focused on two different measures undertaken by the Norwegian government to address the financial crisis — targeted tax relief and changes in the rules of temporary lay-offs. The main goal of these changes is to help companies which are considered profitable in the long run through difficult times.

Both measures are in accordance with the Nordic model of labour relations. Companies that are not profitable in the long run will not be subsidised. Companies that are profitable in the long run but have difficulties due to a temporary decrease in demand could be helped through this temporary difficult period. The changes in the rules for temporary lay-offs are an example of the government's response to social partners' recommendations, and, in a sense, a concrete example of the tripartite system in Norway.

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