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**COMMUNICATION FROM THE COMMISSION TO THE EUROPEAN
PARLIAMENT, THE COUNCIL, THE EUROPEAN ECONOMIC AND SOCIAL
COMMITTEE AND THE COMMITTEE OF THE REGIONS**

on the active inclusion of persons excluded from the labour market

IMPACT ASSESSMENT

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1. MODIFICATIONS FOLLOWING THE OPINION OF THE IMPACT ASSESSMENT BOARD

The Impact Assessment Board (IAB) released its Opinion on 4 September 2008. The Opinion recommended to clarify, complement and enrich the text in a number of areas and offered to re-examine the revised version before final adoption. DG EMPL is grateful for this possibility and will duly take into account any further comments that the IAB may have on this revised version before final adoption.

The present text takes into account the main recommendations for improvements listed in the Opinion as well as a number of more technical comments that have been transmitted directly to DG EMPL. In particular:

Recommendation (1) - A clearer description of the content of the proposed policy option is necessary.

In section 2.3 of the Impact Assessment the content of the proposed Recommendation is reported in detail. More importantly, in chapter 5, when presenting the three main options, a new section 5.2 has been added which entirely focus on the content of the Recommendation. The section also introduces and discusses two sub-options as regards the content of the Recommendation. The views of the stakeholders have been made more explicit both in section 2.3 and in section 5.2, in relations to the sub-options presented.

Recommendations (2) and (3) - **The report should provide a more focused problem definition and the analysis of the problem needs to be placed in a dynamic context.**

Section 3.2, 3.3 and 3.4 include additional elements as regards recent trends in social exclusion and poverty, and reference to the main population groups affected has been added. The new elements introduced throughout section 3 on problem definition build on the lessons learnt from the Commission monitoring of the 1992 Recommendation and help to illustrate to which extent to Member States have different situations, needs and priorities. The text also gives a better in-sight of the problems that Member States face when dealing with multiple disadvantage and this is explicitly related to the decision to proceed with a horizontal and integrated approach.

Recommendation (4) - **The impact over and above the previous Recommendation should be clearer.**

The explicit presentation of the content of the new Commission Recommendation in various sections of the report allows clarifying the novelty of this approach in comparison with the 1992 Council Recommendation. The analysis of the potential impact of the Commission initiative has been expanded in Section 6, and the assessment of the impact of the various options has been fine-tuned. The report also clarifies why it is not possible or proportionate to make a comprehensive quantitative assessment of all different policies in Member States. Nonetheless, examples based on available evidence are provided.

Other comments – Several other improvements have been brought to the text in the light of the technical comments received from the IAB. These include, among others, a specification of the rationale behind the poverty indicators that are used; a better assessment of the possible extent to which Member States may react to the Recommendation; a more articulated

assessment of the likely budgetary impact of the proposals and of the potential trade-offs in the implementation of the Recommendation.

2. INTRODUCTION

Social exclusion and poverty have been a central concern of the European Union for several decades. As early as 1992 the Council adopted a Recommendation on 'common criteria concerning sufficient resources and social assistance in social protection schemes', which was the final part of a social action plan aimed at supporting the achievement of the Internal Market. The Recommendation lays down orientations for the Member States' policies as the responsibility for — and indeed the capacity to address — these issues lie with the latter. Since 1992 work on this issue has continued and monitoring has shown mixed results. While countries have made progress in the implementation of such schemes, poverty levels remain a concern. Over the years the focus of the debate has shifted to some extent. First, the stress has been put on the fact that employment offers the most durable and desirable solution for those who can work: hence the importance of linking minimum income schemes with employment policies. Secondly, for those who cannot work and can only live from social assistance, more attention is being paid to even greater social integration.

The social Agenda 2005-10¹ committed the Commission to 'take action on the debate on the national minimum incomes schemes.' It recognised progress and announced consultations on 'why the existing schemes are not effective enough'. The Commission started wide-ranging consultations as described in the Chapter on stakeholder consultations and continued the analytical work relating to the issue. That work has now been concluded and the Commission can propose appropriate action. The renewed Social Agenda² announces a Commission Recommendation on active inclusion as one point to deliver on combating poverty and social exclusion. This working document reminds the starting point and the process underpinning the Commission proposal; it illustrates the various options that have been considered and provides the elements to assess the likely impact of the proposal³.

3. PROCEDURAL ISSUES AND POLICY CONTEXT

3.1. The 1992 Council Recommendations and follow-up

In **1992** the Council adopted a Recommendation (92/441/EEC of 24 June 1992⁴) proposing as a common objective the establishment of a minimum level of guaranteed income (MI), and principles and guidelines to attain that objective. It thus recommended that the Member States recognise the basic right to sufficient resources and social assistance in their social protection systems. A second Recommendation (92/442/EEC of 27 July 1992⁵), set out general principles for the convergence of national social protection systems.

¹ (COM(2005) 33

² Add reference

³ The Commission finally decided to choose for a Communication instead of a Recommendation.

⁴ OJ L 245, 26.8.1992, p. 46.

⁵ OJ L 245, 26.8.1992, p. 49.

In **1999** the Commission submitted its first report on the implementation of Recommendation 92/441/EEC⁶. The report confirmed that minimum income schemes have an essential role as "final safety net mechanism" and as "anchor points on which to base economic and social integration." It concluded that the Recommendation had helped to organise and stimulate the debate between the Member States on the role and development of such schemes and that it had fostered the convergence of such schemes across the Member States. The report stated that notable differences remain in the way how these schemes function; to what extent and for how long they cover essential needs and how they are linked with other measures of social and employment support. The report noted that the commitment of Member States to making available employment opportunities to MI recipients differ as well as the manner how employment services and specialised measures support labour market integration. The report proposed to further develop EU level work and to open discussions with social partners and civil society on i) how to optimise the social protection given; ii) how to increase access to employment and iii) how to develop economic and social integration" with a view to preparing the implementation of Article 137. The **2000** Nice Council adopted common objectives for the open method of coordination (OMC) in the field of social inclusion and integrated the objectives set out in the 1992 Recommendations⁷. The Nice objectives, however, did not lay down clear guidelines on how the implementation of MI schemes was to be monitored with a view to a systematic review of the 1992 Council Recommendation.

The first Joint Report on Social Inclusion, adopted in March **2002**, concluded that 13 Member States out of 15 had developed a universal social assistance policy aimed at guaranteeing all legal residents a minimum income⁸. The second Joint Report on Social Inclusion⁹ (March **2004**), together with the Report on social inclusion examining the National Action Plans of the 10 new Member States¹⁰, highlighted the concern to reduce to a minimum the employment disincentives embodied in MI schemes and took note of reforms intended to review eligibility rules and to introduce individualised paths for reintegration into the labour market. Some Member States, however, were raising or maintaining the real value of MI levels by setting targets or adopting some form of indexation in view of the fact that benefits were often acknowledged as being rather low or as leaving out important sections of the population with no alternative income.

In this context, the revised Social Agenda for 2005-10 adopted by the Commission as a Communication accompanying the revised Lisbon Strategy confirmed that the Commission would launch a *Community Initiative on minimum income schemes and the integration of people excluded from the labour market*, after due impact assessment procedures had been observed.

⁶ *Report on the implementation of the Recommendation 91/441/EEC of 24 June 1992 on common criteria concerning sufficient resources and social assistance in social protection systems* (COM(1998) 774).

⁷ See Document SN 400/00, *Presidency Conclusions. Nice European Council Meeting. 7, 8 and 9 December 2000*.

⁸ COM(2002) 565 of 10 October 2001, as adopted by the Council on 3 December 2001.

⁹ COM(2003) 773 of 12 December 2003 as adopted by the Council on 4 March 2004.

¹⁰ SEC(2005) 256 of 14 February 2005.

3.2. The Lisbon Strategy and social inclusion

Following the revision of the Lisbon Strategy in 2005¹¹ and its renewed focus on employment and growth, greater attention focused on social inclusion through access to gainful employment, both in the European Employment Strategy (EES) process and in the streamlined OMC for social protection and social inclusion (Social OMC).

The new Employment Guidelines, which formed part of the integrated guidelines package for 2005-08¹², addressed the problem of integrating those furthest from the labour market by encouraging the Member States to introduce work incentives in support of preventive and active labour-market measures, including early identification of needs, job search assistance, guidance and training as part of personalised action plans, to provide the social services needed to support the labour-market inclusion of disadvantaged people and to contribute to social and territorial cohesion and the eradication of poverty (Integrated Guideline No 19). Furthermore, that Guideline proposed a continuous review of tax and benefit systems, including the management and conditionality of benefits and reduction of high marginal tax rates, in an effort to make work pay and to ensure adequate levels of social protection.

Meanwhile¹³, it was agreed that the Social OMC would 'feed into' the Lisbon partnership for growth and jobs process. The streamlined 'overarching' objectives of the Social OMC reflected that dimension and the support needed from growth and job creation for social inclusion and sustainable social protection. In addition, the common objectives adopted by the March 2006 European Council (and confirmed in 2008) stipulate, as regards the social inclusion strand, that a decisive impact needed to be made to eradicate poverty and social exclusion 'by ensuring:

- access for all to the resources, rights and services needed for participation in society, preventing and addressing exclusion, and fighting all forms of discrimination leading to exclusion;
- the active social inclusion of all, both by promoting participation in the labour market and by fighting poverty and exclusion;
- that social inclusion policies are well-coordinated and involve all levels of government and relevant actors, including people experiencing poverty, that they are efficient and effective and mainstreamed into all relevant public policies, including economic, budgetary, education and training policies and structural fund (notably ESF) programmes.'

From the outset, by focusing on those most markedly excluded from the labour market, the active inclusion approach is therefore rooted in the Social OMC, but it draws on the renewed Lisbon process and benefits from the attention given to inclusive labour markets.

¹¹ COM(2005) 24 of 2 February 2005, *Working together for growth and jobs. A new start for the Lisbon Strategy*.

¹² Council Decision 2005/600/EC of 12 July 2005 on Guidelines for the employment policies of the Member States (OJ L 205, 6.8.2005, p. 21).

¹³ Commission Communication *Working together, working better: A new framework for the open coordination of social protection and inclusion policies in the European Union* (COM(2005) 706 final of 22 December 2005); the March 2006 European Council welcomed the proposed new objectives and working methods.

The proposed Commission initiative aims systematically to encourage this holistic approach and explains how the Social OMC can be reinforced through the establishment of 'common principles'. It therefore forms an integral part of the renewed Social Agenda adopted by the Commission on 2 July 2008¹⁴ and provides an illustration of the accompanying Communication *A renewed commitment to social Europe: reinforcing the Open Method of Coordination in Social Protection and Social Inclusion*¹⁵.

¹⁴ *Renewed Social Agenda: Opportunities, access and solidarity in 21st century Europe* (COM(2008) 412 of 2 July 2008).

¹⁵ *A renewed commitment to social Europe: Reinforcing the Open Method of Coordination for Social Protection and Social Inclusion* (COM(2008) 418 of 2 July 2008).

4. CONSULTATION OF INTERESTED PARTIES

4.1. The first-stage consultation on active inclusion

In line with the commitment made in the Social Agenda 2005-2010 on 8 February **2006** the Commission issued a Communication on the active inclusion of the people furthest from the labour market¹⁶. The Communication put forward a general framework for an integrated active inclusion strategy based on three pillars, namely adequate income support, inclusive labour markets and access to quality services. The Communication – based on Art. 137 and 138 of the EC Treaty - had two goals: first, to review progress achieved in the enlarged Union in fostering labour market access for those excluded from it. Secondly, based on that review, it launched a public (first-stage) consultation on the orientation of possible EU action to promote the active inclusion of people furthest from the labour market¹⁷.

Replies to the first-stage consultation generally expressed the view that more needed to be done at EU level to deal with the major, common challenges facing the EU with respect to the active inclusion of those furthest from the labour market¹⁸. But views differed to some extent on the possible options for the way forward.

On the question of a **directive** on minimum income schemes, most respondents said this policy area was a national competence and that prescriptive rules at EU level were not appropriate given the diversity of situations within the EU. Those respondents in principle in favour of a directive also called for an in-depth debate at EU level to ensure it would be based on a serious understanding of and research into the level of benefits that should be considered adequate for living life in dignity.

Almost all the Member States and the vast majority of the other respondents stressed that the Social OMC was an effective tool for sharing best practice and improving policies in the active inclusion field. Several respondents believed that it was too early to assess the effectiveness of the new streamlined process and felt that its impact needed to be properly assessed first, while others called for stronger focus on MI schemes and the active inclusion of those most marginalised. Some suggested that this could be achieved via a new ad-hoc guideline (added to the Employment Guidelines), specific targets and indicators, peer reviews and further research.

¹⁶ Reference: COM(2006) 44 of 8.2.2006, *Communication concerning a consultation on action at EU level to promote the active inclusion of the people furthest from the labour market.*

¹⁷ In particular, the first-stage consultation focused on three key questions:

(1) Given the challenge for Member States to address social inclusion and in particular the integration of people furthest from the labour market, is there a need for further action at EU level, and if there is, what are the most useful ways by which the EU could complement and support the action at national level?

(2) How should the Union build on the common ground agreed in the 1992 Recommendation to promote the rights and access to services needed for the integration of excluded people, taking into account the relevant policy innovations?

(3) Is there any justification for action at EU level, based upon Article 137(1) (h)? In such a context, could the aspects concerning activation and access to the labour market be the subject of negotiation between the social partners?

¹⁸ For a full review of the outcome of the consultation, see:

http://ec.europa.eu/employment_social/spsi/active_inclusion_en.htm

There was strong support for the establishment of **common principles** at EU level. Many respondents believed that an EU initiative to address the common challenges facing the EU could boost the effectiveness of the current processes under the Lisbon Strategy by offering a clear strategic focus and giving the European social model real content.

The 1992 **Council Recommendation** was described as a precursor to the present Social OMC. However, several respondents felt it was inadequate and two Member States advocated a new Recommendation which would integrate developments since 1992 in the social situation in Europe and in the new policy framework within the Lisbon Strategy.

4.2. Input from various pools of expertise

In addition to the first-stage consultation, various pools of practical expertise were mobilised and contributed to a better understanding of active inclusion. One of the most important was the in-depth examination of National Action Plans to combat poverty and social exclusion (2006-08) conducted by the Social Protection Committee (SPC) on 19 April 2007. It was clear from the assessment in eight Member States that if those furthest from the labour market were to be reached, 'active inclusion' had to involve active labour-market policies combined with minimum assistance and access to quality support services: in other words, all three active inclusion 'pillars' warranted attention (see box).

Active inclusion: an integrated approach

Four key messages emerged from the in-depth examination of the 2006-08 National Action plans for fighting poverty and exclusion:

- The greater the exclusion experienced by individuals and the more intense their group's marginalisation, the more personalised the 'active inclusion' approach must be if it is to meet the needs and match the abilities of those concerned. In turn, personalised approaches call for the integration of various support services and tools tailored to each individual, such as health assistance, housing facilities, indebtedness-counselling, training and learning. The integration of employment and social assistance services was considered especially relevant (LV and DE). In particularly adverse circumstances, personal health support (DK) and targeted social housing (SE) appeared to offer crucial gateways at the start of the active inclusion process.
- Integrated social services responding to individual needs call for sophisticated delivery by well-trained, highly aware service-providers, investment to enhance staff skills and the development of quality assessment (UK).
- Activities suitable for the implementation of the active inclusion approach can be found in a large variety of environments, ranging from unpaid voluntary services and protected collective activities to fully paid employment in normal business. In all these situations, individual coaching or participation by co-workers in supporting those making their way in a new 'active environment' were considered crucial to success (an example is the 'guide for co-workers' introduced in DK with the assistance of the social partners).
- Rehabilitation through participation in an activity and the process of achieving autonomous engagement imply effective access to adequate minimum resources. Conditions linked to such resources should not prevent access for those most in need. Full utilisation of the financial assistance available for support for active inclusion is a useful indicator of the effectiveness of an active inclusion strategy (NL). Minimum provisions in social protection schemes (including social assistance schemes, basic pension schemes and unemployment benefit) and in wage setting should be closely linked to activating measures as well as guaranteeing a decent minimum standard of living and be adjusted to take account of at-risk-of-poverty thresholds (AT).

This in-depth examination shed further light on the input from the Member States as part of their full reporting in 2006 and the joint assessment in the 2007 Joint Report on social protection and social inclusion.

Chapter 3.1.2 of the supporting document¹⁹ included a comprehensive analysis of the Member States' policies to promote active inclusion and to fight poverty.

Useful contributions also came from:

- The **sixth European Conference of People Experiencing Poverty** (4 and 5 May 2007)²⁰, where the issue was also discussed from the viewpoint of practical experience. Among the conclusions drawn by participants were the following: MI schemes should be provided for all who needs them and should be at least equivalent to the poverty threshold in each country; the Member States should identify and implement minimum standards in their benefit and social services systems; ensuring access to adequate housing was essential; labour market integration should be supported by pertinent, effective training programmes and social services; employment should be of good quality and involve decent pay, a substantial degree of security and stability, and should provide for effective reconciliation.

- The **Stakeholders' Conference on Active Inclusion** (15 June 2007), which was a key event for extensive discussion, with input from some academic experts, of the three strands of active inclusion and their interaction, as well as the link between active inclusion and flexicurity²¹. The main conclusions included: the realisation of the need for much greater awareness of the necessary consistency across the three active inclusion pillars; the fact that the importance of support for social services, such as social services of general interest, was still underestimated; the social partners had a crucial role to play once vulnerable workers were back in employment.

- Discussion between Commission Directorates-General represented in the **Mainstreaming Social Protection and Social Inclusion Interservice Group**²². Officials representing the Secretariat-General, the Legal Service and DGs (AGRI, EAC, ECFIN, ENTR, ELARG, ESTAT, INFSO, JLS, MARKT, REGIO, RTD, SANCO, TAXUD and TREN) are standing members of the Interservice Group. The Group dealt with the active inclusion dossier at two meetings (8 May and 15 July 2008): the outline of and key messages in the impact assessment were discussed at the former meeting, whereas the latter dealt with the preliminary content of a Commission recommendation on active inclusion. The discussion offered the opportunity to clarify a number of concepts and arguments in the draft. Several comments were made on the need to safeguard incentives, to ensure that income support would not hamper job search, etc. It was agreed to make the 'make work pay' aspects of the text more explicit.

4.3. The second-stage consultation

On the basis of these contributions, in **2007** the Commission developed the approach set out in the Communication *Modernising social protection for greater social justice and economic cohesion: Taking forward the active inclusion of people furthest from the labour market*²³, including the launching of the second-stage consultation under Article 138(3) of the EC

¹⁹ See the Supporting Document SEC(2007) 329, pages 59-66, annexed to the 2007 Joint SPSI Report.

²⁰ Further details: http://ec.europa.eu/employment_social/spsi/events_en.htm#6_meeting

²¹ See http://ec.europa.eu/employment_social/spsi/events_en.htm#active_inclusion

²² The Roadmap for the Active Inclusion initiative indicated that, in full compliance with the Impact Assessment Guidelines, this standing Interservice Group, which meets regularly twice every six months, would provide the framework for involving other DGs in the work of preparing the draft Commission Recommendation and its accompanying Impact Assessment.

²³ COM(2007) 620 of 17 October 2007.

Treaty. The social partners and other stakeholders, including public authorities at all levels, civil society organisations and service providers, were invited to express their views on several key aspects of the approach outlined:

- The proposed instrument, namely deepening the Social OMC in this area through the adoption of common principles and their subsequent monitoring and evaluation; for their adoption, the Commission considered issuing a recommendation to the Member States based on Article 137(1)(h);
- The content of the common principles on sufficient resources, inclusive labour markets and access to quality services as outlined in the Communication;
- The supporting EU framework, involving existing EU financial instruments and the establishment of a network of local observatories supported by the PROGRESS programme.

Concerning the content of the common principles, COM(2007) 620 acknowledges that the main elements of the 1992 Recommendation concerning income support remain entirely relevant for the envisaged strategy. They concern in particular:

- (1) the recognition of the basic right of a person to sufficient resources and social assistance to live in a manner compatible with human dignity;
- (2) making the recognition of this right subject to general principles including active availability for work or for vocational training for those whose age, health and family situation permits such active availability or, where appropriate, subject to economic and social integration measures in the case of other persons;
- (3) the implementation of this right according to practical guidelines, in particular that the definition of the amounts of resources considered sufficient to cover essential needs with regard to respect for human dignity should refer to appropriate indicators, such as, for example, statistical data on the average disposable income, household consumption, the legal minimum wage, or the level of prices. Arrangements should be established for periodic review of these amounts, based on these indicators, in order that needs continue to be covered.

The Commission however stressed the need to take into account the policy developments since 1992 especially in relation to the European Employment Strategy and the new developments on services of general interest and social services.

In line with the Employment Guidelines, it was proposed that the common principles would stress the importance of breaking down barriers to the labour market with active and preventive labour market measures, including early identification of needs, job search assistance, guidance and training as part of personalised action plans. In order to make work pay for job seekers, it was recognised that it is necessary to continue reviewing the incentives and disincentives resulting from tax and benefit systems, including the management and conditionality of benefits, while ensuring adequate levels of social protection. To support the inclusion of disadvantaged people, relevant policies on the demand side of the labour market include the expansion of the social economy, the development of new sources of jobs in

response to collective needs, financial incentives for employers to hire, anti-discrimination law and labour law²⁴.

Concerning access to quality services, the common principles would focus on the two concepts identified as crucial in the OMC and the ongoing dialogue with civil society organisations²⁵, i.e.

- Accessibility of services, comprising both availability (including spatial and physical accessibility) and affordability;
- Quality of services, comprising: user involvement; monitoring, performance evaluation and sharing of best practice; investment in human capital; working conditions; framework for equality both in recruitment policies and in service provision; coordination and integration of services; and adequate physical infrastructure, especially in relation to social housing²⁶.

At present, there is no structured and comprehensive list of common principles concerning accessibility and quality of social services which has been agreed by the EU institutions, and this initiative – as far as the "third pillar" of active inclusion is concerned – aims precisely at addressing this gap.

In their replies²⁷, the Member States, local and regional authorities, social partners, service providers and NGOs at national and EU levels broadly welcomed the perspective of supporting the development of appropriate, effective policies through the definition and implementation of common principles. Civil society stakeholders stressed that considerable efforts were still needed to raise awareness of the underlying issues. As in the first-stage consultation, a broad consensus emerged on the non-appropriateness of binding legislative tools and on retaining responsibility for deciding active inclusion measures at national or sub-national level. On the other hand, most respondents agreed on the usefulness of a Commission recommendation as a vehicle for promoting such common principles. They also welcomed the implementation of the common principles under the Social OMC as the most appropriate channel for policy dialogue and orientation. This would also avoid establishing a parallel process. Some respondents also stressed that common principles should remain broad and general enough to fit specific situations at national, regional or local level.

The social partners supported the general approach and announced that they would engage in autonomous social dialogue discussions on how to promote the integration into the labour market of those furthest from it.

²⁴ SEC(2007)329 of 6.3.2007, pp. 51-58.

²⁵ See <http://www.peer-review-social-inclusion.net/key-issues/quality-and-accessibility-of-social-services/> in particular Halloran J. and K. Calderon-Vera (2007) "Access to quality social services – A strategy paper".

²⁶ The forthcoming Communication on SSGI will address the uncertainties concerning the application of Community rules. *Inter alia*, it will explore how to better apply public procurement rules to the field of SSGI. Moreover, it will complement this clarification exercise with further initiatives on the definition and assessment of quality.

²⁷ The full set of replies will be published on http://ec.europa.eu/employment_social/spsi/active_inclusion_en.htm

Concerning the proposed content of the common principles it can be noted that no element put forward by the Commission in the second stage consultation was dismissed by any stakeholder. What emerged from the consultation was the request for adding new elements or strengthening others. In particular, it was argued that the common principles in the three strands needed to be complemented with orientations common to all strands such as: gender equality and equal opportunities; the importance of the territorial dimension, both in terms of the role of local government and of territorial cohesion as a complementary objective; the situations and needs of specific vulnerable groups; consistency with a lifecycle approach and the promotion of fundamental rights. Furthermore, the need to elaborate common principles on the active inclusion strategy was raised, to better highlight the need for effective coordination in policy making and implementation in the three strands of active inclusion and among relevant stakeholders (horizontal and vertical integration). The importance of social participation as an objective in its own right for those who cannot work was also pointed out, together with a request for a greater visibility of education and training policies.

Finally, the suggested list of quality principles for social services was completed with other dimensions that respondents considered essential. These include: flexible and timely delivery, promotion of choice (where relevant) and of self-determination, needs-oriented delivery, diversity management, users' empowerment, manageable caseload, proper financing, comprehensiveness and continuity of services, person centred delivery, voluntary formulation of local action plans, involvement of local stakeholders, transparency and accountability.

4.4. Contributions from EU Institutions and bodies

After the publication of the 2007 Communication, the **2007 December EPSCO Council** invited the Commission to proceed along the lines presented to the stakeholders on the understanding that the Social OMC would be used, in full respect of the principle of subsidiarity, to monitor and evaluate the implementation of the common principles in accordance with modalities to be agreed within the Social Protection Committee²⁸.

In spring 2008, in line with the call from the December 2007 EPSCO Council, the **SPC** set up a **working group** to discuss the content of the forthcoming recommendation, in the light of the Commission proposal [COM(2008) 620], of the outcome of the second stage consultation summarised above and of the contributions from other EU institutions. After four meetings (one on each of the three strands of active inclusion and one on their interaction), an orientation note, representing the general consensus on the anticipated common active inclusion principles, was submitted to the SPC for approval at its meeting of 3 July 2008 (see Annex 3).

Lastly, in an opinion adopted on 18 June 2008, the **Committee of the Regions**²⁹ approved the three-pillar holistic approach proposed by the Commission but suggested the addition of a fourth pillar, namely social participation. This proposal takes account of the fact that some groups will not achieve access to the labour market, whatever the efforts made to help them. Subsequently, policy objectives for such groups should be participation in social life rather than employment. The Commission agrees with the underlying assessment and values in that proposal, which well reflect the common objectives agreed for the Social OMC. It believes

²⁸ Council Conclusions of 5 December 2007, Document 16139/07.

²⁹ Opinion of the Committee of the Regions on Active Inclusion of 18 June 2008 (CdR 344/2007), not yet published in the OJ.

that the participatory dimension could best be reflected in the horizontal principles for the practical implementation of active inclusion.

5. PROBLEM DEFINITION

5.1. Overview

Sufficient resources and social assistance in social protection systems are the responsibility of the Member States in line with the principle of subsidiarity. The 1992 Council Recommendation is the reference instrument laying down the general principles and practical guidelines for social protection systems on sufficient resources and social assistance.

As the Joint Reports in 2002 and 2004 pointed out, the Recommendation has brought some results both in the development and design of MI schemes for reintegration into the labour market (see Section 1.1). But progress has been too slow, given the persistency of poverty and exclusion from work: current national policies do not adequately address the increased complexity of multiple deprivations affecting those most excluded from work (further explored in section 3.2 below). Furthermore, concern must be expressed regarding the effectiveness of the current policy framework, in particular as regards:

- deficiencies in the adequacy and coverage of MI schemes (Section 3.3);
- the lack of coordination in policy design and implementation (Section 3.4).

These shortcomings point to incomplete implementation of the 1992 Recommendation concerning sufficient resources in the Member States. But they also highlight the need for MI schemes to be more closely tied in to labour market policies and access to quality services in order to provide support for the social and economic inclusion of people furthest from the labour market. Bearing the subsidiarity principle in mind, this raises the question of what else can be done to step up the effectiveness of the existing EU strategy in the field of social protection and social inclusion, and in particular active inclusion, to encourage and support the Member States. This problem was identified in general terms in the recent Communication on reinforcing the Social OMC (Section 3.5)

5.2. The socio-economic context: the persistency of poverty and joblessness and growth of multiple disadvantages

Overall figures³⁰ suggest that the incidence of poverty and deprivation is still high in the EU today, despite continuous growth in employment since the beginning of the decade: 16% of the population is at risk of poverty, one in five live in substandard housing. Even more worrying for the future, the percentage of children at risk of poverty stands at around 19% and the percentage of early school-leavers is still high at about 15%.

There is limited evidence of the trends in income inequality and poverty over the last years. However, SILC data indicates that the overall poverty rate did not improve at EU level where in the five year period after the year 2000 the at-risk-of-poverty rate has remained unchanged at 16% and it increased in several Member States (see annex 1).

³⁰ Figures quoted in this paragraph are drawn from the latest available data collected by Eurostat, including EU-SILC. For a more complete description of the socio-economic context, see annex 1. Annex 2 reports the full data quoted in this section.

Getting a job is the safest route out of poverty for those who can work³¹. But the difficulty of accessing that route seems to be relatively unaffected by the continuous growth and rise in employment. Long-term unemployment still amounts to 4%.

One particularly striking figure is the percentage of people living in jobless households, which remained stable at around 10% between 2000 and 2005 before falling by one percentage point thereafter, with almost no decline (0.3 pp) in the number of jobless households with children. These results explain why the overall poverty rate in the EU did not improve in the five-year period after the year 2000, remaining unchanged at 16%.

Experience gained through the European strategy for fighting exclusion and poverty confirms that the difficulties and obstacles facing those at risk of poverty are cumulative: new social challenges, linked to migration flows, the transition to a post-industrial economy, a more polarised labour market, globalisation, demographic change and social trends such as greater individualisation and family breakdown, have emerged in recent years. These new risks have contributed to make the reality of poverty and social exclusion even more complex: this is particularly true for people furthest from the labour market who are the main target group of this initiative.

Indeed, when looking at who are those belonging to that group, the situations appear to be very diverse. At EU level, in average, one third are unemployed and two thirds are not looking for a job, including those who do not feel unable to work (for example people with disability) or are discouraged from working (for example single mothers with children, spouses of migrants, pensioners in working age). Various sub-populations such as people with disabilities, low skilled, relatives of an active migrant, single parents, can be identified amongst those most excluded from the labour market, either unemployed, inactive, or in permanent precarious employment. Depending from the importance of these groups and from the overall labour market structure, the picture of those most excluded from the labour market might be quite different in the various member states.³²

Nevertheless, the consultation made clear that all members of these groups need a personalized support for coming back to work, combining in various degrees an adequate basic income above the mere survival, and adequate employment and support policies. In other words, the need to better integrate these three aspects of income assistance, labour and social policies was common to all member states, even if the process towards such an achievement might differ according to the basic situation in each of them.

5.3. Adequacy and coverage of minimum income schemes still to be improved

There is no doubt that the introduction of an MI scheme represents an improvement in situations where it is lacking, albeit marginally in the case of several Member States. Figures³³ A6 in Annex 2 show that social transfers in general have significant impact in reducing the poverty rate, with an average pre-transfer risk rate of 26%, compared with a post-transfer rate of 16%. They also show that social protection in countries, such as Greece

³¹ See the analysis in the supporting document of the 2007 Joint Report on Social Protection and Social Inclusion: the risk of poverty is nearly 2.5 times greater for jobless individuals than for the employed

³² CSD on "Monitoring progress towards the objectives of the European Strategy for Social Protection and Social Inclusion." September 2008, Table 3.2

³³ Data source: EU-SILC 2006 if not otherwise indicated.

and Italy, without an established MI scheme has very limited capacity in terms of reducing poverty. These facts point once more on the continued relevance of the 1992 Recommendation, though implementation clearly needs to be improved.

- In most Member States and for most family types social assistance alone is not sufficient for those who receive it, to be lifted out of the risk of poverty. As Figure A9 in Annex 2 shows the UK is the one Member State where, once housing-related benefits are taken into account, the net income of social assistance recipients in all household types is above the at-risk-of-poverty threshold, which corresponds to 60% of median equivalised household income. In DK, NL, SE and IE, only single-person households in receipt of social assistance emerge with an income above the poverty threshold. In all other Member States they fall well below the 60% threshold. Two Member States (EL and IT) have no national MI scheme in place.
- For a correct interpretation of these figures, two issues should be borne in mind. Firstly, the 60% of median equivalised household income is only a measure of the "risk of poverty": it is a relative concept that points to the exclusion from the prevalent standard of living in a given society³⁴. Poverty as such is a complex, multifaceted concept which includes dimensions such as financial poverty, lack of skills, poor health, homelessness and joblessness³⁵. For these reasons the "at-risk-of-poverty" threshold has only an indicative role in the assessment of adequacy. Secondly, social assistance – or income support - is a benefit of "last resort" and alone does not measure the overall "adequacy" of the social protection systems (in the figures provided housing related benefits have been taken into account, but similar calculations can be carried out with other benefits as well). In other words, social assistance is a key instrument in the fight against poverty but it is not the sole one.

The effectiveness of MI schemes is determined not only by the amount of the theoretical benefits but also by their specific design and delivery provisions. A significant percentage of those targeted by such schemes may not actually benefit from them, either because they do not claim their entitlements or for some other reason (such as lack of compliance with the eligibility rules, miscalculation of amounts, payment delays, penalties and suspensions, deductions applied to benefits for direct reimbursement of debts). Estimates of take-up rates of social assistance in UK, FR, DE and NL are in a range of 40% to 80%³⁶ and only 18% of the non-working population at-risk-of-poverty is in receipt of social assistance on average in the EU, although this figure of course does not take into account receipt of other types of benefits³⁷.

³⁴ However, recent studies (see Cantillon...) point to a rather close correspondence between relative and absolute poverty.

³⁵ For a more complete set of poverty and social exclusion indicators, see the full list adopted by the Laeken Council in December 2001 at:
http://ec.europa.eu/employment_social/spsi/common_indicators_en.htm

³⁶ Hernanz et al. (2004) *Take-up of welfare benefits in OECD Countries: a review of the evidence*; OECD Social, Employment and migration working papers no. 17

³⁷ See the 2008 Ecorys study commissioned by the Commission on active inclusion. On the extent of overlap between the various benefits, see Immervoll et al. (2004) *Benefit coverage rates and household typologies: scope and limitations of tax-benefit indicators*, OECD Social, Employment and Migration Working Papers, no. 20, OECD, Paris.

5.4. Improved consistency with active labour-market policies and access to quality services is needed

The 1992 Council Recommendation made it clear that MI schemes should be consistent with an incentive to work. In addition, they needed to include some reference to ensuring that beneficiaries also had access to training and job support and to enabling social support. The evidence shows that there are still major shortcomings in those three areas, though several Member States are engaged in thoroughgoing structural reforms, which suggests that there is enough good practice to supplement the common principles in the original Recommendation in line with the consistent active inclusion approach. People furthest from the labour market suffer from multiple deprivation and policies centred on income support, inclusive labour markets and access to quality services should be better integrated.

Work still does not pay

The design of tax and benefit systems still generates significant disincentives against entering the labour market. Recent OECD findings³⁸ [see table A2] based on tax benefit models show that an unemployed person previously employed at a wage of 67% of average national earnings who begins a new job at the same wage as before his or her period unemployed would pay a marginal effective tax rate (METR) of over 60% in almost all countries in all household types examined³⁹. This means that taking a job would bring an increase in net income of just 40%, which is less than the increase in gross earnings. This is due to the fact that when people start working, they not only have to pay taxes on their salaries but also lose the benefits to which they were previously entitled. It is precisely this sort of inconsistency that is combated by the most recent policy developments in MI schemes, combining adequate out-of-work support with in-work benefits which are progressively phased out such as the working families' tax credit (WFTC) in the UK and the planned adoption of a *revenu de solidarité active* (RSA) currently under trial in France.

People most excluded from work need more personalised pathways to employment

People lacking basic learning capacities or suffering from long periods of unemployment do not easily benefit from standard training or rehabilitation policies. Moreover, once they are in employment, they are still in a vulnerable position in the absence of a supportive environment. Studies on transitions from unemployment to work, including fixed-term contracts, show that there is a hard core of working-age persons who remain largely unemployed with the risk of joblessness increasing with age⁴⁰.

To tackle this issue, some Member States (e.g. the Netherlands) have set about fully reshaping their rehabilitation policies. Others are developing targeted labour-supply policies to reach out to those most excluded through instruments such as micro loans or incentives for the social economy. Such worthwhile innovations in general require an integrated service delivery.

Enabling social support: a missing link

³⁸ OECD Tax-Benefit Models.

³⁹ I.e. single person without children, lone parent two children, one-earner married couple two children and two-earner couple two children.

⁴⁰ See *Employment in Europe 2004*, especially Chapter 4.

The absence of affordable childcare is a clear example of the hurdles facing some of those most excluded from work, especially lone parents with children. The OECD estimations quoted above show that net out-of-pocket childcare costs represent 12% of the net income of a lone parent with two young children in half of the Member States for which estimates are available. That amount is close to the net benefit of moving from unemployment to gainful employment when the METR is taken into account, and is therefore clearly a disincentive to work.

The importance of affordable childcare in tackling unemployment and the lone-parent poverty trap throws light on a more general issue, namely the relevance of access to enabling social services, together with MI, as joint conditions for offering an incentive and/or the capability to enter the labour market.

Non-precarious health is an important requirement for participation in the labour market. Conversely, disabilities involving chronic health impediments are an obstacle to lasting employment⁴¹. The problem arises from the fact that the health of people at risk of poverty is worse than average and they report more than average for access to care (see Table A1 in Annex 2).

Decent, stable and independent accommodation is to some extent an important condition for staying in employment too. Quantitative evidence of the importance of homelessness and non-decent housing is still difficult to collect. Nevertheless, there is some evidence that homelessness in its various forms is a growing phenomenon, in particular among young adults, in relation to the social risks such as the relatively high incidence of unemployment on the one hand and of temporary and fixed-term work contracts on the other for this group, which risks hampering access to housing. Civil society in the EU is very much engaged in addressing the needs of homeless people, including through support for stable employment. Civil society reports demonstrate, nonetheless, that in several Member States such targeted individual support processes are not successful owing to a lack of access to decent, affordable housing⁴².

Multiple disadvantage require integrated solutions

Member States have adopted different strategies to deliver social policies relying on different policy mixes between the three strands of active inclusion, namely cash-benefits, in-kind support and active labour market policies. The graphs A7 and A8 in annex 2 highlight these different combinations, by looking at cash-benefits vs. in-kind support first, then overall social protection expenditure vs. active labour market policies. The active inclusion approach aims precisely at promoting an integrated analytical framework that would take into consideration the interrelationships, including both synergies and trade-offs, between the policy strands.

Expenditure in social services is an important and growing proportion of overall social protection expenditure in the Member States. Furthermore public finance considerations will always be crucial in the decision to implement or strengthen one social assistance scheme or another. The adequacy of income support schemes has to be assessed against likely increases

⁴¹ See *Employment in Europe 2005*, especially Chapter 5.

⁴² See FEANTSA report for the European Parliament 2008 and 'Manifesto for social inclusion' issued by FNARS in 2007.

in the demand for other social programmes that can take on some of the burden of poverty relief. The joint impact of cash benefit and in-kind support to address poverty and social exclusion and the relative effectiveness of these types of support are not sufficiently monitored and evaluated in the current policy framework. Even less attention has been paid to adequate access to social services that form a basic pre-condition for being available for work and once in work can help individuals to remain in employment and progress in the labour market.

Social protection measures and active labour market policies can go hand-in-hand. The interaction of social protection systems with aptly designed activation policies not only can generate positive employment effects but it may also help to make people fight social isolation and develop self-esteem and a more positive attitude to work and society.

5.5. The case for action by the EU

All these facts, which underpin social exclusion in relation to joblessness in the EU, primarily highlight the responsibility of the Member States. The 1992 Council Recommendation is still largely relevant: not only has it generated progress but it could contribute to reducing poverty if it were properly implemented through adequately designed and properly funded MI schemes.

Furthermore, if these MI schemes were linked more effectively with incentives to work, active labour-market policies and basic social support, the dynamics of active inclusion would bring into employment more people excluded from work.

Under Article 137(1)(h) of the EC Treaty, the EU is entitled to play a limited but not insignificant role in supporting and encouraging the Member States' activities in favour of those excluded from the labour market. Starting with the 1992 Recommendation the Community has taken action in the area of poverty and social exclusion building on a consensus that the deepening single market is to be complemented by social solidarity at EU level and by some convergence in social protection policies between the Member States. Moreover, and even more so than in 1992, in the context of an internal market for the citizens, it is clear that excessively large disparities across national social protection scheme might be detrimental to the mobility of workers and their families. Since 1992, as described in section 1, the Union has agreed common policy objectives and a coordination mechanism, the OMC to promote such convergence. The complex nature of the problems to be addressed and the difficulties Member States seem to have to implement the principles of the 1992 recommendation and the objectives agreed points to a role for the Community. This role is even more pertinent as the wide divergence of experience and performance suggests a great potential for mutual learning and synthesising best practice. Hence appropriately designed EU action could lead to an overall improvement in national performance. This value added was widely recognised and welcomed by all stakeholders during the two-stage consultation process on active inclusion.

The problem to be addressed by the initiative envisaged, which concludes a two-stage consultation process, is therefore how best to utilise the various Community actions under Article 137, which comprise measures, such as those developed under the social OMC, designed to encourage cooperation between Member States through initiatives aimed at improving knowledge, developing exchanges of information and best practices, promoting

innovative approaches and evaluating experiences; ; and possibly, the adoption, by means of directives, of minimum requirements for gradual implementation.

Considering the prime responsibility of Member States in designing overall social protection systems including minimum income schemes, the variety of the involved stakeholders participating in the Active Inclusion process, notably social partners, regional authorities and the civil society, due account will be taken of the subsidiarity principle. It means that the preferred Community actions should effectively promote and support Member States without prejudicing the national specific arrangements linked with historical and cultural diversity.

EU financial instruments, including the European Social Fund and PROGRESS, already play a key role in order to support the development of inclusion policies based on access to the labour market, and can help and promote the rights and access to services needed for the integration of excluded people. The European Social Fund provides a long-term financial framework complementing national and other sources of finance. However, during the first stage consultation it was pointed out that those furthest from the labour market might more effectively from Community programmes if the obstacles for their participation in the labour market were better addressed, notably through an integrated process taking into account their basic needs as intended by the active inclusion approach.

6. OBJECTIVES

6.1. General objective

The ultimate objective of this initiative is to contribute to the active social and economic inclusion of people excluded from the labour market, in line with Article 137(1)(h) of the Treaty and to implementing that Common Objective of the Social OMC which provides for ensuring the active and social inclusion of all, both by promoting participation in the labour market and by fighting poverty and exclusion.

6.2. Specific objectives

In order to contribute to the active inclusion of people excluded from the labour market, this initiative aims specifically to consolidate the reference June 1992 Council Recommendation with a view to encouraging its full implementation and supplementing it by enhanced coordination with active labour-market policies and access to quality services.

It also aims to strengthen the Social OMC as a key instrument for monitoring implementation of the 1992 Recommendation and development of the active inclusion approach, bearing in mind the overall Lisbon Agenda and the Communications on a renewed Social Agenda and on reinforcing the OMC: this initiative represents the implementation of the commitments taken by the European Commission in this context.

6.3. Operational objectives

In operational terms, the purpose is to add value to the Member States' efforts in this area by establishing a common analytical framework at EU level against which individual achievements and policy instruments can be compared and assessed with a view to the adaptation of the Member States' social protection systems. In view of the EU's role in this area, efforts should focus on increasing awareness of the need for adequate MI schemes and for their integration into broader policies, on providing guidance on how better to integrate the different policy streams, on improving monitoring and evaluation, drawing on the common principles agreed under the consultation process and on supporting policy development and implementation by encouraging the use of ESF provisions:

- increasing awareness and visibility of the benefits of the 1992 Recommendation in terms of an integrated active inclusion approach, so that the Member States pay greater attention to its full implementation;
- providing guidance to the Member States and facilitating mutual learning relating to effective policy pathways for the active inclusion of people excluded from the labour market, while benefiting from existing good practices and respecting the principle of subsidiarity and the situations, needs and priorities of the Member States.
- improving the monitoring and evaluation of active inclusion strategies through better indicators and information systems in order regularly to assess progress through the upgrading of capacity for producing up-to-date, comparable information on the three pillars of active inclusion.

- encouraging the use of the provisions of the new ESF regulation to support active inclusion measures, namely: a) developing and testing integrated pathways to active social and economic inclusion; b) mainstreaming innovative integration approaches that have a clear advantage over current practices; and c) disseminating and transferring good practice in promoting social inclusion across all Member States.

7. POLICY OPTIONS

In line with the art. 138 consultation on active inclusion carried out between 2006 and 2008 the options refer to a two-level decisional process, namely:

- the legal instrument to be adopted
- the content of this instrument

7.1. The instrument to be adopted

The option that should follow logically on from the above discussion would involve a new Council recommendation updating and supplementing Council Recommendation 92/441/EEC. This option must, however, be ruled out as a result of changes in the Treaty since 1992. This option, however, must be ruled out as a result of the changes in the Treaty, which took place with the Amsterdam revision. Since then, Article 136 mentions the fight against exclusion as an objective of EU social policy and sets EU action in this field under the provision of co-decision (Art 137), making a Council Recommendation no longer an option⁴³.

Another option that must be discarded is prescriptive legislation laying down binding requirements at EU level with respect to the three pillars of the active inclusion approach (e.g. by means of a directive). On the basis of the outcome of the two-stage public consultation, that idea is deemed unrealistic at this juncture.

Furthermore, another option, which involves stepping up financial support from the EU Structural Funds, in particular the European Social Fund, for national policies to promote active inclusion has not been considered, although the results of the consultation underlined the supportive role which such policies could play. In the last resort the Member States are responsible for decisions on whether or not to channel such EU financial assistance to the most excluded.

To achieve the objectives outlined in Section 4, the following three options have realistically been considered in the framework of the art. 138 consultation.

Option 1: Baseline scenario

If this option is selected, no further elements, be they content or procedures, would be introduced into the current policy and legislative framework, but progress would continue under the current instruments and initiatives already in place. More precisely, this means that the 1992 Council Recommendation would remain valid and the Social OMC would continue to evolve incrementally on the basis of lessons learnt up until now. Depending on the outcome

⁴³ See a more comprehensive assessment by the Legal Service in Annex 4.

of discussions ensuing with the Member States and other stakeholders on the proposal, published recently as part of the renewed Social Agenda package⁴⁴, further impetus may be given to the social OMC by greater political commitment and visibility, closer interaction with other EU policies, stronger analytical tools accompanying the Social OMC and improved ownership through peer reviews, mutual learning and involvement. The degree to which the Social OMC can be taken further, which will be decided by the debate launched, is still an open question, but the consolidation of the Social OMC as a crucial instrument for supporting the Member States' efforts to deliver on shared social objectives will continue. As was pointed out above, the social partners have announced plans to start discussions on how to promote the integration into the labour market of those most excluded.

Option 2: Commission recommendation

Since amendments to the Treaty since the adoption of the Council Recommendation rule out any revision of the latter to remedy its shortcomings, including its limited implementation, this option would involve strengthening the Social OMC in this area with common principles or basic requirements on the basis of a Commission recommendation. This would give it added impetus and allow it to serve as a visible, updated reference framework for the promotion, monitoring and evaluation of all aspects of the active inclusion approach for all stakeholders. This approach is also consistent with the full implementation of the recent Communication⁴⁵ on reinforcing the OMC which argues the following:

Discussions in the Social Protection Committee cover a wide range of subjects related to social protection and social inclusion. The subjects that are part of the OMC could be further consolidated by formalising convergence of views whenever it arises. The Commission will contribute to this by making, where appropriate, use of Recommendations based on Article 211 of the Treaty, setting out common principles, providing a basis for monitoring and peer review. Political endorsement from the other Institutions will give strength and visibility to such common principles.

Article 137(1)(h) of the Treaty would provide the legal basis for this specific initiative.

Option 3: Commission communication

A third option for further strengthening of the Social OMC and the common reference framework that took the form of common principles or basic requirements to implement active inclusion would be through a Commission communication. Such a communication could include an in-depth analysis of the problem and consideration of a more open, joint analytical exploration of possible common principles.

7.2. Content of the instrument

The content of the proposed instrument could be formulated according to the following sub-options:

⁴⁴ *A renewed commitment to social Europa: Reinforcing the Open Method of Coordination for Social Protection and Social Inclusion* COM(2008) 418 final.

⁴⁵ See footnote 39

i) Consolidate the Community *acquis* in the three strands of active inclusion (minimum income schemes, inclusive labour markets and access to quality services) through high level common principles and provisions in order to deepen the social OMC in this area. In practical terms, this would imply to strengthen the 1992 Council Recommendation with the *acquis* that emerged from the EES (in particular the Employment Guidelines 17, 18, 19, 23 and 24) and the most recent developments on social services (in particular the White Paper on SGI, the Communications on SSGI, the report of the High Level group on Disability).

ii) Expand and detail the Community *acquis* in the three strands of active inclusion with detailed prescriptions on an EU common definition of:

- Adequacy, in terms of level and coverage, of minimum income schemes;
- Design of labour market policies for people excluded from the labour market, including detailed provisions on make-work-pay;
- Quality and accessibility of social services.

Retained option on the content of the instrument

In the first stage consultation, the second option of detailed prescriptions in the three strands of active inclusion was rejected in favour of common principles on the grounds of subsidiarity and analytical feasibility. Given the different situation, needs and priorities at national, regional and local level, the need to strike the appropriate balance between an effective voluntary framework and the respect of the principle of subsidiarity was highlighted as a key element. This balance can be achieved with common principles, while more detailed prescriptions would hinder the identification of the best policy responses at the local level.

Apart from considerations of subsidiarity and political feasibility, there is a substantial analytical problem concerning the definition of a level of adequacy for minimum income schemes at EU level. One possibility would be to use the at-risk-of-poverty line which is a transparent target that can be clearly defined at EU level, while respecting the diversity of situations in MSs (the at-risk-of-poverty lines, while constructed in identical ways, are country-specific). However, this is a "moving target" in that if the income of all households was increased up to that level, also the median income, for all reasonable shapes of the income distribution, would shift upwards.

Alternatively an approach based on a definition of absolute poverty, would be to identify a basket of goods that is deemed essential to live a dignified life, to calculate the cost of this basket and use it as a benchmark to define adequacy. The identification of this basket can be done using different methodologies, for example subjective, consensual or statistical approaches, and these approaches can lead to different outcomes – indeed the same approach can lead to different results if repeated over time (this is the case of statistical methods such as factor analysis which are path dependent). Even if EU legislation were to be limited to detail the methodologies on income adequacy, such methodologies would not lead to unambiguous results. Furthermore, a basket of essential goods would necessarily be country specific to reflect national norms, situations, preferences and values and this lack of comparability would reduce the benefits from framing this exercise in EU legislation.

For these reasons, only the first option on the content of the instrument was retained, namely to "update" Council Recommendation 92/441/EEC on "Common criteria concerning sufficient resources and social assistance in social protection systems" in order to:

1/ take into account the policy developments since 1992 especially in relation to the European Employment Strategy and the new policy developments on SGI and social services. Based on this most recent *acquis*, common principles and provisions on inclusive labour markets and access to social services have been incorporated.

2/ improve the effectiveness and enhance the synergies of EU policies by promoting a comprehensive strategy that would take better into account the synergies, complementarities and trade-offs between the three strands of active inclusion in order to tackle multiple disadvantage.

3/ identify a clear follow-up to this initiative with a link to the new policy framework, in particular the Social OMC in a consistent and coordinated way with the Lisbon process.

These elements were at the core of the Commission proposal detailed in COM(2007) 620 and have been further enriched following the results of the second-stage consultation, the opinion of the CoR and the EPSCO Council conclusions. In particular, a greater emphasis has been put on:

- common principles and provisions that refer to the coordination and integration of the three strands of the active inclusion approach and to their implementation;
- orientations that refer to all three strands of active inclusion, such as: gender equality and equal opportunities; the territorial dimension; the implementation of fundamental rights; targeted approaches for specific groups; the importance of a life-cycle approach.
- the role of education as a pre-requisite for an effective active inclusion of disadvantaged people and the need for their social participation in the cases where work is not a viable option.
- the important role of the provisions and resources of the structural funds, in particular the ESF, to support active inclusion measures.

8. IMPACT ANALYSIS

This is a strategic initiative falling within the category of 'broad policy-defining documents'. Regardless of the option chosen, any impact will depend on whether and how the Member States implement policies on the ground. The initiative aims to set in motion a process that will step up efforts to reach those excluded from the labour market for the sake of economic and social cohesion.

In view of the type of proposal involved and in accordance with the Impact Assessment Guidelines, the impact analysis will be relatively broad and mainly qualitative. Given the policy area and the specific nature of the initiative, direct impact on the environment is not expected and therefore not dealt with below.

Economic impact and cost-efficiency

The economic implications of the three options cannot be estimated with any precision. The options refer to non-binding instruments and the ensuing costs and benefits depend on the extent to which Member States follow up on their commitments with determined action across the three active inclusion pillars and on all the possible policy combinations that can be envisaged in the framework of an active inclusion strategy. In terms of minimum income provisions this initiative entails no additional requirement compared with the 1992 Recommendation, which is currently valid. The implementation of the overall active inclusion strategy can be achieved with a budget neutral approach, i.e. by an appropriate redesign and better targeting of the social policies across the three strands of active inclusion. In case of higher initial costs, these are likely to be offset in the medium to longer term by a greater labour supply and the ensuing reductions in benefits paid and higher tax revenue⁴⁶.

As to the overall cost of an integrated policy approach combining adequate income support, personalized employment and social support, the in-depth peer review of the Social Protection Committee conducted in 2006 (see box p.18) brought an encouraging message: successful implementation of active inclusion had been evidenced not only by countries with mature social protection systems such as DK and AT, but also by countries such as LV with a much lower GDP/capita, suggesting that per se, the design of an active welfare state could be as important as the total amount of welfare expenditures for a successful implementation of active inclusion.

⁴⁶ Following a modification of the existing MI schemes aiming at improving the incentive to work (through a temporary in-work benefit system, called RSA), France has experienced a reduction of 7% (March 2008 compared to March 2007) of the number of beneficiaries of the "RMI". It is expected that a permanent incentive, like the presently experimental "RSA" which would substitute to all existing MI schemes, would have an even greater impact on the number of people coming out of minimum assistance. Presently, France is experiencing in 30 "Départements" a radical simplification and restructuration of its various MI schemes, with the aim of introducing a permanent incentive to work and combining it with personal employment and social support. The first quantitative results of the experimentation indicate a significant change in the willingness of the beneficiaries to enter employment. Concerning disincentives to work, Narazani and Shima (2008) *Labour Supply modelling in Italy when minimum income is an option*, EUROMOD working paper series, show that in Italy - the only MSs together with Greece without MI schemes - were minimum income guarantee to be introduced, the effect on labour supply would be negligible.

As for administrative costs, the policy process remains the Social OMC for all three options: the elaboration of common principles in this area as envisaged under option 2 and to a lesser extent option 3 aims at better structuring and coordinating it, possibly resulting in less administrative costs.

Effectiveness and consistency of the policy options

The impact analysis below looks at the various options from the viewpoint of effectiveness and consistency.

Effectiveness is assessed in terms of the contribution to achieving the proposal's operational objectives. In line with the arguments set out in Section 4, the options will be screened for their capacity to increase awareness and visibility, provide guidance, improve monitoring and evaluation and encourage the use of the provisions and resources of the structural funds to support active inclusion measures. These may be considered as proxies for delivery of the ultimate social objectives of the initiative or, to put it differently, for the desired social impact of the initiative.

Consistency relates to the degree to which the option fits harmoniously with related existing policy agendas and instruments. This initiative has a legal basis in art. 137 in the social provisions of the Treaty and it needs to be consistent with the current social policy instruments, namely the 1992 Council Recommendation and the Social OMC. The degree of consistency with the overall Lisbon Strategy for Growth and Jobs is also particularly crucial. In this respect all three options would be in line with the Growth and Jobs Strategy because they contribute to the social and economic inclusion of those excluded from the labour market and thus help to increase the effective labour supply for the benefit of both growth and employment rates.

8.1. Option 1: Baseline scenario

In terms of increased awareness, the current policy framework pays considerable attention to active inclusion as a shared priority under the Social OMC for the social and labour market inclusion of those most excluded. It lacks, however, a specific, sufficiently comprehensive instrument for active inclusion strategies that could facilitate faster, more sustained progress by laying down common principles and provisions.

Providing guidance and supporting mutual learning are key features of the existing Social OMC, although it does not contain a specific, detailed, comprehensive framework for active social and economic inclusion policies.

Regular monitoring and evaluation are an integral part of the Social OMC and further improvements are already envisaged (see the recent Communication on reinforcing the Social OMC which also includes the use of Commission Recommendations which constitute option 2).

Nonetheless, data presented in Section 3 provide evidence of considerable shortcomings in the current framework in far as there is no consistent analytical framework for monitoring and evaluating the joint impact of social and economic policies on the inclusion of disadvantaged people and their possible interrelationships, including synergy and trade-offs.

In the first stage of the public consultation, the current use of structural funds, in particular the ESF, for the active inclusion of the most disadvantaged people has been deemed insufficient.

8.2. Option 2: Better delivery through a Commission Recommendation

Owing to a recommendation's high visibility and legal, albeit non-binding, status, it is likely to contribute significantly to raising awareness of this approach. This is particularly important in the light of the enhanced strategy that is put forward which integrates income support policies with a link to the labour market and access to social services. The last two policy strands are typically the responsibility of a wide range of actors, from public authorities at all levels, social partners, service providers and NGOs. The relative strong formal status of a Recommendation would facilitate its acceptance as a reference document by all actors involved in the decentralised provision of active inclusion strategies. For the same reason, a recommendation would help promote the use of the Structural Funds, in particular the European Social Fund, to support active inclusion measures.

A Commission recommendation would be a consistent and proportional way of consolidating the 1992 Council Recommendation taking into account policy consensus that has subsequently developed, and could constitute the basis for Council conclusions and a European Parliament resolution, as highlighted by the Communication *Modernising social protection for greater social justice and economic cohesion: Taking forward the active inclusion of people furthest from the labour market* (COM(2007) 620). Such a non-binding legal act would strike a balance between providing effective guidance for the Member States to act in accordance with detailed common principles and provisions while fully respecting the principle of subsidiarity, the autonomy, and the varying situations, needs and priorities of the Member States and of local and regional government.

The level of detail of a Commission recommendation, its high visibility and its endorsement by other EU institutions would make it a strong tool for effective monitoring and evaluation.

The option of promoting the identification and adoption of the common principles and to detail the elements of the active inclusion strategy through a Commission Recommendation which would constitute the basis for Council Conclusions and a European Parliament resolution was the proposal put forward by the Commission at the launch of the second stage consultation [see COM(2007) 620]. This option was endorsed not only by respondents to the consultation but also by the EPSCO Council in its conclusions of 5.12.2007 and by the Social Protection in its orientation note of 3.7.2008.

8.3. Option 3: Better delivery through a Commission communication

A Commission communication is an important, visible Community instrument. The way it is received and the degree to which the Member States and other stakeholders endorse it would determine the extent to which higher awareness is achieved. A communication's non-legal status may generate less attention and thus reduce its capacity to serve as a reference document for all actors involved in the decentralised provision of active inclusion strategies, including local government and service providers that have repeatedly requested such an instrument. It would also have a reduced impact on a more effective use of the provisions and resources of the structural funds.

A Commission communication could be an appropriate tool for providing guidance to the Member States on the implementation of the active inclusion strategy. The impact of a

communication on monitoring and evaluation would in principle be similar to that outlined for Option 2.

9. COMPARISON OF THE OPTIONS

The following table summarises the impact of the three policy options on the operational objectives, namely increasing awareness and visibility, providing guidance to the Member States, improving monitoring and evaluation, better use of structural funds for the active inclusion of disadvantaged people. In terms of efficiency the differences between the options cannot be established with any certainty, though all three comply fully with the consistency criteria.

Objective/Option	Option 1	Option 2	Option 3
Improve awareness and visibility	+	+++	++
Provide guidance to the Member States	+	+++	++
Improve monitoring and evaluation	+	++	++
Better use of structural funds	+	+++	++

Based on the analysis in Section 6, the following conclusions can be drawn as regards the three options considered:

Option 1 – Baseline scenario

The continued incremental development of the Social OMC and improvements agreed subsequently in response to the recent Communication on reinforcing the Social OMC – excluding the use of Recommendations that is covered under option two - will allow progress to be made on active inclusion and will ensure some attention is paid to the 1992 Recommendation. Nonetheless, active inclusion is merely one, albeit important, policy priority in the Social OMC and such a 'business as usual' option will not generate the heightened awareness and visibility that may be required to boost implementation and speed up progress. The absence of any updating of the existing Council recommendation may weaken the political message on the need for policy integration and for monitoring and evaluation. Finally, there would not be any (non-binding) legal text that decentralised actors, such as local government, could use as a reference instrument in the delivery of active inclusion policies, especially social services.

Option 2 – A Commission recommendation

Thanks to its high political status and the endorsement of the common principles by the Council and the European Parliament, a Commission recommendation would be the strongest possible basis⁴⁷ for increasing awareness and enhancing visibility. The shared political

⁴⁷ Bearing in mind the fact that the two-stage consultation that prepared the ground for this initiative has demonstrated clearly that there is no scope for prescriptive legislative action at present.

commitment the text would thus be given and its resulting high profile would make it a powerful framework for providing guidance to the Member States, but also, and crucially, to all relevant actors, including local government and service providers, on developing, monitoring and evaluating policies. It would also send a clear signal of encouragement for the social partners' autonomous dialogue and for a more effective use of structural funds, in particular the ESF, to develop and test integrated pathways to active social and economic inclusion. A Commission Recommendation is also a consistent and proportional instrument to complement the 1992 Council Recommendation and to integrate it in the context of the Lisbon Strategy for Jobs and Growth.

The option of a Commission Recommendation was supported by the second-stage of the art. 138 consultation. It was also endorsed by the EPSCO Council that in its conclusions of 5.12.2007 invited the Commission to "*develop proposals for a deepening of the OMC in social protection and social inclusion, addressing adequate income support, access to inclusive labour markets and quality social services, in view of the new OMC cycle, including a Recommendation on the common principles*". The Social Protection Committee, after an in-depth analysis carried out by an ad-hoc working group that met four times, concluded that:

"The Social Protection Committee welcomes the elaboration of a non-binding instrument that, in full respect of the principle of subsidiarity, takes into account the autonomy and different situations, needs and priorities of the Member States. The adoption of common principles, through a Commission Recommendation which would constitute the basis for Council Conclusions and possibly a European Parliament resolution, would allow strengthening the OMC in this area and contribute to the identification of the best policy responses in the Member States." Option 3 – A Commission communication

A Communication would build on the baseline scenario by focusing attention on the issue in an EU political document. A communication laying down common principles on the basis of a comprehensive analysis would contribute to raising awareness and increasing visibility. It could thus constitute a framework for providing guidance to the Member States and could form the technical basis for monitoring and evaluating policy and developments.

Preferred option:

All three options would contribute to progress towards the general objective. Nonetheless, the degree to which they do so is likely to depend on the relative power of the 'signal' they send and the resulting difference in political commitment. By comparison, Option 2 emerges as the preferred option as it is most likely to boost awareness and visibility and more credible as a framework for providing guidance to all relevant actors and for monitoring and evaluation. These elements are crucial in the light of the content of the active inclusion initiative that calls for an integrated strategy designed and delivered by a wide range of actors. The preferred option is in full consistency with the Lisbon Strategy for Growth and Jobs and with the European Strategy for Sustainable Development. It will contribute to their implementation by providing a stronger instrument for promoting the economic and social inclusion of those most excluded from the labour market.

10. MONITORING AND EVALUATION

Active inclusion was highlighted and analysed as one of the key priorities in the National Reports which the Member States submitted under the Social OMC in 2006. The OMC has become an essential tool for promoting best practice and ensuring the continuous monitoring of objectives at EU level and it will continue, on the basis of the common principles and practical provisions set out in the recommendation, to monitor and evaluate all aspects of the active inclusion approach.

In line with the EPSCO Council Conclusions of 5 December 2007, the Commission will make the relevant proposals for a specific monitoring and evaluation framework, linked to common principles on active inclusion to be agreed. The latter will depend on how the selected option is endorsed by the Council.

The monitoring process will ensure that unnecessary reporting requirements on the Member States are avoided. Instead, it will be carried out using the technical support provided by the ISG⁴⁸, jointly with the Employment Committee (EMCO) indicator group. The detailed modalities will be agreed within the SPC on the basis of close cooperation with EMCO and with support from the Progress programme. Consistency and coherence with the Lisbon strategy's overall policy framework in relation to the objectives of social cohesion will also need to be ensured.

The list of indicators required for the monitoring of the common principles will draw, first, on experience already gained or in preparation within the ISG. As regards the three active inclusion strands, the ISG work programme for 2008 stated that preparatory work would start on:

- adequacy of income support: e.g. net income of social assistance recipients as a percentage of the at-risk-of-poverty rate threshold, the at-risk-of-poverty rate before and after social transfers, the impact of taxes on at-risk-of-poverty rates using the gross/net income variables now available in SILC, and social protection benefits by group of functions;
- access to inclusive labour markets: e.g. the 'make work pay' indicators, the employment gap of migrants and disadvantaged groups, people living in jobless households, and the long-term unemployment rate;
- access to quality services: e.g. inequalities in access to healthcare, childcare costs by income quintile and indicators which are being developed in the field of access to decent housing (housing costs as a percentage of household income by income decile and housing dimension in material deprivation indicators).

In addition, the Commission will consult the ISG on overarching active inclusion indicators reflecting the horizontal principles that have emerged from the consultation process:

- taking the gender dimension of those most excluded from work into account;

⁴⁸ The ISG is a technical group that includes representatives of the Member States and assists the Social Protection Committee in defining the common indicators to be used for monitoring the Social OMC.

- taking due consideration of the situation of people with multiple disadvantages and of specific groups at risk of discrimination;
- consistency with the life-cycle approach and contribution to intergenerational solidarity.

Lastly, three years following the adoption of the common principles the Commission will evaluate progress made. To do so, it will also draw on the information and studies provided by a network of local observatories which is in the process of being established and assess the conditions under which local actors and civil society might have been associated. Based on that evaluation, the Commission will take the necessary measures in the light of the overall Lisbon Strategy.

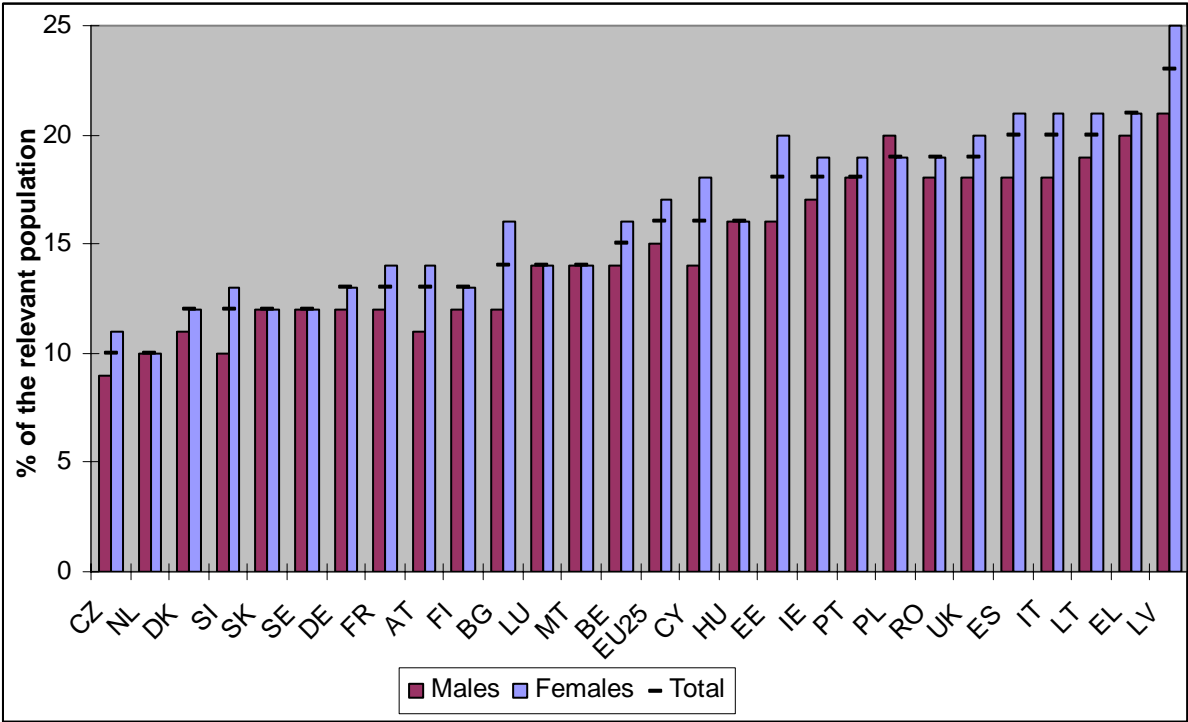
ANNEX 1: Socio-economic context: social and economic exclusion

On average, 79 million people or 16% of the EU population are **at risk of poverty**. People are at risk of poverty when their resources are so low as to risk excluding them from fully participating in the society in which they live. In measurable terms, and according to the EU agreed definition, this means that people are considered at risk-of-poverty when their equivalised household income is below 60% of the median income of their country.

There is limited evidence of the trends in income inequality and poverty over the last years in the EU due to the change in data sources that occurred at EU level and in a number of countries. However, SILC data indicates that the overall poverty rate didn't improve at EU level where in the five year period after the year 2000 the at risk-of-poverty rate has remained unchanged at 16%. However, it increased in the Nordic Countries (where poverty rates are traditionally low), in BE, DE, LU, and in the NMS10 - in particular CZ, LV, LT, HU, PL and RO - where it has overall increased progressively from 14% to 17%. Signs of decrease are apparent in BG, IE and PT.

The overall EU figure hides a contrasted picture across the EU. The risk of poverty for the overall population ranges from 10-12% in CZ, NL, DK, SI, SK and SE to 20-23% in ES, IT, LT, EL and LV. The poverty risk, being measured in relative terms, tends to be highest in the countries with the highest income inequalities. In most countries the risk of poverty is higher for women who face a poverty risk of 17% against 15% for men in the EU, the gap reaching 4 percentage points in BG, EE, CY and LV. However, in LU, HU, MT, NL, PL, SK and SE women have the same risk of poverty than men (or slightly lower in PL). Gender difference in poverty rates have to be interpreted with caution since income is measured at household level and equivalised, assuming equal sharing of resources within the household. The gender differences in poverty rates mainly reflect the fact that single women, especially the elderly and the lone mothers often live on lower incomes than single men.

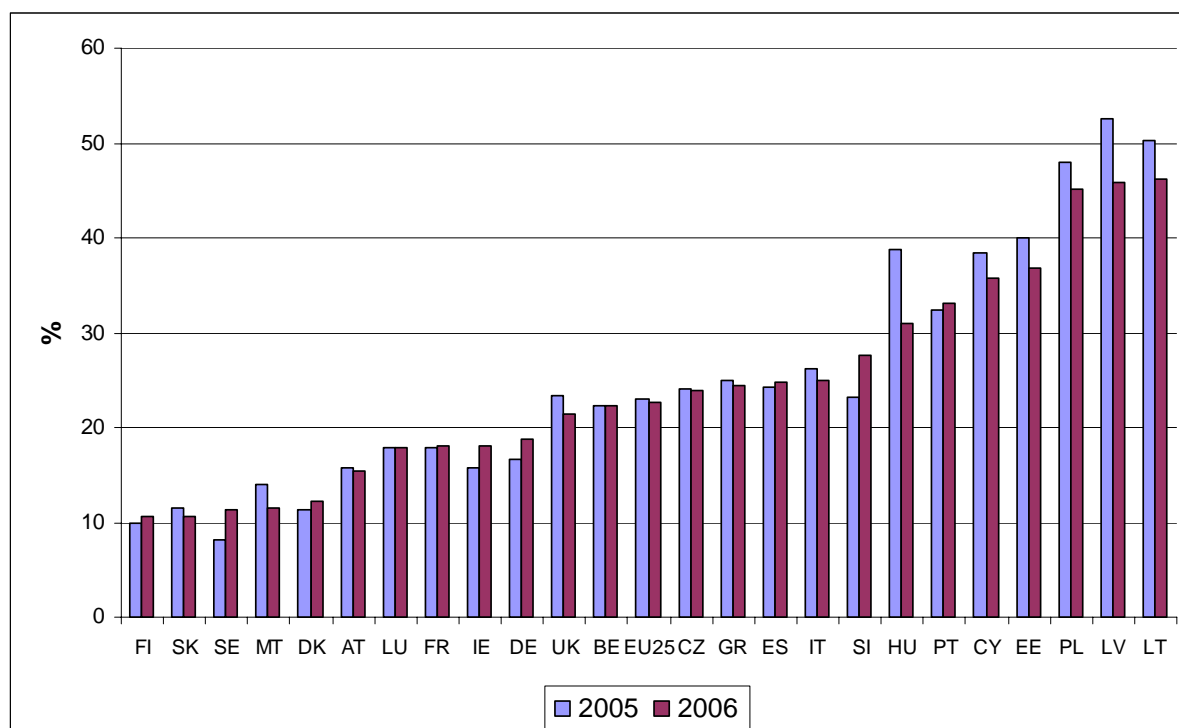
Fig A1: At-risk-of-poverty rate of the total population by gender – 2006 - percentages



Source: EU-SILC (2006); income year 2005; except for UK (income year 2006) and for IE (moving income reference period 2005-06); BG and RO National Household Budget Survey 2006

Poverty and social exclusion take complex and multi-dimensional forms and, among these, housing exclusion and homelessness represent one of the most severe forms of poverty and social exclusion. It is about being without a "home", a place where you belong. It refers to the unacceptable reality of EU citizens living without a roof, but also those in temporary, inadequate and insecure accommodation. According to new indicators that are being developed at EU level on material deprivation, it appears that around 23% of EU citizens live in sub-standard housing. Despite some progress in this area, the problem is particularly severe in Hungary, Portugal, Cyprus and Estonia where the percentage of individuals suffering from deprivation in the housing domain is over 30% and in Poland, Latvia and Lithuania where this percentage is over 40%.

Fig A2: Housing deprivation: % of individuals living in sub-standard accommodation.



Note: sub-standard accommodation here is defined as enforced lacking of one of the following items: 1. one or more of the following three problems: leaking roof/damp walls/floors/foundations or rot in window-frames; 2. accommodation too dark; 3. No bath or shower 4. No indoor flushing toilet for sole use of the household.

Source: EU-SILC; data lacking for NL, BG and RO

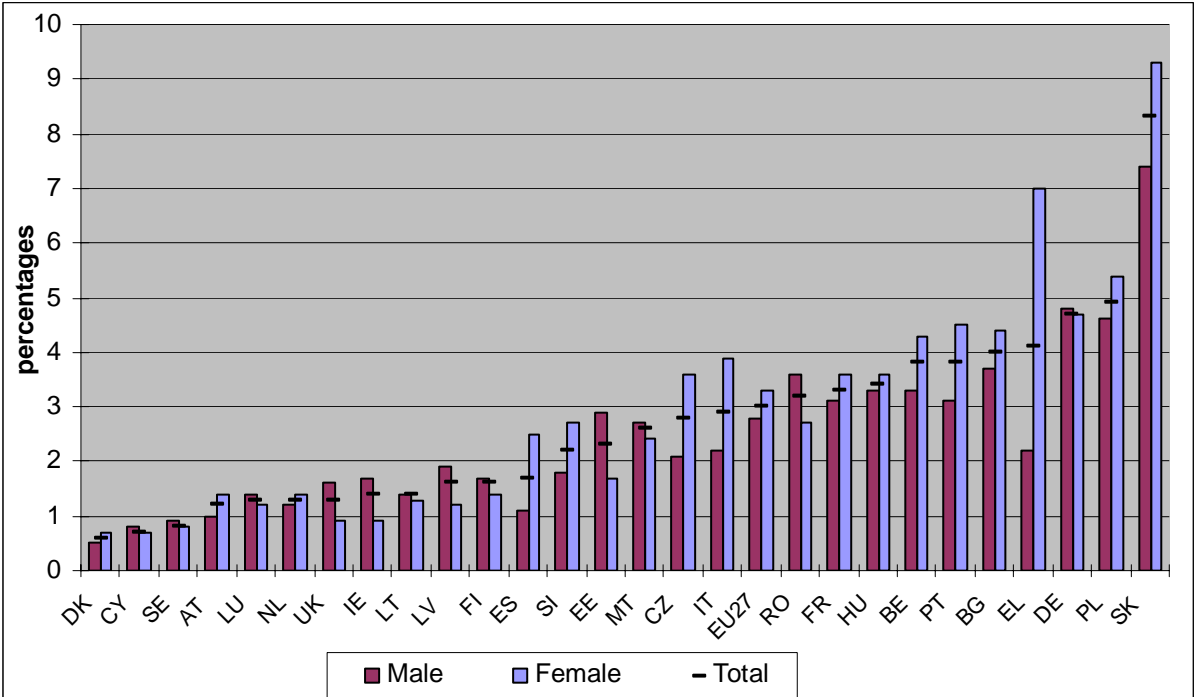
Joblessness is not only one of the main causes of poor living standards but is also in itself a central dimension of social exclusion, since a job is a key determinant of people's ability to fully participate in society, build a social network and realise their potential. Among all the different types of joblessness, **long-term unemployment** is clearly associated with social distress. The term covers people who have been searching for a job, but who have been unable to find one for more than 12 months⁴⁹. Long-term unemployment represents an important loss of income for the individuals concerned, who also tend to lose their skills and the self-esteem necessary to regain a foothold in the labour market. Repeated unemployment spells and long periods of unemployment are also likely to hamper the future adequacy of people's pension's entitlements.

In 2007, long-term unemployment affected 3% of the active population in the EU-27, on average more women (3.3%) than men (2.8%). The differences between Member States are considerable. Long-term unemployment rates are below 1.5% in Lithuania, Ireland, the United Kingdom, the Netherlands, Luxembourg, Austria, Sweden, Cyprus and Denmark, where only 0.6% of the active population is affected, but is equal or more than 4% in Bulgaria, Greece, Germany and Poland and 8.3% in Slovakia.

⁴⁹ Long-term unemployment is defined as the total long-term (over 12 months) unemployed population (ILO definition) as a proportion of the total active population aged 15 years or more.

The gender gap is particularly large in Greece where the long-term unemployment rate for women is 4.8 percentage points higher than for men. Long-term unemployment has remained broadly unchanged in the five-year period between 2000 and 2005 for the EU-27 with a marked decrease of around 1 percentage point thereafter. The long-term unemployment rate decreased by more than 3 percentage points in Bulgaria, Italy and the Baltic States while it increased by 0.9 percentage points in Germany and 2.1 points in Portugal.

Fig A3: Long-term unemployment rate by country and gender – 2007



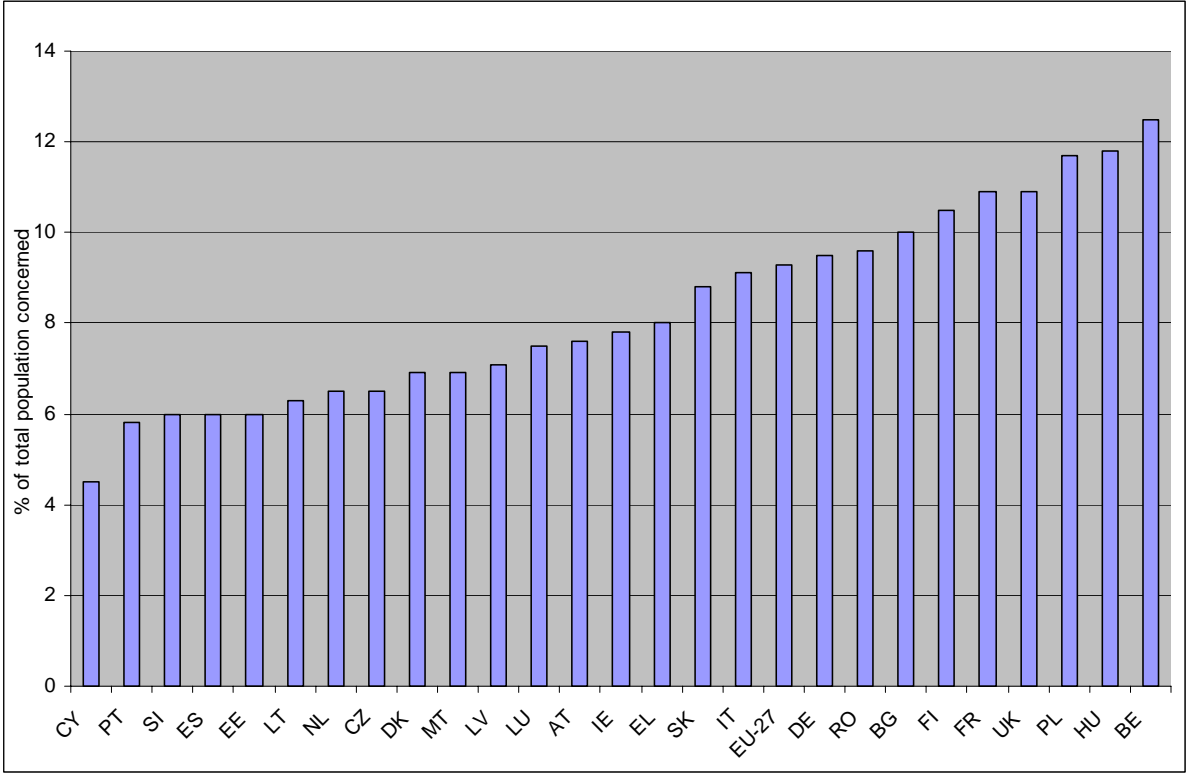
Notes: provisional data for SE.

Source: Eurostat, Labour Force Survey, annual averages, based on 1990 census.

The impact of joblessness is most severe when it affects all adults of working age in the household. The term "at risk of poverty" refers to those individuals whose household income is below a certain threshold, since economic well-being depends on the sum of all the resources contributed by all members of the household. Furthermore, the potentially adverse impact of living in a **jobless household** goes beyond the lack of work income, as it extends to the lack of contact with the labour market. In 2007, 9.3% of adults aged 18-59 and not students were living in a household where nobody worked. This rate ranged from 4.5% in CY to 11-12.5% in the FR, the UK, PL, HU and BE. In average in the EU, 2/3 of adults living in jobless households have no children, 23% live in single households, 22% in couples and 20% in households with 3 or more adults. Another 1/3 of adults living in jobless households live in families with children, including 10% of lone parents. It is interesting to note that even Member States with relatively high employment rates, such as Finland, Germany and the United Kingdom, also have above-average rates of people living in jobless households, pointing to a greater polarisation between "job-poor" and "job-rich" households in these countries⁹. While precise poverty rates cannot be calculated for this population, it is estimated that adults living in jobless households face a risk of poverty of 30% when there are no children in the household, and 60% when there are children.

In average in the EU, the recent acceleration in the general increase in employment rates (+1.9 pp between 2005 and 2007) and decrease in unemployment rates (-1.7 pp) have started benefiting the people living in jobless household (-0.9 pp) after five years of no progress, but it is too early to judge whether this modest reduction will be durable and significant. Furthermore, these improvements did not reach the families with children to the same extent since the reduction in the share of children in jobless households was only 0.3 pp between 2005 and 2007.

Figure A4: Adults (aged 18-59 and not students) living in jobless households; 2007 - %



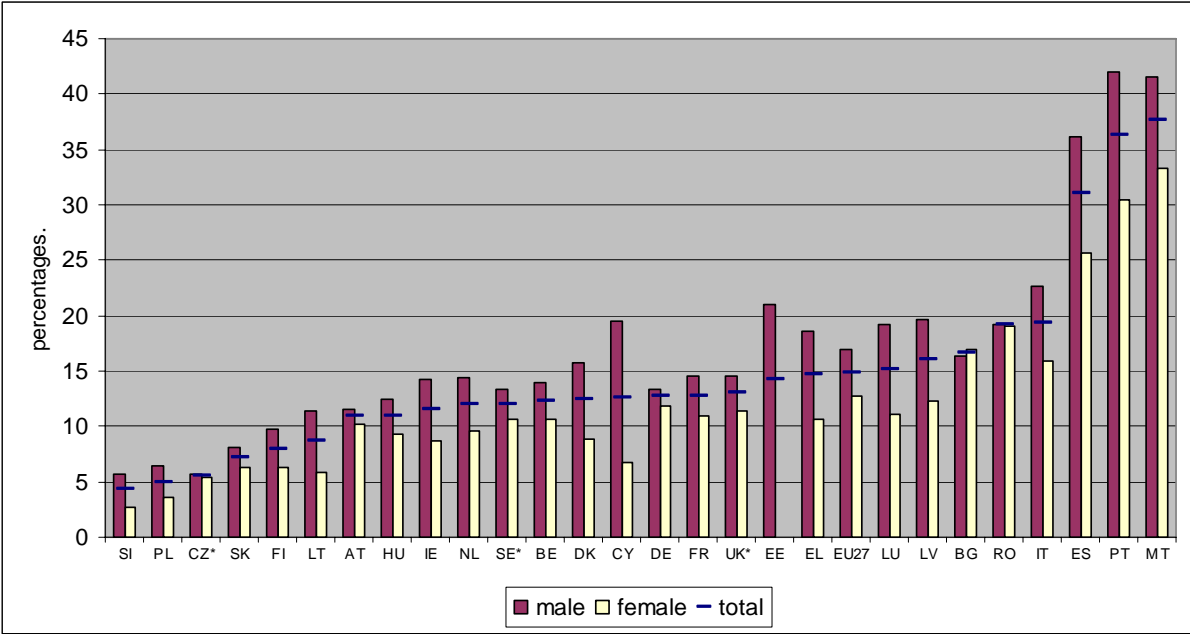
Source: Labour Force Survey (2007) – spring results; detailed household data missing for SE

Poor educational outcomes and the failure to complete the standard education system are a key factor of the reproduction of inequalities, as well as an obstacle to the integration on the labour market. This is even more the case in an increasingly knowledge-based society and economy and a skilled workforce is essential in supporting the Lisbon agenda for jobs and growth. Those without adequate skills will find it more difficult to enter the labour market and find a quality job, are more likely to spend long periods out of work and if they do work they are more likely to be in low-paid jobs. Better educated people are also more likely to benefit from training opportunities over the course of their life.

However, in 2007, 14.8% of young people aged 18-24 in the EU-27 have at most lower secondary education and are not in further education or training (this group will be referred to as 'early school leavers'). This rate has decreased since 2001 when it was 17.1%. However, significant additional efforts are needed in order to reach the European benchmark set by Education Ministers of no more than 10% early school leavers by 2010. This especially true in countries where the percentages of early school leavers has increased recently: DK, EE, EE, FR and AT.

This percentage ranges is lowest and below 8% in SI, CZ, PL, SK and FI and reaches 30% or more in Spain, Portugal and Malta. In all Member States, the percentage of early school leavers is higher for young men, except in Romania, Bulgaria, Germany, and the Czech Republic where they are broadly similar⁵⁰.

Figure A5: Early school-leavers (% of the total population aged 18-24 who have at most lower secondary education and not in further education or training); 2007

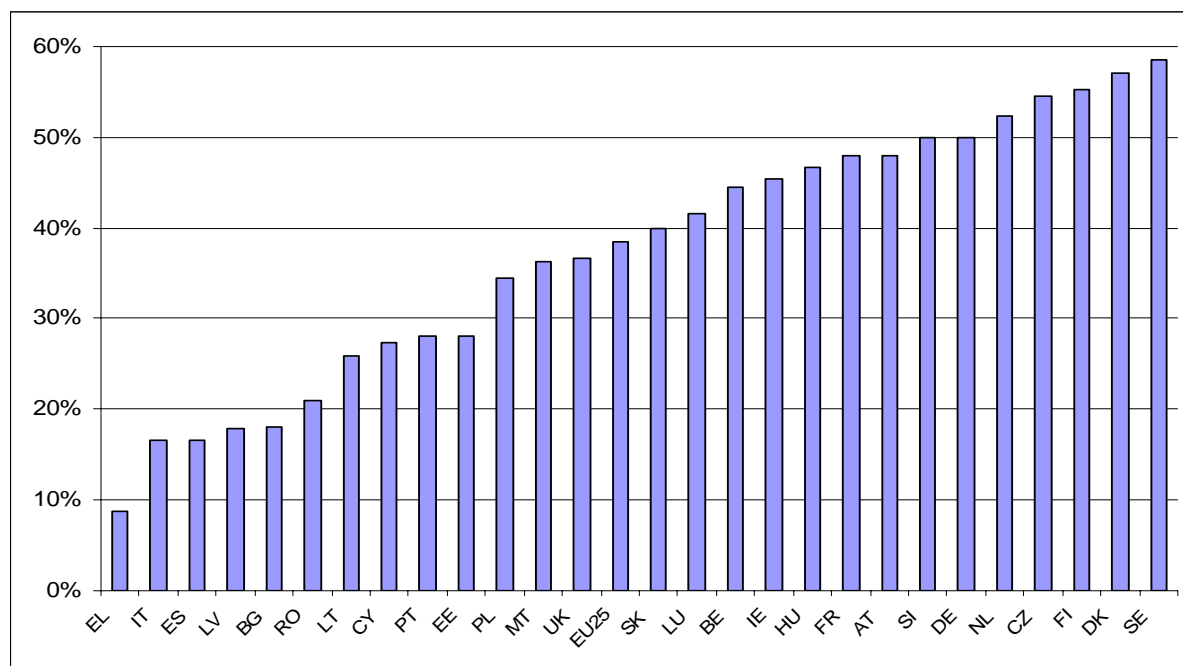


Source: Eurostat, Labour Force Survey - Quarter 2 results; * 2006 data for CZ, SE and the UK

⁵⁰ See the 2006 Education and training progress report for a detailed analysis of the phenomenon of early school leavers at <http://ec.europa.eu/education/policies/2010/doc/progressreport06.pdf>.

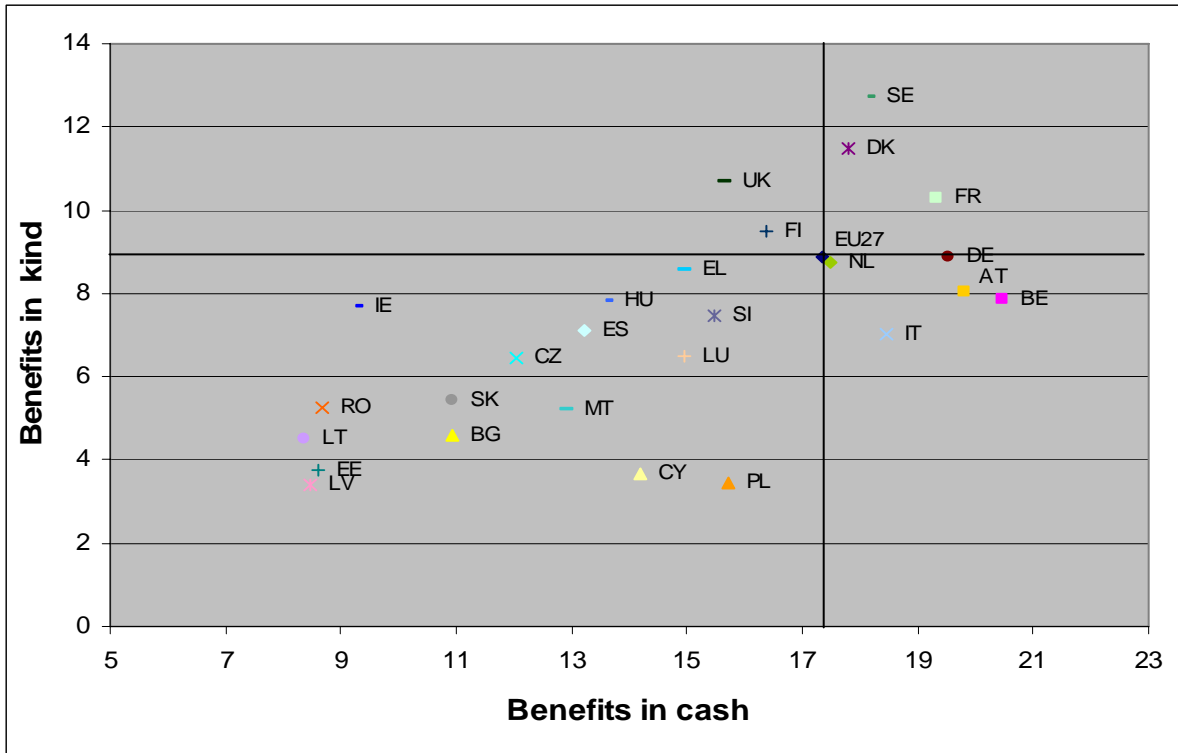
ANNEX 2: Figures and tables quoted in the main text

Fig A6: Impact of social transfers (excluding pensions) on reduction of poverty rate, 2006 - % of poverty rate before social transfers



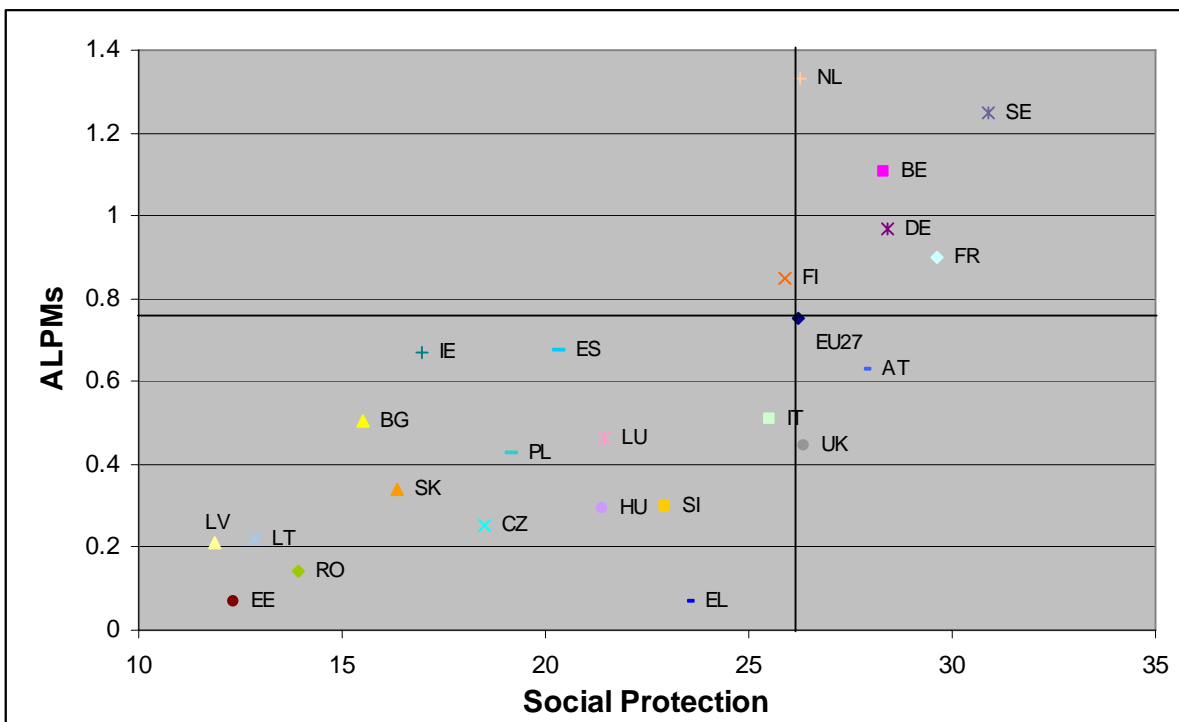
Source: EU-SILC(2006); income year 2005; except for UK (income year 2006) and for IE (moving income reference period 2005-06).

Fig A7: Social protection benefits as percentage of GDP - 2005



Source: EUROSTAT – ESSPROS

Fig A8: Expenditure in active labour market policies and social protection as percentage of GDP - 2005



Notes: expenditure on active labour market policies include: labour market services, training, job rotation and sharing, employment incentives, supported employment and rehabilitation, direct job creation, start-up incentives. Data for DK, CY, MT and PT not available.

Source: EUROSTAT, ESSPROS

Fig. A9: Net incomes of social assistance recipients with housing related benefits, 2005

Percentage of median equivalent disposable household income



Notes: 1. Figures relate to adults of working age and their children. In the case of married couples, the partner is assumed to be inactive. 2. Household income figures refer to values around 2000, uprated to 2005 with the consumer price index. Source: OECD Tax-Benefit Models and calculations based on Förster and Mira d'Ercole (2005). 3. The calculations for Greece for 2005 include family-related benefits and housing benefits. Entitlement to these benefits is dependent on household structure and hence there is no figure for childless households or single persons.

Table A1: Inequalities in access to health care (unmet need for care by income quintile for 3 reasons: too expensive, too long waiting time, too far to travel), SILC 2005

Inequalities in access to health care (unmet need for care by income quintile for 3 reasons: too expensive, too long waiting time, too far to travel), SILC 2005					
	1st quintile	2nd quintile	3rd quintile	4th quintile	5th quintile
EU-25	7.8	5	3.9	2.8	2.3
BE	2.4	0.8	0.2	0.2	0.1
CZ	1.9	1.2	1.1	1.1	0.8
DK	0.5	0.3	0.5	0.3	0.1
EE	11.7	7.2	5.5	4	3.6
IE	2.4	2.7	3	1	0.7
EL	8.5	6	4.4	2.9	0.8
ES	2	1.4	1.1	0.7	0.7
FR	3.9	1.8	1.5	0.4	0.5
IT	9.9	5.4	4.4	2.7	1.9
CY	6.2	5.2	2.7	1.4	0.4
LV	30.2	24.5	18.6	13.3	7
LT	10.3	7.8	7.2	4.5	4.9
LU	0.8	0.2	0.4	0.2	0.3
HU	6.5	4.5	2.6	2.8	2.5
MT	2.1	1.7	2	1.5	0.7
NL	1	0.6	0.7	0.1	0
AT	1	0.2	0.4	0.5	0.2
PL	13.5	11	9.4	8.2	6.2
PT	10	5	4.4	2.3	1.4
SI	0.5	0.4	0.3	0.1	0.3
SK	5.4	4.2	2.9	1.9	1.3
FI	5.5	3.6	2.4	1.8	1.3
SE	2.9	4	2.4	2.4	1.3
UK	2.4	2.2	2.5	2.1	2.3

Note: Data should be interpreted with care when comparing levels of across

Countries due to inconsistencies in the translation of the questionnaire utilised.

Table A2: Average effective tax rates for short-term unemployed persons re-entering full-time employment – 2005 - percentages

	Single person no children	Lone parent 2 children	1-earner married couple 2 children	2-earner married couple 2 children
Austria	70	73	74	76
Belgium	76	70	66	69
Czech Republic	62	72	62	69
Denmark	78	81	81	77
Finland	68	80	82	72
France	77	73	72	76
Germany	77	80	79	90
Greece	51	55	57	44
Hungary	61	64	64	62
Ireland ²	42	32	58	45
Italy	72	77	77	75
Luxembourg	90	93	89	89
Netherlands	76	76	76	75
Poland	66	85	68	59
Portugal	86	83	79	87
Slovak Republic	47	42	34	51
Spain	70	79	79	81
Sweden	74	80	76	74
United Kingdom	57	68	68	39

1. Results relate to the situation of a person who has just become unemployed and receives unemployment benefits (following any waiting period) based on previous earnings equal to average wage AW. Hourly earnings following the subsequent transition into work correspond to the AW level throughout. No social assistance "top-ups" are assumed to be available in either the in-work or out-of-work situation. Any income taxes payable on unemployment benefits are determined in relation to annualised benefit values (i.e. monthly values multiplied by 12) even if the maximum benefit duration is shorter than 12 months. Given the transition into employment, in-work benefits that depend on the transition are available. Children are aged four and six and neither childcare benefits nor childcare costs are considered. For married couples the percentage of APW relates to one spouse only; the second spouse is assumed to be inactive with no earnings in a one-earner couple and to have full-time earnings equal to 67% of AW in a two-earner couple.

2. AW value is not available. Calculations are based on APW.

Source: OECD Tax-Benefit Models.

ANNEX 3: SPC Orientation note on active inclusion

1. General orientation – Integrated policies for the active inclusion of people furthest from the labour market.

The Social Protection Committee, having regard to the Council (EPSCO) Conclusions of 5.12.2007, supports the development of integrated active inclusion policies that combine adequate income support, inclusive labour markets and access to quality services. A holistic approach is required in order to address the multidimensional causes of poverty and social exclusion and to facilitate the social and economic inclusion of people furthest from the labour market. Active inclusion strategies should enable those whose conditions render them fit for work to enter, or re-enter, and stay in employment. They should also provide adequate support and facilitate social participation to those who cannot enter the labour market.

Active inclusion policies are fully complementary to the flexicurity approach, contribute to the Lisbon agenda, facilitating the activation and the mobility of the workforce, and represent a building block of the social dimension of the EU's Sustainable Development Strategy.

The Social Protection Committee welcomes the elaboration of a non-binding instrument that, in full respect of the principle of subsidiarity, takes into account the autonomy and different situations, needs and priorities of the Member States. The adoption of common principles, through a Commission Recommendation which would constitute the basis for Council Conclusions and possibly a European Parliament resolution, would allow strengthening the OMC in this area and contribute to the identification of the best policy responses in the Member States.

The essential characteristics of the active inclusion approach is the promotion of policy coordination and an integrated implementation process among the local, regional, national and EU levels and across the three policy pillars. It should therefore promote better governance and acknowledge the role of local and regional authorities, which are particularly active in this field, and of all relevant stakeholders, including people experiencing poverty, social partners, NGOs and service providers.

Active inclusion policies should promote gender equality and help fighting discrimination, support the implementation of fundamental rights, take into account the territorial dimension and support intergenerational solidarity by following a lifecycle approach.

2. Adequate income support

The key principles in the Council Recommendation of 24 June 1992 (92/441/EEC) on sufficient resources and social assistance in social protection systems remain valid and the principles enshrined in sections A to C(3) and C(6) should be retained⁵¹.

3. Inclusive labour markets

In line with the policy developments since the adoption of Council Recommendation 92/441/EEC, and in particular the European Employment Strategy, the common principles should stress the importance of providing an effective help for people to enter, or re-enter, and stay in employment. Access to the labour market should be an opportunity open to everybody.

⁵¹ In point B(3) conditions on the availability for work should not be defined with a closed list but they should be left to the Member States in compliance with the principle of subsidiarity.

As highlighted in the 2007 Joint Report on Social Protection and Social Inclusion, "quality jobs are a sustainable way out of poverty and social exclusion, strengthening future employment prospects, human and social capital". Employment *per se* is not always a guarantee against poverty, as 8% of workers in the EU are at risk of poverty, hence the importance of quality and sustainable jobs and in-work support.

The Social Protection Committee fully shares the view of the Employment Committee⁵² on the fact that "the Employment Guidelines provide the EU policy framework for labour market issues, including for people furthest away from the labour market". It is therefore essential that the principles of the labour market pillar of active inclusion recall the relevant guidelines, in particular guidelines 19 and 23, but also Guidelines 17, 18, and 24, covering the role of education and skills, active labour market policies, make work pay, motivation to actively search for a job and demand side policies.

The promotion of inclusive labour markets in order to tackle segmentation and support people furthest from the labour market and the working poor should also take into account the *acquis* of the Social OMC⁵³ in this area as well as the important role of social economy and financial inclusion.

4. Access to quality services

The Social Protection Committee recognizes the preventive and socially cohesive role of services of general interest, which can effectively contribute to addressing the needs of people furthest from the labour market, facilitate social and economic inclusion, safeguard fundamental rights and fight poverty.

A number of essential services support active social and economic inclusion, including social assistance services, employment and training services, housing support and social housing, child care, long term care services and health services⁵⁴. In order to promote an effective delivery of these services, a set of common principles⁵⁵ could serve as a benchmark at European level, taking into account the role of local, regional and national authorities and the different situations, needs and priorities in the member states.

These principles should cover the equity dimension (accessibility; solidarity, equal opportunity and rights), the efficiency dimension (adequate human, financial and physical capital; comprehensiveness and continuity of delivery), the governance dimension (participation, person centred delivery; coordination and good governance), and a horizontal dimension on monitoring and performance evaluation at member state level.

5. Financial sustainability and follow-up

Successful active inclusion policies should be properly financed while at the same time finding an effective balance within the "challenging triangle" of work incentives, poverty alleviation and budgetary costs. The role of EU structural funds, including the ESF, should be acknowledged.

⁵² EMCO, May 2008, *Contribution to the SPC on the labour market strand of active inclusion*.

⁵³ See 2007 Joint Report on Social Protection and Social Inclusion, Section 3.1

⁵⁴ The application of common principles to health services should be consistent with the relevant legislative framework.

⁵⁵ Future initiatives on the quality of SSGI should take into account these common principles.

Active inclusion policies should continue to be monitored and evaluated in a consistent way within the existing framework and in line with the EPSCO Council conclusions of 5.12.2007, with the support of the PROGRESS programme.

ANNEX 4: Legal Service opinion
on a Council recommendation proposal based upon art 137 (1) (h)

"Cette recommandation 92/441 avait été adoptée par le Conseil le 24 juin 1992 sur la base de l'article 235 CEE (désormais 308 CE) qui constitue une base juridique "résiduelle", en ce sens qu'il ne peut y être fait recours que si le traité n'a pas prévu par ailleurs les pouvoirs d'action requis pour la réalisation d'une action de la Communauté nécessaire pour le fonctionnement du marché commun. Telle était alors la situation à l'époque ainsi que l'exposent les considérants de la recommandation.

Depuis lors, les modifications apportées au traité ont conduit à la formulation de l'article 137 CE qui prévoit désormais, ainsi que le souligne le projet de communication, que:

" 1. en vue de réaliser les objectifs visés à l'article 136, la Communauté soutient et complète l'action des Etats membres dans les domaines suivants: ... h) l'intégration des personnes exclues du marché du travail, sans préjudice de l'article 150 " (relatif à la politique de formation professionnelle).

Un recours à l'article 308 CE ne serait plus justifié aujourd'hui compte tenu de la compétence désormais attribuée à la Communauté par l'article 137, paragraphe 1, lettre h et de la base juridique spécifique prévue par le traité à cet effet: dans la matière couverte sous cette lettre h), l'article 137, paragraphe 2, prévoit que le Conseil statue selon la procédure de codécision de l'article 251 CE.

Il en résulte que la recommandation que la Commission envisage de proposer devrait être adoptée par le Conseil conformément à la procédure visée à l'article 251 après consultation du Comité économique et social et du Comité des régions.

Le Service Juridique a du plusieurs fois intervenir sur la problématique du recours éventuel à une recommandation à adopter par le Conseil et le Parlement européen selon la procédure de codécision et à émettre à cet égard de sérieuses réserves d'ordre institutionnel.

Il convient de rappeler que si le Parlement, le Conseil et la Commission peuvent adopter des recommandations (article 249 CE), le Traité attribue

- un pouvoir général de recommandation à la Commission (article 211 CE) ;
- un pouvoir de recommandation au Conseil dans des cas spécifiques, lorsque la possibilité de légiférer ou d'harmoniser est restreinte ou exclue.

La Commission en a retenu, dans son vade mecum institutionnel de 1990, que la règle est qu'il revient à la Commission d'adopter des recommandations et que le recours à une recommandation du Conseil impose l'existence d'une motivation spéciale.

Il convient de souligner en outre qu'aucune disposition du Traité ne prévoit l'adoption de recommandations en codécision. Ainsi l'article 254 CE qui définit les règles d'entrée en vigueur ne mentionne nullement les recommandations.

Cela s'inscrit dans une logique institutionnelle liée à la nature non contraignante de l'acte. La procédure de codécision, articulée en lectures successives jusqu'à une éventuelle conciliation en cas de désaccord, est conçue pour produire des normes contraignantes.

Ce constat ne peut, de l'avis du Service Juridique, que renforcer la règle selon laquelle il revient à la Commission d'adopter des recommandations. Celles-ci peuvent au demeurant constituer la source

commune d'une résolution du Parlement et de conclusions du Conseil convergentes, solution équivalant à celle d'une recommandation en codécision.

L'approche institutionnelle retenue par la Commission dans son vade mecum exige, selon le Service Juridique, que la Commission ne présente une proposition de recommandation du Parlement et du Conseil en codécision que dans des cas exceptionnels, justifiés par des raisons tout à fait particulières et notamment s'il peut être démontré que le respect de la règle rappelée ci-dessus ne conduit pas à un résultat équivalent."

ANNEX 5: Most frequent expressions used in this Active Inclusion IA

Active inclusion: a policy process which aims at bringing the people *most excluded from work* back into employment, for those who can work, and provide resources which are sufficient to live in dignity, together with support for social participation, for those who cannot. It consists of an integrated, comprehensive strategy combining adequate income support, inclusive labour markets and access to quality services.

At-risk-of-poverty rate: one of the primary indicators endorsed in December 2001 by the Laeken European Council to measure social exclusion and poverty. It was confirmed by the Social Protection Committee in 2006 as an overarching indicator in the context of the streamlined OMC on social protection and social inclusion. It measures the share of people with an equivalised disposable income below 60% of the national median. Equivalised disposable income is defined as the household's total disposable income divided by its "equivalent size" to take account of its size and composition.

Common objectives: with the purpose of developing a common strategy in a given policy area, using the *OMC*, the Council and the Commission must agree on common objectives. For example, in the field of pensions modernisation, they have agreed to promote longer working lives. Common objectives might or not be associated with national or European quantitative targets. In that case the implementation of common objectives is assessed in relation to concrete deadlines. This is frequently the case for the European employment strategy common objectives. Recently, the Commission has proposed that this should also apply to some of the social common objectives, using national quantified targets.

Common principles: Commission and Council might adopt, in the context of an OMC process an agreed list of common principles, related to a particular set of policy objectives. Whereas common objectives are related to a particular cycle of the OMC, common principle might be permanent or not related to a particular cycle. Recently, in the context of the European Employment strategy, Commission and Council have adopted a set of common principles for flexicurity. The June 1992 Council's recommendation contains a list of common principles for the establishment of minimum income schemes, complemented with more descriptive *policy guidelines* about how to implement those principles.

Economic and social inclusion: Inclusion (within a community or the society) is currently subject, in the European tradition since the first "antipoverty programme", to material (economic) conditions and to social conditions... Without sufficient income or if they experience great difficulty for accessing to basic services, people are likely to suffer from material deprivation and poverty, or economic exclusion. Not being able to participate in the everyday life of the society points on social exclusion. In the context of the *European strategy for fighting poverty and exclusion*, Member states and the Commission have agreed upon a concept of inclusion (exclusion) which combines those two aspects.

European strategy for fighting exclusion and poverty: At the Lisbon Council in March 2000, Member states and the Commission decided to launch a European strategy for fighting poverty and exclusion. The subsequent *common objectives* were adopted at the Nice Council in December 2000, followed by the adoption of a list of common indicators linked with those common objectives and suitable for the monitoring of the strategy. The instrument for implementing the European strategy is the *Open Method of coordination*, whose practical rules had been set informally at the Lisbon Council. In 2003, a second strand of the *social OMC* dealing with the modernisation of pensions has been launched, complemented since 2006 with a third strand dealing with Care and long term

care. Those three strands have been streamlined with the European strategy for social protection and inclusion, but each strand has an autonomous development.

Marginal effective tax rate (METR): transition in the labour market, from unemployment to work for example, or between various forms of employment, translate into changes of the total net income of concerned individuals, reflecting not only changes of the work related income, but also the net effect of the fiscal and social benefit system. METR for a given transition measures the reduction of the net variation of total income, in relation to previous income, due to the cumulated effect of taxation and social benefits. METR have been largely developed by the OECD for the purpose of "make work pay" policies.

Open method of coordination (OMC): the OMC is a policy instrument which has been particularly expanded following the European Council in Lisbon March 2000. Known as a "soft" instrument, it is not legally binding in nature. It is primarily based upon the joint adoption by the Commission and the Member states of "*common objectives*" in a given policy area. Member states are then committed to develop national strategies in order to achieve the common objectives, which are regularly jointly monitored by the Commission and the Council, on the basis of commonly agreed indicators. In the "European Governance whitepaper" issued in June 2000, the Commission has established the guiding principles under which the OMC should operate; it must have a legal basis in the Treaty and should in no case substitute to legal instruments when those are available and accepted. The OMC has been particularly developed in the employment and social field. The "social OMC" is the OMC vehicle for the implementation of the streamlined European strategy for social protection and social inclusion.

People most excluded from work: those most excluded from work are a group of persons of working age experiencing systematic difficulties for entering the labour market or maintaining in gainful employment. Those difficulties might relate to individual impediments (for example disability, poor health conditions, addiction, lack of any working experience), to the lack of access to support services (like affordable childcare for lone parents with young children or lack of access to affordable public transportation in remote and poor areas) or due to their belonging to vulnerable groups subject to discrimination, like ethnic minorities, Roma. Experience shows that those most excluded frequently face multiple causes of exclusion from the labour market.