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Implementation of employment policies – Danish experiences

Peer Review on ‘Strategies for Employment Policy reform. Implementation challenges in decentralised countries’
Madrid (Spain), 5-6 October 2015

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1 Labor market situation in the peer country

This paper has been prepared for a Peer Review within the framework of the Mutual Learning Programme. It provides information on Denmark’s comments on the policy example of the Host Country for the Peer Review. For information on the policy example, please refer to the Host Country Discussion Paper.

The challenges of the Danish labour market are less pronounced than in Spain. Although Denmark was strongly affected by the global financial crisis, the unemployment rate, youth unemployment and long-term unemployment remained comparatively low. In 2014, the unemployment rate in Denmark was 6.6 % (compared to 10 % in EU-28 and 25 % in Spain), the long-term unemployment rate (12 months or more) was 1.7 % (compared to 5 % in EU-28 and 13 % in Spain) and youth unemployment (15-24 years) was about 10 % (compared to 20 % in EU-28 and 50 % in Spain) (Eurostat, LFS Statistics).

Denmark recovered slowly from the financial crisis, but since 2012 the economy has picked up and unemployment has started to decline. In 2009, total employment in Denmark declined by 3 percentage point (compared to a decline of 1.7 % in EU-28 and 6.3 % in Spain). In 2014, employment grew for the first time since 2008 but only by 0.7 percentage points (compared to 1.0 % in EU-28 and 1.3 % in Spain) (Eurostat, LFS Statistics).

Despite low unemployment rates, Denmark spends a comparatively high percentage of GDP on passive and active labour market policies. In 2012, the total expenditure on labour market policies was about the same in Denmark and Spain (3.7 % of GDP), but the share spend on ALMP was about 40 % in Denmark compared to 15 % in Spain.

The main priority of the current (liberal minority government) and former (social democratic coalition government) has been job creation and reducing the number of persons on different types of income benefits. A number of reforms of the governance, implementation and content of employment policies have been carried out in recent years to achieve this objective (cf. below).
2 Assessment of the policy measure

The main objective of ALMP in Denmark is to increase effective labour supply by improving the motivation, qualifications and opportunities of the unemployed and inactive population. ALMP is an important component in the “Danish flexicurity” model. It compensates for the relatively high unemployment benefits by requiring active job search and promotes labour market flexibility by improving the employability of jobseekers and efficient job matching. The principle of “rights and duties” to participate in activation programmes and regular (job) interviews is now covering all target groups of the employment services. There are different deadlines for activation and interviews depending on age and type of benefit, but the principle of labour market availability and participation of activation programmes is now universal.

There are a number of different ALMP programmes which can be grouped into three main categories: Education and training, wage subsidies and enterprise training. In 2012, about 50% of the total number of participants in activation programmes was classified as participants in “education and training”. But the majority participated in so-called “other types of counselling and training” which is a diverse category covering different municipal activation projects and job search training. Ordinary education and training (certified in formal educational institutions) only covers slightly above 10% of total participants. Especially since 2011, when the central governments’ reimbursement scheme was changed in order to incentivise local jobcentres to use more activation in local companies, there has been an increase in the use of wage subsidies and enterprise training schemes. This shift in activation instruments from “in-house” municipal programmes towards “in-work” programmes in local enterprises is also supported by outcome evaluations and controlled experiments showing higher employment outcomes for participants.

Like Spain, Denmark is also practising decentralised implementation of ALMPs. The central government is responsible for overall policy-design and performance management, but local municipalities organised in jobcentres are responsible for the implementation and fine-tuning of ALMP.

Traditionally, municipalities have been responsible for the administration of social assistance, and since the early 1990s also the activation of people on social assistance benefits. In 2009, municipalities also became responsible for activation of people on unemployment insurance benefits, which in effect implied that the public employment service was decentralised to local jobcentres at the municipal level.

At the national level, the Ministry of Employment still has the overall responsibility for employment policies and services for all groups of unemployed (unemployment insurance benefits, social assistance, disability benefits, incapacity benefits etc.). The main objective of the ministry is to support and coordinate the local implementation of employment services.

At the regional level, the Minister of Employment has appointed 8 regional labour market councils with members from the trade unions, employer associations and local municipalities. The general objective of the councils is to enhance coordination and dialogue between local municipalities and between municipalities and unemployment insurance funds, but they do not have any specific authority over local authorities. In contrast to Spain, the regions are not involved in the implementation of ALMPs.

At the local level, 94 municipal jobcentres are responsible for setting local priorities and implementing local employment policies. Local jobcentres have the responsibility for the implementation of ALMPs, but within a national framework for central coordination, steering and implementation. Local jobcentres may decide to contract out the delivery of activation programmes to external providers, but there are no central regulations or requirements for tendering. Local jobcentres also cooperate with unemployment insurance funds, which are responsible for the administration of unemployment insurance benefits.
Due to this institutional set-up, the challenges of finding an adequate balance between local flexibility and specificity on the one hand and central government priorities and coherence are also very familiar in the Danish case.

In Denmark, a similar reform of the governance of ALMP like the new Strategy for Employment Activation (SEA) in Spain took place in the early 2000’s, which makes it interesting to compare objectives and experiences. The main objective of the Danish governance reform - implemented from 2004 and onwards - was to create a more integrated and efficient employment service. The fundamental idea was to harmonise the services and organisations of unemployment insurance benefits (the state-run PES) and social assistance (organised in local municipalities). That took place by decentralising responsibilities to local jobcentres, which were created in every (98) municipality. Despite this formal decentralisation of operational responsibility for the delivery of ALMP, the central government and the National Labour Market Administration (now STAR, the Danish Agency for Labour Market and Recruitment) retained overall responsibility for employment services. The role of the national level, nonetheless, changed from running the daily operations of the PES to more strategic planning and performance management. An elaborate system of performance management and evaluation was implemented to coordinate the activities of local jobcentres and improve performance.

In 2015, the performance management system was relaxed to give local municipalities more freedom to prioritise and implement ALMPs. The Minister of Employment issues annual guidelines for the local jobcenters. The guidelines are general and non-binding (e.g. to reduce long-term unemployment or improve job matching between jobseekers and local companies). Subsequently, the local jobcentres then make local employment plans reflecting national and local priorities. Finally, the Ministry of Employment monitors the performance of local jobcentres through a public database (www.jobindts.dk). There are no sanctions for inadequate compliance, but the reviews are premised on the assumption that “naming and shaming” will improve performance.

During the 2000’s, Denmark also experimented with contracting-out employment services, especially for persons on unemployment insurance benefits. It peaked in 2005, when about 50 % of all recipients on unemployment insurance benefits were contracted to external providers. Currently, less than 10 % of all unemployed (including persons on social assistance benefits) are contracted to external providers. Finally, a complicated system for refunding the expenditures of local jobcentres for passive and active labour market policies has been in operation until recently(cf. below).

In 2011, a social-democratic coalition government took office. It did not change the institutional set-up of employment services, and retained the municipal jobcentres as the primary organisations for implementing ALMPs. It did, however, change the reimbursement model for refunding the expenditures of local jobcentres to make it more attractive to use “in work” activation with local employers (like wage subsidies and enterprise training) rather than job search training and municipal activation projects.

In 2015, a major labour market reform has been implemented. ALMPs are introduced earlier in the unemployment period and in close cooperation with the unemployment insurance funds. The opportunities for education and training are also improved. Finally, an important objective of the reform is to improve matching between unemployed and employers by improving the services, knowledge and contacts between local jobcentres and employers.
Later this year or in early 2016, the new liberal minority government (in office in June 2015) will propose a “Jobs reform” to make work pay and a reform of the unemployment insurance benefit system.¹

¹ In October 2015, an expert committee will announce its recommendations on a modern and effective unemployment benefit system, and then, the government will start negotiations in the Danish parliament. After the conclusion of these negotiations, the government has announced that it will invite social partners to join tripartite negotiations on important labour market challenges.
3 Assessment of the success factors and transferability

It is too early to assess the results, and, thus, the possible success and transferability of the new strategy for employment activation (SEA) in Spain. The following section comments on some on the main elements of the reform and similarities with Danish experiences.

Outcome-based allocation of funds: The Host Country Paper raises the concern that the indicators of the refunding system may encourage regional PES to register information on activation actions (use and coverage), but not improve the performance of ALMPs in each region. This challenge is also very pertinent in the Danish case. The challenge is how to measure and reward the net impact of local interventions.

In the Danish case, a new system for allocating funds to local jobcenters, which was in the pipeline for several years, has recently been approved by the Parliament. The former system for refunding the expenditures of local jobcentres became not only very complex, but also prone to gaming the numbers and indicator fixation. The objective of the new refunding system is to create a simpler system, where local jobcenters will focus on reducing the number of persons on income benefit. The new refunding model is outcome-based and designed as a gradual phasing-out of central government refunding of local benefit expenditures. In contrast to the previous system, the refunding percentages are the same for all target groups on income benefits, irrespective of whether they are in activation or on passive benefits. Refunding is measured according to the time a person has been on income benefits. The first 4 weeks the central government refunds 80% of the benefit expenditures of the local jobcenters, 40% from week 5–26, 30% from week 27–52, and 20% after week 52%. The intention is that local jobcenters will focus on earlier and more effective ALMPs to reduce the time that target groups are on income benefits. This refunding model will be combined with state grants to attempt to equalise the different socio-economic settings of each local jobcentre.

Importantly, outcome-based refunding systems are premised on the assumption that local or regional labour market authorities have a real impact on the outcome variables in the short term (e.g. the employment or unemployment rate of participants). This is open for discussion. While ALMPs may improve the employability of participants in the medium to long-term, it is difficult to impact on short-term unemployment and employment rates, unless ALMPs are combined with measures that create new, unsubsidised jobs. In effect, there is a risk that local municipalities are refunded (either rewarded or punished) for outcomes that they cannot influence in the short-term.

Labour market needs and employment services: Successful employment services require information on labour demand to match unemployed and job vacancies. As mentioned in the Host country paper, the Spanish SEA tends to focus mainly on the employability of the supply-side (the unemployed) and less on the needs, requirements and abilities of the demand-side (the employers).

In Denmark, the matching of jobseekers with labour demand has been a recurring and important objective of current labour market reform. In 2014, the former government followed the recommendations of an independent expert committee, the so-called Koch-committee, and aimed at reconnecting the employment services with local employers and ordinary job matching. The former approach tended to focus on following procedural regulations (like commencing activation and interviews on time) and digital job databases, and local jobcentres were criticised for insufficient knowledge of and contact with the local labour market.
4 Questions

- How does the new outcome-based funding system in Spain ensure that regions are rewarded for the impact of activation programmes and not for other factors? Are there any equalisation mechanisms for levelling out variation in regional socio-economic circumstances?

- How and by whom is implementation of the “minimum common services and programmes” monitored? Are the any sanctions for insufficient compliance?

- How are the regional employment authorities in Spain governed and by whom? Is there any involvement of the social partners (trade unions and employers associations)?

- Are there any obligations for employers and the unemployed to use the Single Job Portal and what is the market share of job vacancies?

- What is your experience with the new “Training Account” where each worker will have to accredit his/her training history?
5 Annex 1: Summary table

**Labour market situation in the Peer Country**

- Denmark is slowly recovering from the Global Financial Crisis
- The challenges of the Danish labour market and labour market policies are less pronounced than in Spain
- ALMP is an important component of Danish "flexicurity"
- The “right and duty” to participation in activation programmes and job interviews has been intensified and now covers all target groups of the employment services

**Assessment of the policy measure**

- Denmark operates a similar system of decentralised implementation of ALMP and has encountered similar challenges as Spain with finding the right balance between central coordination and local flexibility
- In Denmark, municipalities and local jobcentres are the primary organisations for implementing ALMP
- A major governance reform was implemented from 2004 and onwards which has a lot of similarities with the new strategy of employment activation in Spain

**Assessment of success factors and transferability**

- It is too early to assess the success and transferability of the new strategy for employment activation in Spain, but some important element of the reform are relevant and inspiring for Danish decision-makers, among other things:
  - Creating an outcome-based refunding system that measures the net impact of local interventions and applies indicators that local authorities have a realistic opportunity to influence
  - Combining ALMPs with the needs and requirements of the local labour market and local employers.

**Questions**

- How does the new outcome-based funding system in Spain ensure that regions are rewarded for the impact of activation programmes and not for other factors? Are there any equalisation mechanisms for levelling out variation in regional socio-economic circumstances?
- How and by whom is implementation of the “minimum common services and programmes” monitored? Are the any sanctions for insufficient compliance?
- How are the regional employment authorities in Spain governed and by whom? Is there any involvement of the social partners (trade unions and employers associations)?
- Are there any obligations of employers and the unemployed to use the Single Job Portal and what is the market share of job vacancies?
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