



# **Cost–benefit analysis of remedial interventions for the long-term unemployed**

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# **Cost–benefit analysis of remedial interventions for the long-term unemployed**

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## Table of contents

|        |   |     |
|--------|---|-----|
| 1.     | INTRODUCTION.....   | 6   |
| 2.     | POTENTIAL INTERVENTIONS FOR LTU.....  | 10  |
| 2.1.   | Empirical Evidence.....   | 10  |
| 2.2.   | Assessment of impact for case study countries.....                                | 36  |
| 2.2.1. | Assessment of impact for Germany.....   | 36  |
| 2.2.2. | Assessment of impact for Denmark.....   | 36  |
| 2.2.3. | Assessment of impact for Hungary.....   | 37  |
| 2.2.4. | Assessment of impact for Italy.....   | 42  |
| 2.2.5. | Assessment of impact for Lithuania.....   | 43  |
| 2.2.6. | Implications for the EU-level.....  | 45  |
| 3.     | CONCLUSIONS.....  | 48  |
| 4.     | APPENDIX 1: COUNTRY-SPECIFIC BASELINE STUDIES.....                                | 50  |
| 4.1.   | Germany.....  | 50  |
| 4.1.1. | Definition and magnitude of long-term unemployment.....                           | 50  |
| 4.1.2. | Means-tested subsistence benefits for non-employed.....                           | 50  |
| 4.1.3. | Institutional responsibility for LTU and service provision.....                   | 53  |
| 4.1.4. | Institutional responsibility.....   | 53  |
| 4.1.5. | Service provision in the Jobcenters.....  | 54  |
| 4.1.6. | Use and costs of ALMP-measures.....   | 58  |
| 4.1.7. | Administration costs.....   | 61  |
| 4.1.8. | Future initiatives.....   | 62  |
| 4.1.9. | Summary 62  |     |
| 4.2.   | A.2 Denmark.....  | 63  |
| 4.2.1. | Definition and magnitude of long-term unemployment.....                           | 63  |
| 4.2.2. | Insurance-based and means-tested subsistence benefits for non-employed 64         |     |
| 4.2.3. | Institutional responsibility for LTU and service provision.....                   | 66  |
| 4.2.4. | Use and costs of ALMP-measures.....   | 67  |
| 4.2.5. | Administration costs.....   | 68  |
| 4.2.6. | Future initiatives.....   | 68  |
| 4.2.7. | Summary 69  |     |
| 4.3.   | A.3 Hungary.....  | 69  |
| 4.3.1. | Definition and magnitude of long-term unemployment.....                           | 69  |
| 4.3.2. | Means-tested subsistence benefits for non-employed.....                           | 71  |
| 4.3.3. | Institutional responsibility for LTU and service provision.....                   | 72  |
| 4.3.4. | Use and costs of ALMP-measures.....   | 73  |
| 4.3.5. | Administration costs.....   | 77  |
| 4.3.6. | Future initiatives.....   | 77  |
| 4.3.7. | Summary 78  |     |
| 4.4.   | A.4 Italy.....  | 79  |
| 4.4.1. | Definition and magnitude of long-term unemployment.....                           | 79  |
| 4.4.2. | Unemployment benefits and means-tested subsistence benefits for non-employed..... | 79  |
| 4.4.3. | Institutional responsibility for LTU and service provision.....                   | 85  |
| 4.4.4. | Use and costs of ALMP-measures.....   | 87  |
| 4.4.5. | Administration costs.....   | 96  |
| 4.4.6. | Future initiatives.....   | 97  |
| 4.4.7. | Summary 98  |     |
| 4.5.   | A.5 Lithuania.....  | 100 |
| 4.5.1. | Definition and magnitude of long-term unemployment.....                           | 100 |
| 4.5.2. | Means-tested subsistence benefits for non-employed.....                           | 101 |
| 4.5.3. | Institutional responsibility for LTU and service provision.....                   | 102 |
| 4.5.4. | Use and costs of ALMP-measures.....   | 105 |
| 4.5.5. | Administration costs.....   | 108 |
| 4.5.6. | Future initiatives.....   | 108 |
| 4.5.7. | Summary 108   |     |

## 1. INTRODUCTION

Addressing long-term unemployment is one of the objectives of the European Network of Public Employment Services (PES), as defined in Art 2 of the *Decision on enhanced cooperation between PES*. In its work programme for 2015, the Network included activities addressing the role of PES in the area of long term unemployment including (at the request of the European Commission, EC), a working group on the integration of the long term unemployed.

The overall objective of this study is to assess the administrative costs and the cost-effectiveness of a limited number of policy intervention options for reintegration of the long term unemployed (LTU) into the labour market. To this end, research was done for a sample of five Member States which are perceived as being sufficiently diverse in models of service provision and institutional delivery models to allow conclusions to be drawn of relevance to the EU28 countries.

The specific tasks of the study are to:

- Assess costs and benefits of the current situation (the baseline) in the five countries studied. The assessment has to take into account efforts already made or already programmed.
- Analyse, through a series of case studies and through analogies with existing evaluation studies, the administrative costs per participant for integrating service provision to the long-term unemployed, for reinforced individualised services and for formalising rights and obligations in written agreements (relative to the current situation and existing policy plans).
- Provide estimates of the cost and benefits of extending existing models for provision of activation to the existing stock of long-term unemployed in the countries examined.

The selection of Germany, Denmark, Hungary, Italy and Lithuania for the country-specific baseline studies takes into account the characteristics of the national unemployment and benefits systems and the current coverage of active measures among the long term unemployed. The sample of countries allows the analysis of a sufficiently diverse institutional and legal setting as it includes countries with centralised/regionalised responsibility for services to the long-term unemployed, as well as countries with integrated/fragmented links between benefits (social and unemployment benefits), activation measures and other services.<sup>2</sup>

In general labour market oriented service provision in a wider sense (i.e. including measures of active labour market policies, ALMP) that target the long-term unemployed can have multiple effects going beyond the immediate impact on re-entering employment. PES services can help shorten the unemployment spell and reduce the

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<sup>2</sup> Note that our case study countries also cover a wide spectrum when looking at welfare regime types and government effectiveness. In European Commission (2015) *Literature review and identification of best practices on integrated social service delivery* (Author: Ágota Scharle), shows that grouping EU Member States describes fairly well to what extent the recent global financial crisis led to an increase in long-term unemployment.

harmful consequences of unemployment by maintaining motivation for job search, improving the effectiveness of matching jobseekers with vacancies, improving employability by training programmes, providing counselling and social services and by lowering wage costs. Carefully targeted wage subsidies can reduce employers' wage costs and thus help prevent (or delay) layoffs or encourage new hires.

At the individual level, the immediate impact of services and ALMP-measures is increased chances of reemployment. A further potential effect can be an increase in earnings, if the intervention fosters productivity (e.g. by developing skills or removing personal obstacles that impaired productivity) or eliminated employer discrimination (based on a perception of low productivity). Thus, ALMP-measures can have a potentially large effect going beyond the facilitation of job matching by tackling the underlying causes of long-term unemployment. By shortening the unemployment spell, ALMP-measures can also mitigate the harmful consequences of unemployment on poverty, social exclusion, health and particularly mental health.<sup>3</sup>

Tackling long-term unemployment tends to become increasingly difficult the longer the unemployment spell as it becomes more difficult for the jobseeker to find a job and less effort may be put into job search.<sup>4</sup> This may be due to several related factors, e.g. the erosion of skills, discrimination by employers against long-term unemployed, or the ranking of job applicants by employers on the basis of their time spent in unemployment, as well as declining motivation on the part of the unemployed person.<sup>5</sup>

Macro-econometric analyses of cross-country data show that effective activation regimes can reduce benefit recipience and increase overall employment.<sup>6</sup> At the macro level, labour market-oriented service provision (including ALMP-measures) may have a direct effect via several channels. Firstly, PES interventions can maintain the job search intensity of the long-term unemployed and contain wage expectations.<sup>7</sup> This contributes to more flexible wage adjustments and faster economic recovery.<sup>8</sup> Secondly, to the extent ALMP-measures improve skills and productivity they can increase the productive capacity of the labour force. Improving re-employment chances may not increase the overall employment rate, as participants may simply crowd out other jobseekers while labour demand remains stable. However, faster and better matching may increase overall employment and productivity.

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<sup>3</sup> A.H. Goldsmith and T. M. Diette (2012), Exploring the link between unemployment and mental health outcomes. *The SES Indicator*, The SES Indicator, 5(1). K.I. Paul and K. Moser (2009), Unemployment impairs mental health: Meta-analyses. *Journal of Vocational Behavior*, 74(3), 264-282.

<sup>4</sup> Broader benefit coverage, higher unemployment benefits and longer duration of benefits tend to increase jobseekers' wage expectations and so tend to reduce job-search efforts and make the unemployed more "choosy" in evaluating job offers. This improves the quality of job matches but also tends to increase the duration of unemployment.

<sup>5</sup> For a brief review of the causes of hysteresis, see e.g. OECD Economic Outlook (2011), Chapter 5. Persistence of High Unemployment: What Risks? What Policies?

<sup>6</sup> J.P. Martin (2014), Activation and Active Labour Market Policies in OECD Countries: Stylized Facts and Evidence on their Effectiveness, IZA policy paper.

<sup>7</sup> Unemployed individuals may be reluctant to lower their wage expectations as the unemployment spell lengthens, and this may be more wide-spread in economy-wide shocks when social tolerance towards long-term unemployment tends to be higher. Behavioural conditions and sanctions can counterbalance this effect.

<sup>8</sup> OECD Economic Outlook (2011), Chapter 5. Persistence of High Unemployment: What Risks? What Policies?

As will become transparent in the following analysis, the available evaluation studies aimed at identifying the causal effects of interventions for long-term unemployed, only tend to focus on a sub-set of these impacts. Furthermore, it will become clear that the strength of the evidence base for different types of interventions varies considerably and that all empirical studies necessarily had to be conducted within a given institutional framework. Hence it is anything but trivial to extrapolate the findings to countries with a different institutional context even if the evidence base is strong. However, from the evidence collected it is possible to deduce a set of structured interventions which are promising with respect to cost-effectiveness and so can serve as a valuable source for further considerations regarding the handling of long-term unemployed in many EU Member States.

This report presents the findings and conclusions of the baseline studies together with those of the further analytical steps. **Section 2** contains a summary of the available empirical evidence for several potential interventions targeting LTU with a focus on cost-effectiveness. Furthermore, the section contains an assessment of the impact of applying these interventions to the case study countries. **Section 3** offers some conclusions for structured interventions addressing long-term unemployed in a wider sense, which appear to be promising with respect to cost-effectiveness. The results of the country-specific baseline studies are presented in an **Appendix**.

## 2. POTENTIAL INTERVENTIONS FOR LTU

The existing empirical evidence on the effectiveness of labour market oriented service provision (including ALMP-measures) tends to focus on the newly unemployed. This body of evidence suggests that job search assistance and related PES services and sanctions may be the most cost effective interventions, with direct job creation in the public sector the least effective, with wage subsidies and training measures situated somewhere in between.<sup>9</sup> There is also some evidence regarding particular design features of service delivery suggesting that integrated and individualised services and measures involving the employer tend to be more effective. However the evidence is relatively weak on whether these types of intervention are equally effective for the specific sub-group of the LTU. Drawing on the theoretical and empirical literature, this report identifies five, potentially effective interventions to support the labour market integration of LTU.

The rest of this chapter (**Section 2.1**) starts by examining five different interventions for LTU (in a wider sense) for which reliable empirical evidence exists on their effectiveness and their efficiency. In total 46 evaluation studies referring to 12 European countries were analysed with around half of them (22) covering Germany. This is due to the fact that in 2005 in Germany the system of “unemployment benefits 2” (UB2-benefits) was introduced and has been investigated intensely since. Further empirical studies refer to Austria (1), Belgium (1), Denmark (5), France (1), Hungary (6), the Netherlands (1), Norway (1), Portugal (1), Sweden (1), Switzerland (4) and the United Kingdom (2). Hence, the studies presented here are not restricted to the case-study countries for which country-specific baseline studies can be found in the **Appendix**.

The following interventions will be investigated in detail:

1. Intensified co-operation (including institutional integration) between municipalities and local labour offices
2. Provision of a “standard labour-market oriented service bundle” offering individual standard support and implementation of mutual obligations, the enforcement of rights and duties
3. Using ALMP-measures in a system of “individual standard support”
4. Provision of a “high-intensity labour-market oriented service bundle”
5. Combination of “individual standard support” with specialized services for employers

In **Section 2.2** an assessment of the impact of the application of these interventions is given in the case study countries together with some implications for the EU-level.

### 2.1. Empirical Evidence

#### Intervention 1: Intensified co-operation and institutional integration

##### *Institutional co-operation*

In many Member States different institutions have a specific, separate responsibility for members of the target group, or in some cases were the starting point for reforms in

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9 See J. Kluve (2010), The Effectiveness of European Active Labor Market Programs, *Labour Economics* 17, no. 6: 904–18. D. Card, J. Kluve and A. Weber (2010), Active Labour Market Policy Evaluations: A Meta-Analysis, *The Economic Journal* 120, no. 548: F452–77

recent years. A typical example of this is the situation in Germany prior to 2005 (before the introduction of the UB2-benefit system<sup>10</sup>). At that time a large share of unemployed received unemployment assistance after their eligibility to unemployment benefit was exhausted. Unemployment assistance was means-tested and the duration of entitlement was typically 12 months and the replacement rate varied between 53% and 57% of previous earnings. Local labour offices were responsible for unemployment assistance. In general, all recipients had access to the services of the labour offices (including ALMP-measures) and the whole system was financed by the Federal State.

Individuals who were not eligible for unemployment assistance but had insufficient financial means received social assistance for which municipalities were responsible (including the financing of it). Able-to-work as well as non-able-to-work individuals were among the recipients of social assistance and for the former, special activation and support measures existed. Most of them were similar to standard ALMP-measures but the focus was clearly on employment measures on the secondary labour market. The social assistance system was very fragmented and the level of service provision varied considerably across municipalities. Furthermore, there were clear incentives for municipalities to bring social assistance recipients into subsidized, but not necessarily sustainable jobs. This was because after a short working period they would again be eligible for unemployment benefits and possibly also unemployment assistance (for which municipalities did not have to pay). Hence, to some extent the system functioned much like a revolving door.

Between 2001 and 2003 a pilot project (called “MoZArT”) was conducted in 30 regions (31 projects) across Germany in order to improve the co-operation between the two institutions which were responsible for social assistance (municipalities) and unemployment assistance (local labour offices) at that time. The pilot project aimed at improving co-operation between labour offices and municipalities to sustainably integrate recipients of social and unemployment assistance into the primary labour market. To achieve this, projects received financial resources to implement their approach and the specific projects (regions) had a large degree of discretion to decide on the actual method of co-operation (i.e. on target groups, on the allocation of participants, on the use of activation and support measures, on the organizational set-up etc). An evaluation study conducted on behalf of the Federal Ministry of Labour<sup>11</sup> identified four different types of co-operation approaches:

- Type 1 (5 projects): Full co-operation with respect to all processes and using a holistic approach
  - Selection of participants according to clear pre-defined characteristics (“rule-based” selection)
  - Service provision at joint contact point
  - Joint case management
  - Joint calculation and disbursement of benefits
  - All ALMP-measures available for all participants
  - Employees worked spatially close to one another

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<sup>10</sup> For details on the UB2-benefit system in Germany see baseline study in the Appendix.

<sup>11</sup> Infas (2004), MoZArT – Neue Strukturen für Jobs. Abschlussbericht der wissenschaftlichen Begleitforschung. Dokumentation Nr. 541. Bundesministerium für Wirtschaft und Arbeit.

## Cost–benefit analysis of remedial interventions for the long-term unemployed

- Type 2 (12 projects): High co-operation
  - Central difference to type 1: no joint calculation and disbursement of benefits
- Type 3 (7 projects): Medium or low co-operation
  - Joint contact points served more as coordinating unit between both institutions than as a service point for participants
  - Service provision remained in original institutions
  - Focus on provision of ALMP-measures
- Type 4 (7 projects): Case-based co-operation
  - Co-operation based on individual cases (i.e. benefit recipients)
  - Cases were selected in an ad-hoc process without a binding rule
  - No joint contact point but only interface coordinator between both institutions
  - Primary aim: joint assessment of cases to find suitable ALMP-measures

The four types represent two fundamentally different models of institutional co-operation: The first two types can be characterized as a (predominantly or fully) cooperative model with a holistic approach to participants offering some form of a common contact/access point or one-stop-shop in which either: (i) both benefit disbursement and labour market oriented service provision are organized together, or (ii) only the latter is conducted. This model focused more on guidance and counselling and, therefore, was rather personnel intensive. By contrast, the last two types can be characterized as (mostly or purely) case-based models with a strong focus on active measures of labour market policy.

Evaluation results regarding *effectiveness*: The evaluation study estimated the effectiveness of the projects disaggregated by type using survey data for participants and non-participants. Results suggest that the projects in types 1 and 2 were the most effective with respect to a sustainable integration (seven months and more) of participants into the primary labour market (+14% relative to the comparison group). Participants in projects of type 3 also exhibited significantly higher sustainable integration rates than comparable non-participants (+9%). By contrast the sustainable integration effect of type 4 projects was significantly and also substantially negative (-41%).

Evaluation results regarding *costs*: The evaluation study reported the additional costs per participant of the pilot project disaggregated by type and form of costs. Interestingly, the fully co-operating type 1 entailed the lowest costs per participant, although it was the most personnel intensive type of co-operation. By contrast, the loosest form of co-operation (case-based type 4) incurred the highest costs and showed the highest share of active measures.

*Cost-benefit-balance*: For cost-benefit-analyses the above mentioned costs were compared to the savings during the project period from reduced benefits. Results varied strongly with types of implementation. Whereas type 1 projects yielded a surplus of almost 835 € per participant and projects of type 2 a surplus of around 640 €, in the projects of type 3 and type 4 costs exceeded benefits by around 697 € and 2.869 €, respectively. Thus, for the (predominantly or fully) cooperative model with holistic approaches a return of 1.4 € to 1.7 € for each invested Euro was achieved, whereas in the (mostly or purely) case-based model costs exceeded gains substantially (by up to four times).

### *Institutional integration*

Based on the predominantly positive experiences with the “MoZArT”-projects, the UB2-system was introduced in 2005. With this introduction the legislator (German Bundestag) included a legal mandate to evaluate the so-called “model of service provision” for UB2-benefit recipients. This basically implied that the performance of (i) the municipal Jobcenters had to be compared to that of (ii) the co-operative Jobcenters. In model (i) responsibility for benefit calculation and disbursement, as well as for the provision of labour market-oriented services, is handed over to municipalities and local labour offices are not in any way involved in these processes. In contrast, in model (ii) local labour offices and municipalities co-operate in these processes and formed a new legal entity called “ARGE”. Between 2006 and 2008 a large-scale evaluation study involving many academic institutes was conducted. The evaluation examined, among other things, the causal impact of the “model of service provision” on the individual as well as the regional level using administrative and survey data. The results were summarized in a report for Parliament (see Deutscher Bundestag 2008<sup>12</sup>).

The most important findings were as follows:

1. Co-operative Jobcenters performed better than municipal Jobcenters with respect to all important outcome indicators on the individual as well as on the regional level during the one year observation period (i.e. the year 2007) of the outcomes.
2. Specifically controlling for the impact of other factors, the “ARGE” had significantly higher integration rates into the primary labour market (between two and four percentage points) and significantly lower rates of individuals receiving UB2-benefits than the municipal Jobcenters (between three and four percentage points). Hence, the causal effect of service provision by municipal compared to co-operative Jobcenters was significantly negative.
3. Furthermore, on the level of the economy as a whole, the savings incurred by fully implementing the ARGE-model instead of the municipal model were estimated to amount to 3.3 billion € per year. Given that the number of “able-to-work persons in need” at that time was around 5 million, this is equivalent to 660 € per person or foregone benefit savings of around 10%.

These findings suggest that attempts to integrate institutions for the provision of services for the target group are more promising with respect to effectiveness and also efficiency if they combine the expertise of existing institutions instead of handing over the responsibility to only one of them.

A second example of the introduction of an integrated institutional arrangement for the delivery of public employment services and social security benefit payments for all working-age individuals (both unemployed and inactive) is the introduction of Jobcentre Plus in the United Kingdom between 2001 and 2006. Prior to this reform, the Employment Service was responsible for providing job-search related support and activation services to claimants of the Jobseeker’s Allowance (JSA) (the main benefit for

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<sup>12</sup> Report (in German only) can be downloaded under <http://www.bmas.de/DE/Service/Publikationen/Forschungsberichte/Forschungsbericht-Evaluation-Experimentierklausel-SGBII/forschungsbericht-f390.html>

unemployed persons), while the Benefits Agency was responsible for the administration of benefit claims and benefit payments as well as running the Social Security Offices (which provided income support for inactive individuals). The services provided by the Jobcentre Plus offices range from benefit claims processing through work-focused interviews, enhanced job brokering services, referral of various activation programmes and follow-up activities.<sup>13</sup>

The evidence from the evaluation<sup>14</sup>, which exploits the incremental implementation of the Jobcentre Plus between 2001 and 2006 in different local labour markets, support the view that integrated service delivery is both effective and cost-efficient. The authors estimate that the (quarterly) flows from JSA to jobs increased by 3-4% in the long run as a result of service integration.<sup>15</sup> The study estimated that the stock of JSA claimants would have decreased solely due to the introduction of the Jobcentre Plus by 10% in the longer run of four years after the national rollout has been completed. This positive outcome is estimated to lead to substantial savings over a fifteen-year period: direct gains from welfare benefit savings are around 4 billion GBP; the indirect gains through increased tax payments are around 2 billion GBP; while the the roll-out costs of Jobcentre Plus were 1.9 billion GBP (though it is worth noting that the largest part of this outlay, 0.8 billion GBP was devoted to investment into refurbishments and acquisitions)<sup>16</sup>. When considering the impact of this new model of service delivery it should be remembered that it entailed (besides institutional integration) the introduction of performance targets and monitoring, a modernisation of IT systems, and enhanced job brokering services, plus that it was complementary to the new welfare-to-work policies that were implemented previously.

By contrast to the findings from Germany and UK, a recent evaluation<sup>17</sup> of the first phase of establishing one-stop shops in the “Norwegian Employment and Welfare Administration” reform yielded more mixed results. This reform, which was implemented from 2006 through to 2011, entailed the merger of two existing public bodies, the employment service administration and the national insurance administration, as well as a close co-operation with the municipality-based social welfare services. The evaluation, which took advantage of the step-wise implementation of the reforms over 2006-2010, found that establishment of one-stop-shops (NAV) led in the initial two years after implementation to a small *negative* effect on the job-finding success of LTU. Although

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<sup>13</sup> In the original system, income support claimants had no access to employment services, which substantially reduced their potential to look for and find employment. The upkeep of the system was relatively expensive and therefore, the Jobcentre Plus initiative was also strongly motivated by cost-cutting considerations.

<sup>14</sup> R. Riley, H. Bewley, S. Kirby, A. Rincon-Aznar and A. George (2011), The introduction of Jobcentre Plus: An evaluation of labour market impacts. Department for Work and Pensions Research Report No. 781.

<sup>15</sup> These results were similar both for short-term JSA claimants, and those who have been on benefits for more than 6 months. The effects for lone parents were even larger, while those for disabled welfare recipients were mixed.

<sup>16</sup> National Audit Office, UK. (2008), Department for Work and Pensions: The roll-out of the Jobcentre Plus Office network. London: TSO.

<sup>17</sup> A. Aakvik, K. Monstad, and T. H. Holmås (2014), Evaluating the Effect of a National Labour and Welfare Administration Reform (NAV reform) on Employment, Social Insurance and Social Assistance. Uni Research, Rokkan Centre.

these negative consequences disappeared from the third year after implementation, the authors were unable to discern significantly positive effects.<sup>18</sup>

Finally, some practical issues with respect to the implementation of both institutional co-operation as well as institutional integration have to be considered which can be seen as *implementation risks*. The existing experiences indicate that, firstly, for both options an initial financial outlay (once-only knock-on financing) is necessary to enable the new structure (either cooperative or integrated) to start its work. It is typically used to finance compatible IT systems, to equip the joint contact/access point, and for the training of personnel, etc. Naturally, the amount required will be lower the higher the degree of institutional cooperation prior to the introduction of the new structure was and the less fundamental the organisational change associated with its introduction is. In Germany the initial financing in the first year (2005) of the introduction of the UB2-benefit system, which can be seen as a rather fundamental organisational change, amounted to 175€ per household of the target group. The costs of the introduction of Jobcentre Plus in the UK were around 275€ per benefit recipient (excluding infrastructure investment costs). Experiences from Hungary collected in the context of the modernisation of the PES suggest that initial financing of about 300 € per person can be necessary. It seems reasonable to assume therefore that currently a once-only set-up costs of between 200 € per household and 300 € per person of the target group constitutes an upper limit and that, with less complex reorganisations, on the set-up costs may be lower.<sup>19</sup>

Secondly, possible legal obstacles may need to be considered. Depending on the data protection regulations, practical problems with respect to the consolidation of information from different systems can occur. Similarly depending on public services law and the co-determination rights of the work councils, labour law-related problems can also occur. This is especially relevant for cases in which public employees from different institutions are supposed to work in a newly formed organisation and concerns aspects such as differences in remuneration or the authorisation to issue directives.<sup>20</sup> Furthermore, since a precise forecast of the necessary personnel for the new structure is difficult to make, it is likely that during the start-up years a considerable share of employees with temporary work contracts will emerge. Depending on the specific regulations of a Member State regarding such contracts, this might also entail some practical problems.

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<sup>18</sup> This could be due to the fact that most users still demand specialized case worker competence, inadequate planning of IT infrastructure, large training requirements of staff, increased number of users during the 2008 financial crisis, and the build-up of new specialized teams in 2008 that took competent workers away from the day-to-day operation of the new NAV organization.

<sup>19</sup> It also has to be noted that these initial relatively large outlays can only be recovered in the form of benefits savings and increased taxes over a relatively long period, as the experience of Jobcentre Plus showed.

<sup>20</sup> This risk can lead to a disruption of services in the initial period of integration. This is clearly shown in an evaluation of the NAV reform, where the authors found that service integration initially had a *negative* effect on job-finding, which disappeared over a three-year period. See: A. Aakvik, K. Monstad, and T. H. Holmås (2014), Evaluating the Effect of a National Labour and Welfare Administration Reform (NAV reform) on Employment, Social Insurance and Social Assistance. Uni Research, Rokkan Centre. Similarly, the evidence on the rollout of the Jobcentre Plus points to a small decrease in the outflow rate to jobs in the initial year of introduction.

Thirdly, it has to be kept in mind that the introduction of the new structure can be associated with serious acceptance problems among members of the target group, employees in the existing institutions (“clash of organizational cultures”) and society as a whole. These problems might be especially pronounced if the new structure is primarily perceived as a forced means to save public money instead of a way to support the target group towards improved living standards. For this reason, an encompassing communication strategy with informing and advertising elements prior to the introduction is recommendable, though will be associated with some additional costs.

Finally, the existing evidence on the effects of institutional co-operation suggests that its impact on the labour market prospects of the target group unfolds relatively quickly. The effects of “MoZArT” became “visible” (i.e. empirically measurable) within one to two years. Moreover, the differences between the two models of service provision in the German UB2-system became observable two years after its introduction. Similarly, the positive results of the rollout of Jobcentre Plus in the UK became visible one year after the introduction of the new service delivery model. However, the full benefit was only realised four years after the introduction, when the rollout had been completed.

Intervention 2: Provision of a “standard labour market oriented service bundle” (“individual standard support”) and implementation of mutual obligations (“rights and duties”)

This service bundle includes:

- (i) individual (qualified) contact person for each recipient,
- (ii) assessment of employment potential (profiling),
- (iii) agreement on individual action plan (IAP),
- (iv) access to the full spectrum of ALMP-measures, in the sense that the target group is eligible for such measures, but contact persons have discretion to decide whether a person is allowed to participate in a measure or not,
- (v) provision of job offers and
- (vi) regular follow-up of profiling-IAP process (contact interval of three to six months)
- (vii) with caseloads between 1:150 and 1:250.

This service bundle can be considered as a minimum requirement for any “individual support” to LTU. It contains an intimately related system of services that necessarily belong together. Any agreement on an IAP has to be preceded by a thorough assessment of an individuals’ employment potential (i.e. a profiling) and has to be followed up regularly. Furthermore, within this process it is necessary to have the possibility to refer jobseekers to ALMP-measures if the IAP suggests that this is promising. In other words, implementing only specific elements of this bundle contradicts the idea of the integrated individual support aimed for within the intervention under discussion. Furthermore, it is worth noting that the *additional* costs of each element are rather small. Once the groundwork for a profiling system is set up, the additional costs of an agreement on an IAP are small since the person is in contact with his/her counsellor and the elements of the IAP should be a straightforward outcome of the profiling results. The same argument then applies to the provision of job offers or the referral to ALMP-measures. Finally, it is worth noting that an IAP (in written form) provides a legal basis for the implementation of sanctions (for details see below).

This “individual standard support” bundle is currently implemented in the UB2-system in Germany, which covers the largest share of all German LTU, together with all other able-to-work persons who cannot (or at least not fully) make a living from other sources and are, therefore, in need of income support. In 2013 total costs of service provision for UB2-benefit recipients (i.e. costs for ALMP-measures plus administrative costs) amounted to 8.8 billion € (see baseline study for Germany). This includes the administrative costs for the calculation and disbursement of UB2-benefits. Although there is no specific data on the share of administrative costs for this particular task, it appears plausible that they amount to around one half of total administrative costs. Hence, total costs for the provision of labour market-oriented services (guidance and counselling as well as ALMP-measures) can be estimated to amount to 6.1 billion € in 2013. Relative to the number of “able-to-work persons in need” this is equivalent to per-capita-costs of around 1,380€. The administrative costs for the provision of labour market service alone (i.e. without the costs for ALMP-measures) amount to around 590 € per “able-to-work person in need”.

To what extent these costs are *additional* in the sense that they were incurred on top of the costs for the two systems (unemployment and social assistance) which existed prior to the introduction of the UB2-system, is very difficult to assess because the costs of the old systems are unknown. However, it is axiomatic that the administrative costs for the calculation and disbursement of benefits in the new system do not exceed those of the old one because the task also had to be performed in the old systems. On the contrary, it is plausible that through a unified system of benefit calculation and disbursement, synergetic effects can be achieved because, for example, information on the household context of a benefit applicant no longer has to be collected twice. However, to remain on the conservative side in the estimates provided, it is assumed that the additional costs per benefit recipient of this task are zero.

By contrast, the costs of labour market-oriented service provision are in all likelihood higher in the UB2-system than in its predecessor systems because the coverage of service provision is higher. Unfortunately, there is no information on personnel or caseloads in the old systems so the only option is to rely on possible scenarios. Assuming that factual caseloads were 50% higher in the old systems than in the UB2-system, the administrative costs of the old systems can be estimated to be two-thirds of the new system (i.e. around 1.7 billion €). Under the assumption that caseloads in the old systems were twice as high as in the new system, the administrative costs of the old systems can be estimated to amount to 1.3 billion €. In these two scenarios the additional administrative costs of labour market-oriented service provision in the UB2-system add up to 0.9 to 1.3 billion € per year.

In 2013 total payments to the average "household in need" were 10,132 € (see baseline study for Germany). Thus, to compensate for these additional costs by benefit savings only (i.e. ignoring tax and social security contribution revenues) between 89,000 and 128,000 UB2-benefit-recipients have to leave the UB2-system for one year. According to official statistics around 1.8 million "able-to-work persons in need" left the benefit records during 2013<sup>21</sup>. Around 75% of them did not re-enter the system again within three months. Thus, around 450.000 people left the system for up to three months and 1.35 million people did not receive UB2-benefits for at least four months. Assuming that individuals in the first group stay out of the UB2-system for 1.5 months on average and individuals in the second group for eight months on average, the number of persons who left the UB2-system for one year is equivalent to 956,250. Therefore to achieve the 89,000 to 128,000 individuals necessary to compensate for additional administrative costs of the UB2-system by savings in benefits alone, between 9% and 13% of these outflows from the system have to be causally attributable to the UB2-system itself. If those who have left the system also pay taxes and social security contributions, even lower shares are required to arrive at cost-neutrality. Clearly this is a strong causal impact, but it appears to be realistic.

Some evidence on the costs and gains from an incremental move towards providing this type service bundle can be obtained from an evaluation study of the modernisation of the Hungarian PES between 2004 and 2008 (financed by HRDOP 1.2 measure). This project involved five elements: the introduction of the new service model (essentially allocating

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<sup>21</sup> Statistics Division of the Federal Employment Agency, April 2014 (Statistik der Bundesagentur für Arbeit, Grundsicherung für Arbeitsuchende in Zahlen, April 2014).

services and measures to clients based on profiling), the remodelling and renovation of offices (introduction of self-service points etc.), the introduction of a quality assurance system, the training of PES staff and the introduction of an integrated IT system. The first four of these elements were introduced in the 71 participating local offices (out of a total of 158 offices of the HPES), while the last one was of course introduced across the whole administration. The modernisation is estimated<sup>22</sup> to have increased the outflow rate to jobs in the primary labour market by 6% to 10%, meaning that clients' unemployment spells shortened by 1.5 to 2 months in participating local offices. The estimated monthly costs of the programme per participant were about 300 € and the benefit-to-cost ratio was about 2 to 2.5:1.<sup>23</sup>

A prerequisite to more individualised support is the existence of a well-designed profiling (and targeting) system. While the benefits of having such a system are difficult to evaluate empirically, a handful of studies<sup>24</sup> indicate that caseworker allocation of unemployed to ALMP-measures tend to do no better than random allocation, and that a targeting system can significantly increase the re-employment rates of unemployed.<sup>25</sup> While it is well known that profiling systems cannot be implemented without accompanying incentive and organisational changes, it is worth considering the costs (and benefits) of setting up such a system not only for preventing long-term unemployment, but also to formulate (econometric analysis based) guidelines for caseworkers on the optimal allocation of individuals to programmes.<sup>26</sup>

### *Rights and duties: the use of sanctions in "individual standard support"*

One further important aspect of a system of individual support is the implementation of mutual obligations ("rights and duties", i.e. the possibility to cut benefits if jobseekers do not fulfil their obligations). Such cuts are commonly known as sanctions and are widely-used. When considering the effect of benefit cuts, differentiation has to be made between (i) the ex-ante effect, i.e. the possibility that unemployed persons' behaviour will be monitored (in other words, the behavioural response to a move from a system with no

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<sup>22</sup> Zs. Cseres-Gergely (2011), Greasing the wheels of the labour market? Impact analysis of the modernization of the Public Employment Service of Hungary. *The Hungarian Labour Market 2011*. Budapest: IE-HAS, p. 82-95.

<sup>23</sup> Please note that this estimation pertains to all registered unemployed clients of the PES. For calculating costs and gains, it is useful to note that the average welfare benefit at the time was roughly 95 € per month and the taxes and contributions from a minimum wage job amounted to about 130 € per month.

<sup>24</sup> These are: M. Lechner and J. Smith (2007), What is the value added by case workers?, *Labour Economics*, vol. 14, p. 135-151; J. Staghøj, M. Svarer and M. Rosholm (2010), Choosing the Best Training Programme: Is there a Case for Statistical Treatment Rules? *Oxford Bulletin of Economics and Statistics*, vol. 72, p. 172-201; M. Huber, M. Lechner, C. Wunsch and T. Walter (2011), Do German Welfare-To-Work Programmes Reduce Welfare and Increase Work?, *German Economic Review*, Vol. 12, p. 182-204.

<sup>25</sup> Lechner and Smith (2007) indicate that the employment rate one year after entry into unemployment could be raised by 8 percentage points in Switzerland, Staghøj et al. (2010) indicate that Danish jobseekers' duration of unemployment could be reduced by about 8 weeks, Huber et. al. (2011) estimate that the optimal allocation to ALMPs would reduce welfare receipt by 9 percentage points; these amount to about a 12-18% improvement in outcomes.

<sup>26</sup> Another aspect of individualization has been pointed out by a recent article is that unemployed who are similar to their caseworkers (with respect to their gender, age and education level) tend to have higher re-employment probability than those who are dissimilar. This seems to point to 'easy wins' through the client to caseworker allocation process. See: S. Behncke, M. Frölich and M. Lechner (2010), A Caseworker Like Me: Does the Similarity between Unemployed and Caseworker Increase Job Placements? *Economic Journal*, 120, 1430-145

sanctions to one with sanctions), and (ii) the ex post effect, i.e. the reaction of unemployed to the actual imposition of a sanction.

While there is some evidence that more intensive monitoring of job search activity leads to an increase in re-employment<sup>27</sup> and that activation programmes work through ‘threat’ effects<sup>28</sup>, the most clear-cut indication of anticipation effects come from a recent study in Belgium. This study<sup>29</sup> investigated, in the context of a reform where job search requirements were introduced for younger long-term unemployed, the impact of the notification that job search activities will be controlled at a later date. This notification was performed prior to the start of the monitoring. The study found that the transition to employment was 22-28% higher among individuals affected by the reform (and notified) than among those unaffected. This study provides support to the hypothesis that a relatively low-cost initiative (i.e. the more effective enforcement of jobseekers’ obligations) can lead to important gains in flows out of unemployment.<sup>30</sup>

Two studies from Switzerland provide additional evidence on the favourable effect on the ‘threat’ of sanctions. According to the first paper<sup>31</sup>, caseworkers insisting on unemployed persons’ duties are found to increase their clients’ employment rate more than their more-cooperative caseworkers, and without pushing them into unstable jobs. The second study<sup>32</sup> clarifies this picture showing that raising job search requirements (the number of job applications to be submitted) does indeed raise re-employment probability, but this comes at the cost of accepting lower wages and this strategy only seems to work in relatively favourable labour market conditions.

In Germany “able-to-work persons in need” (i.e. persons receiving UB2-benefits) are obliged to regularly visit Jobcenters, to document job search activities, to accept job offers, to accept referrals to ALMP-measures and to sign an IAP which has to be up-dated at least every six months. Those who do not fulfil these obligations can be sanctioned. Sanctions are regulated by law and vary between 30% and 100%. A number of studies empirically examine the effects of sanctions<sup>33</sup> using different datasets and methods.

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<sup>27</sup> See for example: J. Micklewright and Gy Nagy (2010), The effect of monitoring unemployment insurance recipients on unemployment duration: Evidence from a field experiment. *Labour Economics*, 2010, vol. 17, p. 180-187.

<sup>28</sup> See for example: B. K. Graversen and J. van Ours (2011), An Activation Program as a Stick to Job Finding. *Labour*, 2011, col. 25, 167 – 181.

<sup>29</sup> Cockx, B. and M. Dejemeppe (2012), Monitoring job search effort: An evaluation based on a regression discontinuity design. *Labour Economics*, vo. 19 , p.729–737

<sup>30</sup> It is less clear whether transitions due to threat effects are to lower the quality of jobs (e.g. regarding stability), and in this sense, whether the gains are long-term.

<sup>31</sup> S. Behncke, M. Frölich and M. Lechner (2010), Unemployed and Their Caseworkers: Should They Be Friends or Foes? *Journal of Royal Statistical Society, Series A*, 173 (1), 67-92

<sup>32</sup> P. Arni and A. Schiprowski (2015), The Effects of Binding and Non-Binding Job Search Requirements. IZA DP No. 8951.

<sup>33</sup> B. Boockmann, S. Thomsen and T. Walter (2009), Intensifying the Use of Benefit Sanctions? An Effective Tool to Shorten Welfare Receipt and Speed up Transitions to Employment? Zentrum für Europäische Wirtschaftsforschung (ZEW), Discussion Paper 09-072. K. Hillmann and I. Hohenleitner (2012), Impact of Benefit Sanctions on Unemployment Outflow – Evidence from German Survey Data. Hamburgisches Welt-Wirtschafts-Institut (HWWI), Research Paper 129. J. Schneider (2008), The effect of unemployment benefit II sanctions on reservation wages. IAB-Discussion Paper Nr. 19. J. Schneider (2010), Impacts of Benefit Sanctions on Reservation Wages, Search Effort and Re-employment. In: *Activation of Welfare Recipients: Impacts of Selected Policies on Reservation Wages, Search Effort, Re-employment and Health*. Dissertationsschrift. Berlin. G. van den Berg, A. Uhlendorff and J. Wolff (2014), Sanctions for young welfare recipients. *Nordic Economic Policy Review*, 1, 177-208. T. Walter (2012): The

Despite this heterogeneity regarding data sources and identification strategies, all studies conclude that sanctions increase the probability of employment on the primary labour market for those UB2-benefit recipients who experienced them.<sup>34</sup> What remains controversial is the magnitude of the effects of sanctions and whether there is only an effect of factual sanctioning (i.e. the factual use of the possibility to cut benefits) or also a ‘threatening’ effect (i.e. an effect of the pure possibility of cutting benefits). With respect to the latter, a survey<sup>35</sup> among UB2-benefit recipients in 2013 suggests that there is indeed a ‘threatening’ effect which is, however, difficult to quantify.

The factual sanctioning experience in the UB2-system in Germany during the last years indicates that only some 3% of all “able-to-work persons in need” experienced a benefit cut, of on average 20-25% per year (see also baseline study for Germany). Thus, the rate of sanctions and the cuts are rather low. However, even in these cases benefit savings of around 200 million € per year were achieved. Thus, the *direct* counter-financing contribution of even a restrained use of sanctions with moderate rates can add up to 20% of the additional costs of running a system of individual support.

### Intervention 3: Using ALMP-measures in a system of “individual standard support”

The country-specific baseline studies revealed that ALMP-measures are widely used for LTU, sometimes on a large scale. As will become clear below, the available evidence from several evaluation studies suggests that only some programmes are promising with respect to the employment prospects of participants. In general, the decisive prerequisite for them to be promising is an allocation process which is careful, if not meticulous. The decisive prerequisite in turn for such a meticulous allocation is a clear understanding of the particular problems and needs of each and every member of the target group. To this end an appropriate counselling process has to be established first.

In the following the effectiveness and efficiency of several groups of ALMP-measures are discussed which can in principle be used in a system of “individual standard support”. These measures are:

- (i) employment on secondary labour market,
- (ii) short-term training measures,
- (iii) self-employment subsidies,
- (iv) re-employment bonuses and
- (v) complex programmes.

The use of wage subsidies will be analysed in intervention 5 below since wage subsidies can be one approach to address employers.

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Employment Effects of an Intensified Use of Benefit Sanctions. In: Walter, T. (2012): Germany’s 2005 Welfare Reform. Evaluating Key Characteristics with a Focus on Immigrants. ZEW Economic Studies, 46, 51-72.

<sup>34</sup> Similar results were found for sanctions among welfare recipients in the Netherlands where, after a benefit penalty has been imposed, the transition rate out of welfare increased by 35-50%. See: B. van der Klaauw and J. van Ours (2013), Carrot and stick: How re-employment bonuses and benefit sanctions affect exit rates from welfare. Journal of Applied Econometrics, vol. 28: 275–296

<sup>35</sup> ISG (2013), Zentrale Ergebnisse der unabhängigen wissenschaftlichen Untersuchung zur Erforschung der Ursachen und Auswirkungen von Sanktionen nach § 31 SGB II und nach dem SGB III in NRW. Endbericht. Download: <http://www.landtag.nrw.de/portal/WWW/dokumentenarchiv/Dokument/MMV16-1514.pdf>.

*Ad (i) medium-term employment on secondary labour market*

In Germany the so-called “1€-Jobs” have been a widely used ALMP-measure which is explicitly directed and exclusively available for recipients of UB2-benefits. All these jobs are in the secondary labour market, have to be “additional”, “in the public interest”, and “non-competitive” with other employers. The target group consists of benefit recipients who are the “hardest to place” on the primary labour market due to multiple problems. The measure aims at improving their employability and at contributing to their employment on the primary labour market. Furthermore, it is used to check their compliance with behavioural conditions (participation in these jobs is not voluntary). On average around 340 € was spent per participant in 2013 and participants spent 4.5 months in such a job. Thus, total expenditures per person (without benefit payments) for a typical participant in such a job amounts to approximately 1,530 €. This spending includes the “wage” for participant of around 1.5-2 € per hour of work and a lump sum for the provider of these jobs. The average stock of participants in “1€-Jobs” in 2013 was 111,428 individuals.<sup>36</sup>

For these “1€-Jobs” several evaluation studies exist<sup>37</sup>. In general, for the average participant these studies find a non-positive (i.e. zero or negative) causal effect of participation in such jobs on employment prospects in the primary labour market and on leaving the benefit system. Only for selected and comparatively small sub-groups a significant increase in the employment prospects can be established in the medium-run. By contrast, for some other sub-groups (especially young and rather experienced participants) a lasting negative impact on the chances to find a job on the primary labour market can be observed.

These zero or even negative employment effects are due to the fact that the allocation into these jobs is mostly not optimal. This means that a large share of the participants consists of anything but the “hardest to place” individuals. This misallocation results in sometimes large lock-in effects during participation and no positive or even lasting negative effects on employment chances on the primary labour market after the end of the measure.

The evidence about “public works” programmes (which typically last 5 months) in Hungary point to similar negative phenomena.<sup>38</sup> A large majority of the programme participants consists of disadvantaged persons (low-educated, Roma background, living in micro-regions with low employment rates). The programme has a negative effect for

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<sup>36</sup> Compared to the preceding years this was a rather small number. In the years 2006 to 2010 the average stock of participants amounted to more than 300,000 individuals and the “1€-Jobs” were the single measure with the largest number of participants. In 2013 more participants were only counted in the so-called “training measures” (see below).

<sup>37</sup> See e.g. K. Hohmeyer and J. Wolff (2012), A fistful of Euros: Is the German one-euro job workfare scheme effective for participants? *International Journal of Social Welfare*, Vol. 21, No. 2, S. 174-185. S. Koch and M. Fertig (2012), Evaluation von Arbeitsgelegenheiten in der Mehraufwandsvariante im Jobcenter München. IAB-Forschungsbericht, 01/2012, Nürnberg. IAB/ISG (2011), Evaluation von Beschäftigung schaffenden Maßnahmen nach § 16d und § 16e SGB II in Hamburg. Endbericht, Download: <http://doku.iab.de/externe/2011/k110725301.pdf>.

<sup>38</sup> Zs. Cseres-Gergely and Gy. Molnár (2014), Közmunka, segélyezés, elsődleges és másodlagos munkaerőpiac [Public works, welfare benefits, primary and secondary labour market.] In: Társadalmi Riport 2014, Budapest: TÁRKI, p. 204-225.; R. Csoba and Z. E. Nagy (2011), The evaluation of training, wage subsidy and public works programs in Hungary. In: *The Hungarian Labour Market 2011*. Budapest: IE-HAS, 96-122.

the re-employment probability on the primary labour market, especially for the low-skilled.<sup>39</sup> A similarly important phenomenon is that persons who participated previously in public works programmes have a high chance of participating again and that repeated participation has a particularly detrimental effect on re-employment prospects. In other words, programme participants are often characterised by recurring movements between welfare benefits and public works.

Finally, in the ESF-funded programme “Kommunal-Kombi” (“KoKo”, January 2008 to December 2012) in Germany jobs on the secondary labour market were subsidized for up to three years. Predominantly communities, but also non-profit organisations in regions with relatively high unemployment rates of 15% (later reduced to 10%) could apply for subsidies for workplaces which had to be “additional”, “in the public interest”, and “non-competitive” with other employers. Employers were not obliged to provide special support or coaching for participants. The target group consisted of LTU who had to have been unemployed for at least two years. Altogether 15,825 jobs were subsidized for which in total 632 million € was spent (i.e. almost 40,000 € per job).

The programme was evaluated<sup>40</sup> with the following central finding that it had a significantly negative impact on participants’ probability to be employed on the primary labour market and their stability of employment even in the long-run. Participants in “KoKo” experience slightly better employment prospects on the primary labour market, but only 45 months after entry into the programme. Furthermore, results of different cost-benefit-analysis scenarios suggest that the programme induced *net* total costs between roughly 120 million € and 240 million €. Relative to the 15,825 subsidized jobs this is equivalent to total net costs of between about 7,600 € and 15,200 € per subsidized job on the secondary labour market.

### *Ad (ii) short-term training measures*

One of the most often used ALMP-measures in the German UB2-system is short-term training which typically comprises courses such as job application training, ability diagnosis, hardware and software training, preparation for self-employment, etc. Such training measures can also be implemented as internships in private companies. On average around 21% of all participants in ALMP-measures for UB2-benefit recipients between 2009 and 2013 can be found in such measures. In 2013 the average stock of participants in short-term training measures was 136,580, of which only slightly more than 6,000 were implemented in private companies. These measures are relatively cheap not only because average spending per participant amounts to about 400-450 € per month, but also because the average duration of participation is no longer than 2.5 months (see baseline study for Germany). Thus, for the typical participant expenditures per head for such a measure were around 1,000-1,125 €.

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<sup>39</sup> Public works can be organised and implemented by a variety of organisations, the largest proportion of persons on public works participate in programmes organised by municipalities, which show the worst results in terms of exit to the primary labour market, and are also characterised by a large variation in the quality of the programmes.

<sup>40</sup> See IAW/ISG (2013), Programmbegleitende und abschließende Evaluation des Bundesprogramms Kommunal-Kombi. Endbericht. Download: [http://www.iaw.edu/tl\\_files/dokumente/Endbericht\\_Kommunal-Kombi\\_IAW\\_ISG.pdf](http://www.iaw.edu/tl_files/dokumente/Endbericht_Kommunal-Kombi_IAW_ISG.pdf)

Several evaluation studies examined the impact of these training measures on the labour market prospects of participants<sup>41</sup>. The following important conclusions can be drawn:

- Training measures in private companies have a significant and substantial causal impact on the employment prospects of participants on the primary labour market in the short as well as in the long-run. For instance, the probability to be employed on the primary labour market 28 months after participation in such a measure is higher by 21 percentage points for participants than comparable non-participants.
- Training measures which are organized in courses (i.e. the majority of these measures) exhibit more mixed results. Depending on the content, significantly positive employment effects of up to four percentage points can be observed. However, negative and insignificant employment effects have also been found, especially for job application training.
- In general, short-term training measures can be perceived as one of the most promising group of ALMP-measures for UB2-benefit recipients with respect to employment on the primary labour market. The positive effects are especially pronounced for young participants (under 25 years of age) for which short-term training measures are much more effective than any other instrument of ALMP.
- Moreover, given the relatively low costs per head and the relatively short duration of participation, these measures are in all likelihood<sup>42</sup> also efficient. In order to compensate the typical expenditures per head for such a measure of 1,000-1,125 € the average “household in need” has to be off the benefit records for only about 1.5 months.

### *Ad (iii) self-employment subsidies*

Together with the UB2-system in 2005 a new form of subsidy for benefit recipients who wanted to become self-employed was introduced (the so-called “Einstiegsgeld”). The average stock of UB2-benefit recipients being supported by this subsidy declined fairly steadily from almost 20,000 in 2007 to around 4,300 in 2013. In 2013 the average expenditure per participant was 239 € for an average duration on the programme of 9.4 months. Hence, total spending for a typical participant amounted to around 2,247 €. Compared to the previous years, the expenditures per head remained more or less the same.

For this self-employment subsidy just one evaluation study<sup>43</sup> exists. In it the authors studied UB2-benefit recipients who entered the programme from February to April 2005 and compared them to similar non-participants to estimate the impact of the programme on two outcomes “neither being registered as unemployed nor as a job-seeker” and “no

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<sup>41</sup> E. Jozwiak and J. Wolff. (2007), *Wirkungsanalyse: Kurz und bündig – Trainingsmaßnahmen im SGB II*, IAB-Kurzbericht, 24/2007, Nürnberg. Kopf, E. (2009), *Short-term training variety for welfare recipients: the effects of different training types*, IAB-Discussion Paper Nr. 17/2009, Nürnberg. J. Wolff and E. Jozwiak (2007): *Does Short-Term Training Activate Means-Tested Unemployment Benefit Recipients in Germany?*, IAB-Discussion Paper No. 29/2007, Nürnberg.

<sup>42</sup> Unfortunately, no cost-benefit-analysis for short-term training measures exists.

<sup>43</sup> J. Wolff and A. Nivorozhkin (2008), *Start me up: The effectiveness of a self-employment programme for needy unemployed people in Germany*. IAB-Discussion Paper, 20/2008, Nürnberg.

receipt of UB2-benefit". Estimation results show that by the time almost none of the participants no longer received the start-up subsidy, the self-employment subsidy considerably reduced the proportion of registered jobseekers and of means-tested benefit recipients among participants. Concerning the latter, the difference between participants and comparable non-participants reached more than 15 percentage points two years after entry into the programme. Although no cost-benefit-analysis was conducted, this result clearly suggests that the programme is not only effective but also efficient since direct programme costs are comparatively low.

### *Ad (iv) re-employment bonuses*

In many European countries a large proportion of income when moving from unemployment or social assistance to employment is 'taxed away'. Hence it is worth considering policies that 'make work pay'. Positive results on re-employment bonuses have recently been provided by the UK Employment Retention and Advancement Demonstration. In this randomised control trial (RCT) among long-term unemployed (above age 25) receiving the means-tested Jobseekers' Allowance, those in the treatment group received a retention bonus of, up to six payments of 400 GBP for each quarter when participants worked 30 or more hours per week for 13 out of 17 weeks. They also received coaching sessions on how to effectively advance in the workplace.<sup>44</sup> The evaluation of this RCT<sup>45</sup> showed that there was a small positive impact on employment rates of participants, which was still present after the period when re-employment bonuses ceased. As a result the programme was cost effective, with a 4:1 benefit to cost ratio. Even more positive results have been found recently in a pilot study of income tax credits to lone parents in Denmark. During this pilot, upon re-employment long-term non-employed lone parents with young children could receive a tax credit of a maximum of 600 DKr per month. An evaluation<sup>46</sup> revealed that during the two year pilot, the target group spent about six weeks more in employment than the comparison group (lone parents with older children), and that the intervention was cost efficient, with a benefit-to-cost ratio of 10:1.

### *Ad (v) complex programmes*

Recent evidence on setting up a combined bundle of services and measures comes from Portugal, where in early 2012 the 'Convocatórias' activation programme was launched. The programme, targeted at jobseekers who have been unemployed for at least six months or older than 45, includes mandatory participation in intensified meetings with PES counsellors, followed by targeted ALMP measures. This large-scale programme (with 80,000 entrants during 2012) signified an important shift towards activation in Portugal, in a context where both the unemployment rate and the proportion of long-term

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<sup>44</sup> Note that the programme also comprised a training bonus, meaning a tuition payment of up to 1,000 GBP if training was undertaken while working. However, the ERA had no impact on training rates.

<sup>45</sup> R. Hendra, J:A. Riccio, R. Dorsett, D.H. Greenberg, G. Knight, J. Phillips, P.K. Robins et al. (2011), *Breaking the Low-Pay, No-Pay Cycle: Final Evidence from the UK Employment Retention and Advancement (ERA) Demonstration*. Department for Work and Pensions Research Report No. 765.

<sup>46</sup> A. Hansen, M. Rosholm, M. Svarer and E. Schultz (2014) *Evaluering af jobpræmieordning for enlige forsørgere*, rapport til Beskæftigelsesministeriet

unemployed was high and rising. An evaluation<sup>47</sup> of the impact of the programme on long-term unemployed below age 45, found that the re-employment probabilities of the affected individuals increased by at least 50%. While not performing detailed cost-benefit calculations, the authors indicate that the programme incurred a saving of around 240 million € due to reduced unemployment benefit payments in the first year of the programme. However, more information is needed to evaluate the cost efficiency, since: (i) the costs of launching the programme are not provided; (ii) the authors do not take into account increased social security and tax revenues, nor potential displacement effects; (iii) it is not straightforward to extrapolate results to those who have been unemployed for over one year.

The success of more individualised (complex) services and measures to help long-term unemployed persons with low education to find work is supported by the experience of three recent ESF-funded programmes from Hungary, although the information on the efficiency of these programmes is questionable. The 'Improvement of employability of the disadvantaged' (SROP 1.1.2) implemented in 2008-2010 and the 'Road to the world of work' (SROP 1.1.3) implemented in 2010, involved a customised combination of counselling, mentoring, combined with training programmes and wage subsidies. Both programmes targeted disadvantaged jobseekers, the first, smaller scale (with 6,000 participants) addressed uneducated unemployed on unemployment assistance. The second, larger programme (with 58,000 participants) exhibited a more heterogeneous group. A recent study<sup>48</sup> evaluated the impact of the programme for uneducated unemployed. Results indicated that participants had a substantially higher probability of being employed (25 percentage points) half a year following the end of the programme than comparable non-participants. Furthermore, the programme was estimated to generate gains (with a cost-to benefit ratio of 1:1.5).<sup>49</sup> The 'One step ahead!' (SROP 2.1.1 and 2.1.1B) programme implemented in 2008-2010 provided a combination of services, including general or vocational training to unemployed with low education and had about 16,500 participants. The evaluation of this programme yielded a large positive impact (30-38 percentage points) of participation on the probability to be employed for uneducated long-term unemployed. Since this programme was less costly than the two mentioned above, it was estimated that it generated a cost-to-gain ratio of 1:2.<sup>50</sup>

It is worth noting that an individualised complex approach has recently been piloted in the form of coaching and counselling by PES staff for long-term unemployed after they

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<sup>47</sup> P.S. Martins and S. Pessoa e Costa (2014) - Reemployment effects from increased activation: Evidence from times of crisis. IZA DP No. 8600. This study used regression-discontinuity methods, comparing the outcomes of those slightly below the eligibility threshold (having a 6-month long unemployment spell), and those slightly below.

<sup>48</sup> Adamecz et al. (2013), Roma inclusion and impact evaluation of two mainstream EU-funded active labour market programs. Budapest Institute Working Paper. This study used matching methods to evaluate the programmes.

<sup>49</sup> The cost of the programme was estimated to 920,000 HUF (per participant). Re-employment entailed an increase to the public budget of 60,000 HUF per month (23,000 HUF in unemployment assistance saved and 37,000 HUF in tax and social security contributions). While the programme would need 15 months of additional employment to break-even, it likely shortened unemployment durations by about 24 months.

<sup>50</sup> The cost of the programme was estimated to about 780,000 HUF (per participant). It would have reached a break-even point if employment spells were extended by 13 months. The programme was estimated to shorten benefit durations by 28 months.

have found employment in a handful of countries.<sup>51</sup> While there is some preliminary evidence that this approach leads to improvements in (former) job stability for long-term unemployed persons, there are no impact evaluations and cost-benefit results currently available.

#### *Interim summary*

In a system of “individual support”, all members of the target group have access to the full spectrum of ALMP-measures. This implies that such measures are available for the target group, but that their contact persons have discretion to decide whether a person is allocated to a measure or not. Hence, it has to be emphasized that ALMP-measures can be an element of labour market oriented service provision, but do not necessarily have to be. ALPM-measures are, however, by no means synonymous with labour market oriented service provision and along the same lines, activation of the target group should by no means be equated with the number of participants in ALMP-measures.

With respect to the provision of ALMP-measures for members of the target group, the available evidence suggests that the allocation process to such measures is extremely important. With particular respect to employment measures on the secondary labour market, an extremely careful selection of participants is necessary to avoid negative effects on their employment prospects. Therefore, such measures are by no means suitable for large-scale use. By contrast, since a large share of factual spending on ALMP-measures is devoted to employment measures on the secondary labour market, it seems possible to reduce them and to use the resources to counter-finance a more personnel-intensive guidance and counselling process.

Furthermore, the available evidence indicates that short-term training measures (up to two months) are effective and efficient, especially if they are organized in a company (e.g. as internship). This holds particularly for younger jobseekers. Specialized measures for selected sub-groups, such as clients planning self-employment, also tend to exhibit positive effects. Moreover, complex programmes allowing counsellors to select a combination of existing measures which appear more suited for the target group, also display mixed results regarding effectiveness and efficiency. However, in general such measures tend to be promising.

Finally, it is worth noting that some studies demonstrate considerable effect heterogeneity with respect to the specific contents of measures as well as the providers of such measures. From a practical point of view this implies that it seems to be advisable to establish a system of quality monitoring/management regarding the contents of measures and a selection of service providers according to their effectiveness.

#### **Intervention 4: Provision of a “high-intensity labour-market oriented service bundle”**

This service bundle includes all elements of the “individual standard support” (see above) but with caseloads of 1:100 and shorter contact intervals (once per month). Hence, it is characterized by intensified counselling and guidance for which lower caseloads for counsellors (i.e. better counsellor-to-client ratios) and shorter contact intervals are the

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<sup>51</sup> These are the UK Employment Retention and Advancement (ERA) demonstration, the INA – “Integration nachhalten” in Germany and the “Rückenwind” pilot by AMS Vienna (PES Austria).

decisive input. This implies that the costs for such an intervention are predominantly driven by the costs for new personnel and the associated overhead costs for equipment like hardware and software. Clearly the specific amount of additional money necessary to implement such a high-intensity bundle critically depends on the concrete caseload. Furthermore, from the discussion of the evaluation studies, it will become apparent that the specific design and implementation of intensified support is an important issue with repercussions on both its effectiveness and its efficiency. In general, intensified counselling without increased (or even less) ALMP-referrals appears to be efficient, whereas cost effectiveness seems to disappear as soon as intensified support is primarily implemented via ALMP-measures.

In Germany, several initiatives and pilot projects have been conducted in the past to examine the impact of intensified individual support by lower caseloads. The first pilot project started in 2002 and continued in different versions until 2005 (i.e. before the introduction of the UB2-benefit system). This project is known as "FAIR" and had three versions: In the first version, additional personnel were employed for the counselling and guidance of LTU for a time period of 2.5 years. The caseloads in the participating local labour offices varied between 1:150 and 1:180, while the corresponding counsellor-to-client ratio in non-participating offices was between 1:450 and 1:600 at that time. Therefore, the additional costs were rather high and amounted, on average, to about 325 € per LTU. An evaluation study<sup>52</sup> examined the impact of the project and concluded that the probability of participating LTU to find employment in the primary labour market was increased by 18% compared to comparable non-participating LTU. However, the sustainability of this integration was not convincing since many jobseekers fell back into the benefit system again. This was the primary reason why the cost-benefit analysis conducted in the evaluation concluded that the additional costs of the programme were not amortized by savings on benefit payments during the programme period.

Another pilot project exclusively for jobseekers in the UB1-system, known as "1:70", was also evaluated extensively<sup>53</sup>. This pilot project similarly consisted of a substantial increase in the number of counsellors. Between 2007 and 2010, 490 additional counsellors for UB1-benefit recipients (i.e. predominantly short-term unemployed) were hired in 14 out of the 179 local employment offices. The goal of the pilot project was to achieve a caseload of 1:70, but due to a significant decrease in unemployment in the first months of 2007, the actual average caseload at the official start of the pilot project was 1:40 in the participating local employment offices and 1:100 in non-participating offices.

Evaluation results suggest that the lower caseloads resulted in a decrease in the rate and duration of local unemployment and a higher re-employment rate. Offices with lowered caseloads became more proactive and imposed more sanctions on clients with low search efforts and registered more new vacancies. Cost-benefit analysis suggests that the costs

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52 S. Schiel, H. Schröder and R. Gilberg (2008), Das arbeitsmarktpolitische Programm FAIR: Endbericht der Evaluation. In: T. Kruppe (ed.), Mehr Vermittlungen durch mehr Vermittler? Ergebnisse des Modellversuchs „Förderung der Arbeitsaufnahme“ (FAIR). IAB-Bibliothek 312, Bielefeld: Bertelsmann.

53 J. Hainmueller, B. Hofmann, G. Krug and K. Wolf (2011), Do lower caseloads improve the effectiveness of active labor market policies? New evidence from German employment offices. LASER discussion papers, 52, Erlangen.

of hiring additional caseworkers were offset by the savings from decreased benefit expenditures after a period of about ten months.

Based on the positive experiences with “FAIR” and “1:70”, another pilot project was launched in the UB2-benefit system between June 2011 and May 2013. This pilot project was conducted in the twelve Jobcenters in Berlin and is known as “Berlin Job-Offensive”. It consisted of intensified counselling and guidance by reduced caseloads (to 1:100) and higher contact intervals (every 4 weeks) between “able-to-work persons in need” and their individual contact persons. The project only applied to “able-to-work persons in need” who were classified as being “near to the market” (target group) based on a systematic profiling. For the target groups the 12 Jobcenters established specialized “project teams”, all other customers (the “hard to place”) were in the “basis teams” for which “business as usual” was done with caseloads between 1:150 and 1:250 and contact intervals between four and six months.

An evaluation study<sup>54</sup> examined the impact of the pilot project on the target group as well as possible spill-over effects on other UB2-benefit recipients (the “hard to place”) with respect to their employment prospects on the primary labour market (including the stability of employment), their chance to leave the UB2-system and their probability to participate in an ALMP-measure. The evaluation found statistically significant and substantially positive effects on the employment prospects of the target group as well as on their chances to leave benefit records. Furthermore, the probability to participate in an ALMP-measure was reduced significantly and considerably for members of the target group. This is due to the fact that with more and more frequent contacts, employment counsellors achieved a better and more detailed understanding of the problems and needs of their clients and developed increasingly tailor-made solutions to them rather than sending them to an ALMP-measure. Finally, no negative spill-over effects of intensified counselling and guidance to non-target group members were found.

A cost-benefit analysis of the pilot project investigated the net gains due to benefit savings, tax and social security revenues from employment, as well as saving due to the reduced utilization of ALMP-measures for the target group. These gains were compared to the additional costs of the intervention. Total costs for the additional personnel employed for the “Berlin Job-Offensive” between June 2011 and December 2012 amounted to around 32.7 million € which was equivalent to approximately 430 € per “able-to-work persons in need” in the project teams (altogether the number of individuals in the project teams at the start of the pilot period was around 76,000). Benefit savings due to target group members leaving the UB2-system completely or partly<sup>55</sup> alone amounted to around 115 million €. Together with savings from reduced ALMP-utilization and revenues from taxes and social security contributions gains of about 182.5 million € were achieved. Thus, net gains amounted to almost 150 million € in almost two years. This is equivalent to a net payoff per head of around 1,970 €.

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<sup>54</sup> M. Fertig (2014), Quantitative Wirkungsanalysen zur Berliner Joboffensive. IAB-Forschungsbericht 4/2014, Nürnberg.

<sup>55</sup> Around one third of all target group members who found a job in the primary labour market still received UB2-benefits because earnings were not high enough to secure the legally defined minimum standard of living. However, income from work is deducted from benefit claims and, hence benefits spending for these individuals is partly reduced.

Moreover, the empirical results of two further studies for Germany confirm that intensified counselling and guidance of UB2-benefit recipients is an effective tool to support their (re-) integration into the primary labour market. The first evaluation study<sup>56</sup> investigates the effect of an ESF-funded national programme called "Bürgerarbeit". The programme consists of a combination of intensified activation for at least six months and potential participation in an employment measure on the secondary labour market thereafter. Since the evaluation is on-going, results so far relate to the first element, the intensified activation phase. These results suggest that the intensified activation significantly increased the probability of employment in the primary labour market of the treated group and also their probability to leave benefit records. However, these results only apply if the Jobcenters did *not* contract out activation and did *not* rely on standard ALMP-measures. By contrast, Jobcenters making intensive use of standard ALMP-measures for activation and delegate activation to external providers, do not exhibit significantly positive effects on the outcomes of treated group. Also the second evaluation study<sup>57</sup> for the pilot project "50plus" found positive effects of intensified counselling on the probability to be employed on the primary labour market.

An experimental (RCT) programme (called 'Alle I gang') has been carried out in Denmark, where persons receiving social assistance and were unemployed for at least half a year, received more intensive follow-up.<sup>58</sup> This meant that they met their counsellors once a week (as opposed to once every three months) and also participated in additional (group) counselling sessions during a six-month period. While currently only a ten-month follow-up of the programme is available, it is clear that overall it was not successful in re-integrating long-term unemployed into the primary labour market. While there was a small increase in re-employment, the direct effect of the programme was a large outflow into ALMPs. However, the programme was carried out in nine jobcentres, which had some discretion regarding implementation. This resulted in significant variations across regions. In two jobcentres intensified meetings and counselling was implemented, without an increase in referrals to ALMP-programmes. In these two jobcentres, the participants spent two weeks more in employment than non-participants and the programme achieved a positive net benefit of about 1,300 € per participant (over ten months); as opposed to the overall average net loss of 1,200 € per participant.

Finally, evidence from a RCT in Paris<sup>59</sup>, where long-term minimum income recipients were offered intensive (job-search) counselling, show that the programme slightly increased employment rates and significantly reduced welfare payments and that this impact was larger for persons with shorter minimum income spells. However, the

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<sup>56</sup> IAW/ISG (2014), Evaluation der Modellprojekte „Bürgerarbeit“. Zwischenbericht zum 31. Mai 2014. Download: [http://www.isg-institut.de/home/wp-content/uploads/ZB3\\_Bürgerarbeit\\_Kurzfassung3.pdf](http://www.isg-institut.de/home/wp-content/uploads/ZB3_Bürgerarbeit_Kurzfassung3.pdf)

<sup>57</sup> IAQ/IAW (2012), Evaluation der Zweiten Phase des Bundesprogramms „Perspektive 50plus – Beschäftigungspakte für Ältere in den Regionen" (2008–2010). Abschlussbericht. Download: [http://www.perspektive50plus.de/fileadmin/\\_migrated/content\\_uploads/Abschlussbericht\\_50plus\\_Hauptband.pdf](http://www.perspektive50plus.de/fileadmin/_migrated/content_uploads/Abschlussbericht_50plus_Hauptband.pdf)

<sup>58</sup> See: M. Svarer and M. Rosholm (2010), Kvantitativ evaluering af Alle i gang, report to the Danish Labour Market Board.

<sup>59</sup> B. Crépon, M. Gurgand, T. Kamionka and L. Lequien (2013), Is Counseling Welfare Recipients Cost-Effective? Lessons from a Random Experiment (Working Paper No. 2013-01). Centre de Recherche en Economie et Statistique.

services were outsourced to a private provider which charged relatively high prices as a result of which the intervention was not cost effective.

### Intervention 5: Combination of “individual standard support” with specialized services for employers

The specialized services for employers include: (i) monetary incentives (i.e. wage subsidies) and (ii) specialized support (e.g. in the form of “job-hunters”) aiming at the acquisition of vacancies for LTU or the provision of on-the-job coaching for (former) LTU. In general, the impact of monetary incentives for employers is relatively well researched, but the existing evidence is not fully conclusive as will become apparent in the following discussion. This might be partly due to considerable variations in design features, such as targeting, calibrating the amount of the subsidy or linking it to additional services. The amount of the subsidy is likely to be particularly important as setting it too high may trigger lock-in effects and also undermine the cost-effectiveness of the intervention. Regarding complementary specialized services for employers, there is some field-level evidence that combining wage subsidies with recruitment services, training, workplace adjustment, mentoring, or follow-up support may yield better results.<sup>60</sup> However, there is still a large need for better and more rigorous evidence on this form of employer service.

#### *Ad (i) wage subsidies*

As mentioned above, the available evidence on the cost efficiency of wage subsidies is relatively scarce and to some extent also contradictory. On the one hand, a number of studies report positive results for wage subsidies provided to (employers of formerly) LTU. For instance, in Hungary vouchers (the so-called ‘START card’) were provided to LTU in the period 2007-2010, with which firms hiring these persons were entitled to wage subsidies. This subsidy amounted to 14% of total wage costs in the first year of employment, falling to 7% in the second year of employment. The subsidy for employing LTU persons above age 50 (and for those with primary education) was substantially higher: 25% of wage costs in the first year and 14% in the second year. A recent evaluation<sup>61</sup> of the effect of offering a higher subsidy rate for older individuals found a significant 10 percentage point increase in the employment rate of men and a smaller (6 percentage points) and insignificant increase for women 18 months after the introduction of the programme. Invoking plausible assumptions, the authors found that the deadweight loss (i.e. the proportion of persons who would have been hired even in the absence of the subsidy) was at most 40%. Since the programme yielded a fiscal gain of about 100 € per participant as long as they were employed, it was concluded that the programme was cost efficient for (older) men even in the presence of a deadweight loss and the positive benefits for men could cover even the overall cost if there is no deadweight loss.

In Austria, a wage subsidy (“Eingliederungsbeihilfe”) targeted at long-term (prime-age) unemployed, older unemployed (45+) and those at high risk of LTU has been evaluated<sup>62</sup>

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<sup>60</sup> European Commission (2014): Approaches for Sustainable Integration of Long-Term Unemployed - Peer Review Comparative Paper, Brussels, Author: C. Duchemin, A. Manoudi.

<sup>61</sup> Z. Cseres-Gergely, Á. Scharle and Á. Földessy (2015), Evaluating the impact of a well-targeted wage subsidy using administrative data. Budapest Working Papers on the Labour Market 2015/3

<sup>62</sup> R. Eppel and H. Mahringer (2013), Do Wage Subsidies Work in Boosting Economic Inclusion? Evidence on Effect Heterogeneity in Austria. WIFO Working Paper 456. WIFO.

and also yielded positive results. This is a large-scale (with 35,000 new spells in 2010) and rather generous programme lasting for a maximum of two years, with a subsidy covering up to two-thirds of wage costs in the first year of employment and one-third in the second year. The authors are able to follow participants for up to seven years and also attempt to calculate the deadweight loss. The programme led to substantial gains in time spent in unsubsidized employment (and a reduction in time in unemployment), with stronger effects for women. Despite substantial deadweight losses (around 60%) the authors estimate that the wage subsidy led to a net benefit of 1,800 € for women and 1,360 € for men over a five-year period (for prime-age LTU).

In Denmark, short-term training courses (lasting 6 weeks, including both on-the-job and classroom types) are extensively used. However, there is growing evidence that short-term (lasting 6 months) wage subsidies with moderate subsidy rates (about one-third the wage of a low-skilled worker) are a more effective and cost-efficient solution. A recent evaluation<sup>63</sup> contrasting the two types of ALMP-measures for different groups of unemployed found that for older, low-skilled and persons with longer unemployment spells that, while the two programmes are equally beneficial for re-employment in the short run, from 9 months after programme start, participation in wage subsidies results in an employment rate that is about 15 percentage points higher than participation in training courses. Due to this effect, as well as the fact that training programmes are relatively expensive, the report finds that wages subsidies are more cost efficient for LTU.

On the other hand, a recent evaluation<sup>64</sup> of a wage subsidy for LTU (the 'New Start Jobs' programme) introduced in Sweden in 2007 led to mixed results<sup>65</sup>. Since the subsidy rate was doubled in 2009 (from 31.5% to 63% of the gross salary) the authors examined the sensitivity of job-finding to the amount of subsidy received. They found that the double-rate subsidy led to a larger and more long-lasting effect on the outflows to jobs<sup>66</sup> and concluded that policy change in 2009 was effective in bringing LTU back into employment. Their results, however, indicate that doubling the subsidy rate was not efficient.

Finally, a German subsidy scheme explicitly addressing LTU was found to have a negative effect due to large lock-in effects. Introduced in October 2007, this wage subsidy offered relatively high rates for a rather long time (up to two years with the option to cancel the limitation effectively creating the possibility for a permanent subsidy) for employers hiring LTU with at least two further labour market obstacles that would make them very unlikely to find unsubsidized employment on the primary labour market within two years. According to the individual's expected productivity gap, wage subsidies of up to 75% of wages were possible. In 9 out of 10 cases maximum funding was provided. After 12 and 24 months the development of an individual's productivity had to be assessed again and

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<sup>63</sup> DAMVAD (2014), Effekterne af uddannelse på lediges mulighed for at komme i beskæftigelse. Report for the Danish Agency for Labour Market and Recruitment.

<sup>64</sup> A. Sjögren and J. Vikström. (2013), How Long and How Much? Learning about the Design of Wage Subsidies from Policy Discontinuities. 2013:18. Working Paper, IFAU

<sup>65</sup> The duration of the subsidy was equal to the months spent in unemployment, but with a maximum of two years (and an effective minimum of 12 months).

<sup>66</sup> More precisely, the single-rate subsidy only increased outflows immediately in the month of the start of eligibility (the 13th month of unemployment), the double-rate subsidy increased the outflow rate by about 15% in the first six months of eligibility.

wage subsidies would be reduced if the productivity gap had diminished. This, however, rarely happened. In the vast majority of cases, subsidies were granted for 24 months.

Evaluation results<sup>67</sup> of this ALMP-measure suggest that employment effects in the short and medium-run (up to 24 months after entry in the programme) were significantly and substantially negative (i.e. significant lock-in-effects were observed). In the long-run (25 and more months after programme entry) the employment effects were partly insignificant and partly significantly negative. Furthermore, a cost-benefit analysis yielded substantially negative results. On balance, net costs amounted to almost 367 Mio. € during two years. With around 30,500 participants this is equivalent to a loss of more than 12,000 € per participant.

From a general perspective, the available evidence suggests that wage subsidies for employers of (formerly) LTU can be effective with respect to re-integrating LTU into the primary labour market. However, the design of such subsidy schemes appears to be decisive for its effectiveness and even more for its efficiency. Specifically, the higher the subsidy rate and the duration of the incentive, the higher is the risk that the incentive becomes ineffective and the less likely it is that it will be cost-effective.

### *Ad (ii) specialized support ("job-hunters")*

During recent years the German co-operative Jobcenters (i.e. those for which local labour offices and municipalities are jointly responsible) increased their efforts to acquire specific vacancies for UB2-benefit recipients. In general, for the acquisition of vacancies specialized units in the local labour offices are responsible. These units pool all contacts to employers and provide services with respect to the notification of vacant jobs, which are then matched to jobseekers in the UB1-system as well as in the UB2-system according to the "best match" principle. Case study evidence indicates that many Jobcenters are dissatisfied with this system because they believe that employer units in the labour offices predominantly acquire jobs for which short-term unemployed (i.e. UB1-benefit recipients) represent "best matches". Thus, many Jobcenters started to implement teams which contact employers with the explicit aim to acquire vacancies for low-skilled and/or inexperienced jobseekers which represent a large share of their clients.

Since this is a rather recent development, no empirical study exists which examines the effects of such "employer teams in the UB2-system". However, since Jobcenters have to use their administrative budget to finance the costs of these teams, the increasing use of them suggests that the returns on these investments should not be zero. Typically such teams comprise five to ten employees for which expenditures of around 30,000-60,000 € (personnel and overhead costs) per Jobcenter are incurred. In the current ESF-funding period (2014-2020) there will be a programme that explicitly aims at enlarging these efforts by providing funds for "job-hunters" in Jobcenters together with financial support for on-the-job coaching of employee-employer matches.<sup>68</sup>

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<sup>67</sup> ISG/IAB/RWI (2011), Evaluation der Leistungen zur Beschäftigungsförderung nach § 16e Abs.10 SGB II. Endbericht. BMAS-Forschungsbericht 413. Download: <http://www.bmas.de/DE/Service/Publikationen/Forschungsberichte/Forschungsberichte-Arbeitsmarkt/fb413-evaluation-beschaefigungsfoerderung.html>

<sup>68</sup> One study provides supportive evidence of investing in seeking out job offers from employers. The authors find (in Switzerland) that caseworkers who maintain direct contact with employers,

An example from the UK suggests that post-placement support can be effective. The Employment Retention and Advancement (ERA) scheme provides assistance to the newly hired worker in resolving initial problems (thereby helping the employer as well) and also in identifying options for further advancement in the job market.<sup>69</sup> The ERA resulted in sustained increases in employment and substantial and sustained increases in earnings. The positive effects were still evident at the end of a five-year follow-up period, making the programme cost effective for the public budget.

### General assessment of interventions

The evidence presented above refers to several options which can be summarized in two dimensions as follows:

Dimension A: Institutional responsibility

A1: Institutional cooperation

A2: Institutional integration

Dimension B: Labour market oriented service provision

B1: Provision of individual support with targeted assignment to ALMP-measures

B2: Provision of intensified individual support with targeted assignment to ALMP-measures

Within this dimension the principle of mutual obligations (“rights and duties”) has to be implemented, the use of ALMP-measures has to be integrated and different efforts to address the employer side can be undertaken.

The most important findings and conclusions for these options are summarised in **Table 2.1.a which** includes a general assessment of the cost-benefit ratio. To present an overview on the cost-effectiveness estimates that have been determined in different formats in the original evaluation studies, a stylised comparison has been used. Interventions that can be deemed highly cost effective (i.e. those in which gains to the public budget are likely to be more than double the costs of the intervention) are denoted with “++”, while interventions where gains are likely to outweigh costs are represented with “+”. The opposite holds for “-” and “--”. This stylized comparison is necessary since the different evaluation studies used different approaches to represent the cost-effectiveness of the considered interventions. These approaches includes cost-benefit ratios in a narrower sense (i.e. the amount of gains from the intervention relative to one Euro of expenditures) as well as the time a formerly unemployed has to remain in employment to reach a break-even point for the investment associated with the intervention. With the information provided in these studies it is not possible to harmonize these representations of efficiency and, hence, only the stylized representation delineated above is feasible.

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are able to raise their clients’ employment probability and that this effect is the most pronounced for low-skilled jobseekers. See: S. Behncke, M. Frölich and M. Lechner (2008): Public Employment Services and Employers: How Important Are Networks with Firms? *Zeitschrift für Betriebswirtschaft*, vol. 1, 151-178.

<sup>69</sup> R. Hendra et al. (2011), *Breaking the Low-Pay, No-Pay Cycle: Final Evidence from the UK Employment Retention and Advancement (ERA) Demonstration*, SSRN Scholarly Paper (Rochester, NY: Social Science Research Network, October 12, 2011), <http://research.dwp.gov.uk/asd/asd5/rports2011-2012/rrep765.pdf>.

Furthermore, the table indicates that the assessment of different interventions is based on the available evidence which is quite scarce for some of the options. In particular, for interventions where no (counterfactual) impact evaluation is available the evidence base is characterized as “very weak”. For interventions for which only one or two studies are available, or where these studies pertain to only one country, the evidence base is marked as “weak”. Interventions with a relatively rich evidence base (more than two studies from at least two countries) are denoted with “strong” or “very strong” depending on the number of studies and countries covered.

Finally, it has to be emphasized that since the available evaluation studies necessarily had to examine the impact of specific options within a given institutional framework, it is anything but trivial to extrapolate the findings to countries with a different institutional context. This in particular also holds for the varying set-up costs (including potential political costs) as well as the different implementation issues which are associated with the interventions. These two topics are described above and are not repeated again here.

**Table 2.1.a: Summary of the potential interventions**

| Intervention   | Evidence base | Cost-benefit-ratio* |
|--|---------------|---------------------|
| <i>Institutional responsibility</i>  |               |                     |
| A1: Institutional co-operation (fully co-operative with holistic approach) | weak          | +                   |
| A2: Institutional integration  | strong        | ++                  |
| <i>Provision of individual support</i>                                     |               |                     |
| B1: Individual support   |               |                     |
| (a) profiling, case-manager  | weak          | +                   |
| (b) IAP, monitoring (sanctions) of jobseekers                              | very strong   | ++                  |
| (c) counselling  | strong        | +                   |
| B2: Intensified support  |               |                     |
| (a) those closer to LM   | very strong   | ++                  |
| (b) most disadvantaged   | strong        | 0                   |
| B1 & B2: Using ALMP-measures   |               |                     |
| (a) “optimal targeting system”   | weak          | ++                  |
| (b) medium and long-term jobs on secondary LM                              | very strong   | --                  |
| (c) short- and medium term training  |               |                     |
| a. classroom/public  | weak          | +                   |
| b. private companies   | weak          | ++                  |
| (d) self-employment subs.  | weak          | +                   |
| (e) re-employment bonus  | weak          | ++                  |
| (f) complex programmes   | strong        | +                   |
| B1 & B2: Employer integration  |               |                     |
| (a) wage subsidies for primary LM  | strong        | +                   |
| (b) employer services (“job-hunters”, coaching)                            | very weak     | (+)                 |

\* A “+” indicates that benefits are higher than costs, a “++” that they are substantially higher. The opposite holds for “-” and “--”. The brackets emphasize that the evidence for this effect is very weak.

## **2.2. Assessment of impact for case study countries**

As already mentioned, extrapolating from the findings of the available empirical evidence is not straightforward and potentially hazardous. Thus, the following assessment of the impact of the different options for the case study countries can only be done in a qualitative manner and is based on the strong assumption that the evidence presented above can be transferred to institutional frameworks other than those for which they have been analysed. This holds in particular for the case study countries Italy and Lithuania.

### **2.2.1. Assessment of impact for Germany**

Options A1 and B1 will have no net impact since Germany already has an institutionally integrated system with individualized service provision. With respect to option B2 it has to be noted that sub-option (a) is already implemented in several pilot projects. The additional costs of implementing sub-option (b) can be estimated to around 300 € per “able-to-work person in need” (UB2-benefit recipient) which amounts to annual investments of 1.3 billion €. However, given the empirical evidence presented above the probability that these costs will be amortized by benefit savings is rather low. Given the factual allocation of UB2-benefit recipients to ALMP-measures in which programmes on the secondary labour market still play a relatively large role, a cost-neutral reallocation of ALMP-resources towards more promising programs can be expected to result in moderate net gains without considerable delays in impact.

Finally, the extension of employer services by introduction of “job-hunters” and employer-employee-coaches to the majority of Jobcenters is the aim of a current large-scale ESF-programme. Within this programme 730 “job-hunters” should be employed for two years (i.e. 1-2 per Jobcenter if all participate in the programme). The total additional costs for them are estimated to amount to almost 174 million € over two years including around 1 million € for initial training. Due to missing evidence on the effectiveness of specialized employer services in Germany, the expected gains are currently unclear. However, given the average expenditures for “households in need” (households with UB2-benefit recipients) it would be necessary that over the two years period, around 700 “households in need” per month would leave the UB2-system for the amortization of this investment into additional personnel<sup>70</sup>. This is equivalent to a 0.5% increase in outflows and, thus, appears to be realistic.

### **2.2.2. Assessment of impact for Denmark**

No significant net impact can be expected from options A1 or A2 in Denmark because since 2009 all public services, including employment services, have been delegated to municipalities. The provision of financial resources to municipalities for unemployment services is tied to quantitative indicators of performance which are centrally monitored. Furthermore, although there is variation across municipalities with respect to service provision for LTU (e.g. whether there is an individual contact person for each LTU or not), in general significant resources already seem to be devoted to a regular and reasonable counselling process of LTU with rather low caseloads. Hence, neither substantive additional costs nor gains should be expected from the implementation of option B1.

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<sup>70</sup> Note that this only refers to the direct additional costs of the “job-hunters”. Total expenditures for the complete programme will be much higher and, hence, additional outflows need to be also considerably higher to render the programme cost-effective.

Intensified support for those unemployed for 16 months or more who are insured has already been rolled out since 2015. The experience with this change can serve to inform policymakers of the efficiency of this option and whether it is effective for all LTU. An important policy option to consider is whether to offer intensified counselling services *only* to those who are closer to the labour market (about 25-30% of LTU). While this service involves an *additional* 250 € or so costs per person per year, it can generate gains of up to 750 € per person. Moreover, ALMP-measures are already widely used and their effectiveness is constantly monitored.<sup>71</sup> Finally, more flexibility and individualisation of activation measures is currently being implemented. In the near future more emphasis will be placed on company-based programmes and post-employment supportive services. Therefore most elements of all interventions proposed in this study will be in place in Denmark by 2016. This provides an opportunity to identify the relative impacts of these interventions in the near future.

### **2.2.3. Assessment of impact for Hungary**

Long-term unemployment increased in Hungary due to the recent crisis and the ensuing economic stagnation. Between 2010 and 2013 on average 155,000 persons have been registered at the PES for more than one year (this represented 3.5% of the labour force). As a result of the economic upturn in 2014 (as well as an increase in the number of persons employed on the secondary labour market) the number of LTU dropped to 115,000 persons (2.6% of the labour force). In the following discussion the costs and gains of different interventions for *LTU above age 30* (estimated to comprise about 90,000 persons) are explored. Three issues can be noted: (a) the skill level of these jobseekers is very low<sup>72</sup>; (b) the number of benefit recipients is limited<sup>73</sup>; (c) around 90% of those who participate in an ALMP are in public works programmes.

*Option A1: institutional co-operation (fully co-operative with holistic approach) and option A2: institutional integration*

As of March 2015, PES local offices are detached departments of the district-level (LAU 1) government offices. All labour-market services (for registered unemployed) are provided by local PES offices, while means-tested benefits for able-to-work non-employed (which are conditional on registration at the PES) are also calculated and disbursed by district-level government offices. Hence, only complementary social services (and minor local welfare benefits) are not “integrated”, since they are delivered by social welfare offices of municipalities.<sup>74</sup> While more co-operation between the PES local offices and social welfare offices can be beneficial, it is difficult to estimate its impact on labour market outcomes of LTU. Furthermore, the local government system of Hungary is rather fragmented, with

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<sup>71</sup> Two initiatives, however, are worth considering. Firstly, targeting of ALMP-measures based on statistical modelling which can lead to efficiency gains at low costs (with acceptance problems by caseworkers being a notable threat). Secondly, testing re-employment bonuses (earned income tax credits) which appear to be promising since the unemployment trap is at a high level.

<sup>72</sup> About 47% have only finished primary education (ISCED 2A), another 28% have a basic vocational school diploma (ISCED 2C), and only 24% have finished upper secondary school (ISCED 3 or higher).

<sup>73</sup> It can be estimated that 46% do not receive any financial support, 14% receive financial support through participation in ALMP-measures, and 40% receive means-tested employment substituting benefit.

<sup>74</sup> The information exchange between municipalities’ social service offices and local PES offices concerning jobseekers’ issues (debts, family problems or substance-abuse) is very limited.

over 600 family assistance centres. While co-operation between the local PES offices and family assistance centres for the re-integration of LTU has been piloted<sup>75</sup>, the costs of a national roll-out are difficult to discern.<sup>76</sup>

*Option B1: individual support by (a) profiling, case-manager, (b) IAP, monitoring (sanctions) of jobseekers and/or (c) counselling*

The results from the analysis of the baseline situation suggest that there are important improvements to be made with respect to delivering a standardised basic service bundle to LTU. Specifically, a profiling system is currently being developed (for all unemployed with total costs of 9.4 million € including IT developments, training of staff etc.), which will be implemented starting in 2016. The current plans concerning the profiling system include “service packages” based on the risk categories of jobseekers and regular re-profiling of jobseekers.<sup>77</sup> In line with these planned changes, individual action plans are to be used regularly.<sup>78</sup> Currently, LTU are in general not serviced by personal or specialised caseworkers. It is important that along with the roll-out of the profiling tool, planned changes are implemented in a way that ensures that *all* clients reaching 12 months of unemployment, in connection with a longer interview, are re-profiled, that the signing of IAPs are made mandatory and personal counsellors are assigned to LTU. It is likely that this rather important rethinking of the LTU staffing concepts will lead to an increased workload for PES caseworkers, but it is difficult to assess its consequences for the costs of service provision.

It is equally difficult to assess the potential gains from implementing this standardised service. Based on previous evaluation results for Hungary, a plausible estimate of the effects is a 6-9% increase in the exit rate to jobs.<sup>79</sup> This would translate into a shortening of the mean time spent in non-employment of about 4-6 weeks and implies gains to the public budget (under conservative assumptions<sup>80</sup>) of about 140-210 € per long-term unemployed person. Taking the lower boundary of this number for LTU above age 30, the new standardised service is likely to incur savings of 12.5 million € which is equivalent to the cost of having about 740 *additional* staff amounting to about 25% of current PES local office staff. Hence, even if the implementation of the new service delivery model demands an increase of PES staff by about one-fourth, the intervention would likely break even within one year. It is however important to emphasize that such re-thinking of work practices and the setting-up of a new service delivery package might result in an

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<sup>75</sup> This pilot (within the SROP 2.2.2) took place in seven local PES offices, however, no evaluation results are available.

<sup>76</sup> Data exchange about clients between PES offices, the social welfare offices of local municipalities and the family assistance centres is in place. It however is currently used for administrative purposes only. Joint case-management is very rarely found.

<sup>77</sup> The profiling system also incorporates a needs-based approach to service provision and, based on the client’s “distance” from the labour market, an increasing number of services and active measures are foreseen (starting from job-search counselling and training, through skills training to complex programmes involving individual mentoring).

<sup>78</sup> Individual action plans are currently only signed on a voluntary basis by clients participating in ESF-funded complex projects (about 10% of all unemployed).

<sup>79</sup> Zs. Cseres-Gergely (2011): Greasing the wheels of the labour market? Impact analysis of the modernization of the Public Employment Service of Hungary. *The Hungarian Labour Market 2011*. Budapest: IE-HAS, p. 82-95.

<sup>80</sup> This means that we assume that only half of these individuals are (means-tested) benefit recipients.

initial disruption of service provision. As a result, it is plausible to assume that in the initial year of introduction no gains will accrue.

### *Option B2: Intensified support for those closer to the labour market*

Current caseloads in the Hungarian PES are around 170 unemployed persons per caseworker. Based on evidence presented earlier, intensified service support (without additional referrals to ALMP-measures) is promising for those closer to the labour market. Based on LTU's education levels, it is estimated that currently there might be around 22,000 such jobseekers<sup>81</sup>. If caseloads for this client group are decreased to about 1:70 in order to have monthly meetings between the caseworker and the client, this will require the recruitment of additional staff (about 200 persons – a 7% increase of the staff of local PES offices). The costs of this intervention appear to be moderate (they can be estimated to around 3.3 million € per year). For this investment to reach the break-even point<sup>82</sup> the outflow rate to jobs from LTU has to increase by a modest amount, about 7%. Insofar as results from evaluation studies from a different institutional framework (the UB2-system in Germany) can be applied, this type of intervention has the potential to generate substantial gains.

### *Transversal issue: Using ALMP-measures*

The current allocation of ALMP measures, as well as the one foreseen in the future service delivery concept, primarily allocates hard-to-place individuals to public works (and complex, individualised programmes). At the same time wage subsidies are offered to those closest to the labour market and training programmes are targeted at those who are motivated to find jobs but have insufficient (or out-dated) vocational qualifications. This means that LTU are over-represented among public works programme participants and rarely participate in training measures.

A large share (60%) of all expenditures for ALMP-measures is currently devoted to public works, a programme that has been proven to deteriorate participants' prospects on the primary labour market.<sup>83</sup> By contrast, complex programmes (i.e. those that include an individualised mix of counselling, mentoring, training and wage subsidies) have been proven to be cost-effective even for low skilled long-term unemployed. Therefore, downsizing public works and redistributing funds to expand complex programmes appears to be promising and cost-neutral.

To put public works vis-à-vis complex programmes into perspective, based on cost estimates, public works participation cost about 2,250 € (with a programme length of 7 months and monthly cost of 320 €). Complex programmes are estimated to be more costly at approximately 3,500-3,750 € for a 7-8 month period. Taking into account the fact that public works programmes increase the time spent in unemployment until finding

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<sup>81</sup> We assume that those with an education of ISCED 3 or above are closer to the labour market. Please note that with a more elaborate profiling tool in place, a better targeting of intensified counselling will be possible.

<sup>82</sup> Here we assume that the target group receives means-tested welfare benefits for about half the duration of their unemployment spell.

<sup>83</sup> While recently effort has been devoted to also provide counselling and skills training to public works participants, this component reaches only a small fraction of them, and has not yet been shown to be successful.

a job on the primary labour market<sup>84</sup>, while complex (individualized) programmes significantly decrease it<sup>85</sup>, investing in (individualised) complex programs rather than public works programmes for the most disadvantaged is cost-effective.<sup>86</sup> Providing complex programmes for the least skilled LTU above age 30 (about 43,000 persons) instead of public works programmes incurs a large cost of about 60 million € per year. However, taking into account the future gains from re-employment on the primary labour market, each additional Euro invested could lead to 1.5 € saved for the public budget.

### *Transversal issue: Employer integration using (a) wage subsidies for primary labour market and/or (b) employer services*

Relatively generous and long-term wage subsidies are currently used and have proven to be – despite relatively important deadweight losses – an efficient policy instrument, in particular for medium-skilled individuals. There is, however, relatively little known about the effectiveness of the current format of wage subsidies (provided in the 'Job Protection Programme'). The result that wage subsidies for low-skilled jobseekers are less effective suggests that there is a need for follow-up support (in the form of mentoring) for these unemployed. Furthermore, apprenticeships and training at private companies are primarily used for unemployed under the age of 25 but it might be worth considering extending these programmes to adults. However, little is known about the effects of company-based 'practical' training in the Hungarian context.

Currently, only an estimated 2.5% of staff is tasked with keeping contacts with employers (this largely depends on the regional strategy of the PES) which is much below the EU PES average. So employer services could be implemented more widely, for example by having one staff member at each PES local office keeping contact with local employers in order to find vacancies for long-term unemployed. This would require the recruitment of about 125 additional staff, at the cost of around 2.1 million € per year. The gains to this intervention would outweigh its costs as soon as LTU persons (on average) exit from unemployment to employment two weeks earlier as a result of the increased employer contacts.

### *Summary*

The above analyses suggest that institutional co-operation or integration is not the most important element of a cost-effective policy intervention targeted at LTU in Hungary. A *universal individual service package* (intervention B1) is likely to produce small, but significant gains without a need for major *additional* resources. On top of providing the basic universal service package, the analyses indicate that for those LTU *closer to the labour market*, more intensified support (which can be implemented at small additional costs) will yield gains that outweigh the costs. Larger net gains can be expected from

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<sup>84</sup> Previous studies have found that public works decrease the probability of re-employment 6 months after programme participation by 50%. See R. Csoba – Z. E. Nagy (2011): The evaluation of training, wage subsidy and public works programmes in Hungary. In: *The Hungarian Labour Market 2011*. Budapest: IE-HAS, p. 96-122

<sup>85</sup> Complex programmes increase the probability of re-employment 6 months after programme participation by around 70%. See Adamecz et al. (2013): Roma inclusion and impact evaluation of two mainstream EU-funded active labour market programmes. Budapest Institute Working Paper.

<sup>86</sup> Assuming (based on results cited above) that complex programmes decrease the mean duration of unemployment by 6 months, and that public works participation increase it by 8 months.

providing complex, individualised programmes to those LTU lacking education and are thus further away from the labour market (though this option requires a moderate increase in the budget for ALMP-measures). This could be achieved at the expense of public works programmes. Finally, it seems likely that keeping contact with and potentially providing services to employers will also yield a small net gain.

### *Appendix: data sources for Hungary*

#### *Stocks of LTU:*

The number of LTU is based on official statistics as reported by the Hungarian PES for 2014. The number of recipients of means-tested employment substitution benefits among LTU by age group, as well as the number of participants in ALMPs is not officially reported so they are estimated using micro data from the official unemployment register (50% sample from 2012). It has been assumed that benefit receipt and programme participation was similar (in proportion) in 2014 as in 2012.

#### *Expenditure on ALMP-measures and staff costs:*

Data is used on ALMP-expenditure (per head) from the Hungarian PES. However, expenditure data are not broken down by the length of unemployment spell. Therefore it is assumed that it is the same for all participants. Staff numbers and costs are calculated from the 2014 PES Business Model Survey, as reported by Hungarian National Employment Service. They amount to around 13,000 € per year and staff member employed in local offices.

#### *Benefits, wages and social security contributions:*

Data for 2015 is used and the employment substitution benefit is a flat rate at 83 € per month. It is assumed that upon re-employment, LTU are employed full-time in a minimum wage job and employees' income taxes and social security contributions are 117 € per month. It is also assumed that due to the "Job Protection Act", which gives subsidies to employers in the form of a reduction of social contribution for the employment of various disadvantaged groups (including those who have previously been unemployed for at least 6 months) the revenue to the public budget from employers is zero.

#### *Outflow rates from long-term unemployment:*

Published statistics only concern outflows from registered unemployment based on the official (recorded by PES caseworkers) "reason" for leaving the register. These data probably underestimate the outflows to jobs since they are based on self-reporting by jobseekers and a large proportion of the outflows from the register is "due to the failure to report to the PES" (many of whom could have found a job, but failed to report this to caseworkers). Hence, estimates are used from two evaluation studies for the re-employment probability of the "control group" (i.e. those who did not participate in ALMP-measures). For LTU persons approximately one year after their inclusion in the sample, this was around 33%. Thus, assuming a constant hazard of outflows to jobs, we can estimate the monthly outflow rate to be 2.75%, or in other words, for the mean non-employment spell to last 18 months. However it should be noted that these estimates refer to 2011 when the labour market was relatively depressed. Assuming that due to the positive trends in the Hungarian labour market in 2014, there has been an increase in

the outflow rate to jobs from LTU of about 12.5%, then the mean non-employment spell can be estimated to last about 16 months.

*Miscellaneous:*

An estimate of 25% overheads (administration) costs on top of staff costs is used, combined with a (real) interest rate of 3% when discounting future gains.

**2.2.4. Assessment of impact for Italy**

According to EU-LFS data, in 2013 the total number of LTU in Italy amounted to almost 1.8 million individuals, of who only around half was registered with the PES. This suggests that around 900,000 LTU are currently not covered by a systematic service provision. Furthermore, from the same data source it appears reasonable to assume that about 75% of these persons are older than 30 years of age and unemployed for at least 18 months. Therefore, the target group of an initiative for a more systematic service provision can be estimated to comprise 675,000 additional persons.

One element of the most recent reform, the Jobs Act adopted in December 2014 ( an enabling law that needs to be translated into implementing legislation) aims at the revision and reinforcement of ALMP, with a stronger coordination that should be ensured by a new agency for active and passive labour market policies. This decree has still to be issued (it is expected by June 2015) and so the design of the measure is not yet known. Its design needs to take into account the foreseen Constitutional reform, which will bring back competences for ALMP to the central level. In principle, this should involve the establishment of a national coordination agency to improve the governance of the system, as well as the link between passive and active policies. The creation of the agency is also expected to involve planning and implementing a comprehensive national strategy on employment services, including a better integration between public and private services. Unfortunately, no information is available on the funds earmarked for this element of the Jobs Act.

*Option A1: institutional co-operation (fully co-operative with holistic approach) and option A2: institutional integration*

Against the background of the heterogeneous and fragmented system characterised by low interaction between different institutions and reduced transparency, it appears to be reasonable to expect significant gains from institutional co-operation in Italy. Currently, municipalities which are responsible for social assistance and local labour offices which are responsible for unemployment benefit appear to operate practically in parallel without noteworthy co-ordination. The full costs of these parallel systems are non-transparent and extremely difficult to assess. However, the current system is very much reminiscent of the situation in Germany prior to 2005. Hence, it might not be completely unrealistic that the positive impacts with intensified institutional co-operation in Germany can also be experienced in Italy. This implies that a return of around 1.2 € per invested Euro is not unreasonable. However, given the considerable autonomy of regions in Italy in the current situation it can be reasonably expected that the political costs of implementing intensified institutional co-operation are significant and that there might be a rather long transitory period necessary until these returns become manifest.

*Option B1: individual support by (a) profiling, case-manager, (b) IAP, monitoring (sanctions) of jobseekers and/or (c) counselling*

According to national statistics the administrative costs of the PES per registered unemployed were 175 € in 2012 which implies that they are only slightly higher than the administration costs in Hungary (156 €) as well as Lithuania (163 €) and considerably lower than those in Germany (591€). This appears to be rather unrealistic but temporarily setting aside this reservation, the extension of the current system of service provision to all LTU (i.e. extending it to the 675,000 additional LTU) would amount to additional administrative costs of almost 130 million € per year<sup>87</sup>. On the assumption that administrative costs are twice as high, the additional costs of extending coverage would amount to 260 million € per year. Both cases imply a substantial increase of the current administrative budget for labour market-oriented service by between 33-66%.

In the current system of service provision, all registered LTU are obliged to sign an IAP as soon as the support of the PES is requested. Furthermore, the baseline study indicates that this IAP is based on a personal interview between the unemployed and an employment counsellor in the PES. However, the methodology for the interview apparently varies from local PES to local PES which suggests that profiling may not to be used in a systematic way. Finally, average caseloads seem to be rather high (around 1:250) but apparently also exhibit a very large variation. Thus some further investments appear to be necessary to implement a fully functional individual standard support service bundle in Italy. Additional costs for this, however, will in all likelihood be moderate since the general fundamentals already exist or cost-neutral re-allocations of resources are possible. Regarding expected gains, it is practically impossible to provide an evidence-based assessment for Italy.

### *Option B2: Intensified support for (a) those closer to the labour market and/or (b) the most disadvantaged*

Intensified support by a further reduction of caseloads would result in a substantial additional increase in administrative costs. This increase appears to be prohibitively high since all estimates of gains stem from integrated systems with a functioning basic support and Italy currently seems to be too far removed from this to allow an extrapolation of cost-benefit ratios.

### *Transversal issues: Using ALMP-measures and employer integration*

In the baseline situation all ALMP-measures are open to LTU in general. However, it remains unclear which ALMP-measures are factually used for LTU across the Italian regions. Thus, it seems very likely that there is room for a cost-neutral reallocation of ALMP-resources to the most promising programmes but due to the lack of data no more refined assessment is possible. The same basically holds for the integration of employers. From the baseline study it became transparent that currently only wage subsidies are used to address employers and so there seems to be room for the introduction of rather low-cost employer services for which an amortization of investment can be expected without major delays.

#### **2.2.5. Assessment of impact for Lithuania**

According to the baseline study all LTU who receive subsistence benefits are obliged to register with the PES. Hence, coverage appears to be complete.

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<sup>87</sup> Assuming an annual increase in administrative costs of 3% per annum after 2012.

*Option A1: institutional co-operation (fully co-operative with holistic approach) and option A2: institutional integration*

Currently all labour market-oriented services are provided by the PES, whereas benefit disbursement is done by the municipalities. All benefit recipients are obliged to register at the PES and data exchange seems to work well. Hence, there is no significant impact to be expected from more co-operation or institutional integration.

*Option B1: individual support by (a) profiling, case-manager, (b) IAP, monitoring (sanctions) of jobseekers and/or (c) counselling*

Our assessment of the baseline situation suggests that most major elements of the basic individual support package are present. However, it is unclear whether all LTU participate in individual counselling as this type of service is for those profiled to be further away from the labour market. Similarly, there currently seems to be no dedicated caseworkers for LTU. Hence, a move towards more individual counselling might be beneficial, without a need for major *additional* resources.

*Option B2: Intensified support for (a) those closer to the labour market and/or (b) the most disadvantaged*

In the current situation a factual caseload of 1:136 for LTU is reported. Therefore, additional costs for option (a) can be minimized by a reallocation of resources to those closer to the labour market (i.e. by introducing caseloads of, say, 1:100 for this group to the expense of higher caseloads for the rest of the jobseekers). A more intensive support package comprising a reduction of caseloads to 1:70 combined with individual counselling for those closer to the labour market<sup>88</sup> might imply a cost of about 100 € per year per LTU compared to the baseline situation. This investment reaches its break-even point when the exit rate to jobs in the primary labour market increases by about 3-4%<sup>89</sup>, which is highly likely if the results from the international evidence can be transferred to Lithuania.

*Transversal issue: Using ALMP-measures*

While about one-third of LTU persons participate in an active labour market programme, the real allocation of ALMP-measure to LTU is clearly dominated by public works programmes. While we have little direct evidence on the effectiveness and efficiency of ALMP-measures in Lithuania, the international evidence indicates that public works programmes are much less effective than employment subsidies or vocational training. Hence, a cost-neutral reallocation of ALMP-resources towards more promising programmes (such as employment subsidies) appears to be possible. Finally, an individualised combination of vocational training and employment subsidies which has proved to be the most effective for re-employment in the primary labour market for the

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<sup>88</sup> Based on educational achievement of LTU in Lithuania, this group may be roughly 10,000 persons (above age 30), hence implying additional costs of about 1 million €.

<sup>89</sup> We assume that jobseekers are re-employed in a full-time minimum wage job, which results in gains to the public budget through income taxes and social contributions of about 140 € per month. We further assume that half of the targeted LTU receive social benefits, on average 64 € per month. Based on statistics reported by the LLE, about one-third of LTU leave unemployment to jobs within a year, implying an 18 month average duration of unemployment.

most disadvantaged jobseekers<sup>90</sup>, is worth considering. This would imply a substantial increase in expenditure (estimated at around 9 million €) but appears to be promising regarding cost-effectiveness.

*Transversal issue: Employer integration using (a) wage subsidies for primary labour market and/or (b) employer services*

Since 2012 employers are involved in providing vocational training for unemployed persons<sup>91</sup>, which has improved re-employment rates. However, it has proven difficult to organise training through employers for low-skilled LTU and so financial incentives and post-training support for employers training LTU might be a way forward and can be cost-effective. The Lithuanian Labour Exchange staff devote significant amount of time to contacts with employers, but there are no specialised staff with a focus on securing vacancies (or training opportunities) for LTU. This is why the introduction of employer services appears to be a reasonable, option, especially since additional costs can be estimated to be moderate.<sup>92</sup>

### **2.2.6. Implications for the EU-level**

The country case studies yielded some important insights on the costs and gains of providing different interventions for LTU as well as the sequencing and potential threats to implementing such interventions. Using these analyses for the purposes of extrapolating the cost-effectiveness of alternative interventions to the EU level is beyond the scope of this study. This would pre-suppose the existence of an overview of all the factors that determine costs and gains of these interventions for all EU Member States, as well as a categorisation/clustering of countries with respect to these determinants. This represents a daunting task that would have to take into account a large range of factors which fall into the following categories<sup>93</sup>:

- (i) The current practice of labour service provision for LTU including: the coverage, the mission, and the tools of the institutions providing services as well as the “quality” and “mix” of services and active measures for LTU.
- (ii) The size and characteristics (most notably the skill level) of the LTU.
- (iii) The efficiency of public administrations and the degree of centralisation of the institutional arrangements characterising employment and social policy.

The first of these groups of factors is needed to identify the most obvious problem areas of the current setups; the second type of information is needed to discern the most effective tools of re-integrating LTU into the labour market; and the third group of factors influences what can be realistically achieved without the risk of prohibitively high implementation costs. Therefore, instead of taking stock of all these factors, highlighted below are some important implications from the case studies for the EU-level.

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<sup>90</sup> About 3,000 persons among the LTU only have a primary education.

<sup>91</sup> However in 2013, only 15% of training providers were firms.

<sup>92</sup> Assuming that one additional staff member is recruited in each of the 49 local units would entail an investment of around 0.6 million €.

<sup>93</sup> Besides the obvious direct determinants of cost and gains, including the wage levels of PES staff, the level and coverage of welfare benefits, the wage rates, levels of tax and social security contributions for low skilled workers etc.

It can be considered as a minimal requirement for increasing the potential for re-integrating long-term unemployed that a sufficiently high coverage of LTU by institutions providing employment services (in general, the PES) in order to reach the target group. In this respect, the foundations for future interventions for LTU seem to be present in the large majority of Member States. However, in a few countries<sup>94</sup> (an example among the case studies might be Italy) the first step needs to be taken and involves significant upfront organisational costs, while gains can be expected to accrue only in the medium term.

It appears that the challenge of the coordination and balancing of the provision of income support with job search incentives and other forms of activation is difficult without service integration and is particularly critical in institutional structures where these two functions are delivered by different levels of public administration. The integration of welfare benefit calculation and payment with labour market-oriented service delivery in all Member States is probably not feasible – even though the empirical literature clearly points to the cost-effectiveness of this approach – due to the large number of Member States that would be affected.

The provision of the basic individual support package which is a pre-requisite to a coherent integration strategy, is often not fully implemented in a large number of Member States, typically in Southern Europe or in the Visegrad countries. The findings for Hungary indicate that the implementation of this intervention is not necessarily costly and can bring about small but important gains. However, such a well-structured basic individual support package can require substantial re-organisation of the PES. An implementation risk may be that it is mostly in countries with relatively inefficient public administration where this individual support package has not (yet) been used. Hence, there is a large risk of underestimating the actual set-up costs.<sup>95</sup>

Furthermore, intensified individual support is an intervention that has only been piloted or is currently being experimented with in a handful of Member States. The analyses in this report suggest that for a relatively small group of LTU (mainly those closer to the labour market) it can be a cost-effective way of re-integration. It needs to be emphasized that the success of this type of intervention also depends on both the flexibility of the labour market and the general demand for less-skilled labour (a good indication of this is that the supportive evidence mostly comes from Germany and Denmark). Thus, a careful consideration of which groups should be targeted and under what circumstances is critical to ensuring cost-effectiveness, but if implemented can result in moderate gains at relatively low costs.

Access to ALMP-measures and in particular an individualised mix of counselling, training and supported employment in the primary labour market is essential for the more disadvantaged groups among LTU. The case studies point to two important conclusions that can be largely generalised. Firstly, that public works programmes are inefficient and so considerable gains can be made from re-distributing funds towards other

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<sup>94</sup> These are: BG, EE, LV, RO where (incidentally) welfare benefits are also calculated and disbursed by municipalities.

<sup>95</sup> The example of recent (coordinated) labour market policy reforms in Portugal show that with careful planning this type of policies (combined with a change in the mix and quality of ALMP-measures) can result in a significant improvement of the re-employment prospects of LTU.

programmes. This approach can be highly beneficial in a large group of countries (mostly in Central and Eastern Europe, among our case studies in Hungary and Lithuania) where disadvantaged LTU are rarely targeted by skill and motivation enhancing individualised programmes. While there is existing institutional knowledge about the design of such programmes (as exemplified by Hungary), this change does require substantial additional costs that will be recouped only in the medium term. Secondly, even in countries where an adequate range of active measures are *de facto* available to LTU, moderate gains can be achieved by a cost-neutral reallocation of active measures towards programmes with an objective of supporting re-employment in the primary labour market (in particular, short term vocational and skills training).

Finally, one area where impact is yet unclear but where potential gains are realistic is closer co-operation with employers. This can come in several forms: Firstly, by ensuring that a substantial part of training measures is provided by firms (as exemplified by “adult apprenticeship” programmes in Denmark). This approach can readily be implemented in a large number of countries at low additional cost. However, it needs a re-thinking of the liberalisation of the vocational training market in many Member States (mostly in Central and Eastern Europe, as the case of Lithuania shows). Secondly, post re-employment mentoring for LTU (in combination with subsidised jobs) can ensure success in workplace advancement and retention, which is a type of approach that needs small investment (relative to the costs of wage subsidies). Thirdly, setting up teams of counsellors who more regularly monitor employment opportunities for LTU and develop specific knowledge and relationships with companies, can be beneficial. This is an approach that can yield small gains at minimal additional costs. These initiatives can be thought of as supplementary to setting up a basic support package for all LTU in conjunction with the expansion and re-allocation of active measures, which it is reasonable to believe that they can successfully be implemented in all Member States.

### 3. CONCLUSIONS

The country-specific baseline studies documented that Member States have different approaches to preventing and reducing LTU in scope, timing and intervention schemes. While some Member States already integrate services and provide one-stop-shops, others lack policy coordination at the national level, leading to fragmentation and inconsistencies in service provision. Against this background, there is a convincing case that the ultimate aim of an initiative to tackle this issue is to set up a system in which no able-to-work person is excluded but instead receives appropriate support to find sustainable employment in the primary labour market enabling them to make a living without having to rely on public benefit payments.

This implies the following tasks: Implementation of an *institutional structure* to

1. ensure *full coverage* (i.e. to avoid that a person “gets lost”) and
2. provide appropriate *support to find employment*.

*Full coverage* implies that the initiative comprises individuals who are:

- immediately able to work,
- cannot make a (full) living from working or any other means (i.e. receive benefits) and
- are not eligible for unemployment benefits (i.e. benefits depending on a minimum period of previous employment which are *not* means-tested<sup>96</sup>).

This includes the narrow definition of LTU in the sense of "being registered as unemployed for at least 12 months" and so LTU are a sub-group of the overall target group of the initiative. However, it also includes all other subsistence benefit recipients who are able to work, independently of being registered as unemployed or not. The latter typically includes recipients of social assistance or similar means-tested income support schemes.

Theoretically, there are several options for the concrete design of an institutional structure ensuring full coverage and providing appropriate services for employment which are, however, not equally promising with respect to cost-effectiveness given the empirical evidence from the evaluation literature (see **Section 2**). As such, the promising options under both dimensions should be combined to a specific *structure of institutional responsibility for the provision of labour market oriented services* to achieve the above mentioned aim.

From the analyses, the following promising (i.e. given the available evidence in all likelihood cost-effective) combinations of options with an increasing intensity of interventions appear to be reasonable:

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<sup>96</sup> Recipients of unemployment benefits are excluded – independently of their unemployment duration – since they are covered by the national PES in any case.

Cost–benefit analysis of remedial interventions for the long-term unemployed

| <b>Structure 1: Low intensity</b>  | <b>Structure 2: Medium intensity</b>   | <b>Structure 3: High intensity</b>   |
|--|--|--|
| <b>Dimension A</b>   |  |  |
| Institutional cooperation on labour market oriented service provision only | Institutional cooperation on benefit disbursement and labour market oriented service provision | Institutional integration on benefit disbursement and labour market oriented service provision |
| <b>Dimension B</b>   |  |  |
| Provision of individual support  | Provision of intensified individual support  | Provision of intensified individual support  |
| Targeted assignment to effective ALPM-measures                             | Targeted assignment to effective ALPM-measures   | Targeted assignment to effective ALPM-measures and possibility to implement complex programmes |
| Monetary incentives for employers  | Monetary incentives for employers  | Monetary incentives for employers and specialized employer services                            |
| Sanctions cannot be applied  | Sanctions can be applied   | Sanctions can be applied and are used  |

Obviously, the three structures presented in the table above are only a selection of all possible promising structures since, for instance, it is of course also possible to combine “intensified individual support” with “institutional cooperation on labour market-oriented service provision only”. However, the presented combinations appear to be those that represent the most plausible options given varying degrees of political feasibility with respect to fundamental changes of the current situation in different Member States.

## 4. APPENDIX 1: COUNTRY-SPECIFIC BASELINE STUDIES

### 4.1. Germany

#### 4.1.1. Definition and magnitude of long-term unemployment

According to the legal definition (§ 16 SGB III), the unemployed are persons who are temporarily not employed, who are searching for employment, who are registered with the PES (Federal Employment Agency) and who are available for working. Participants in measures of active labour market policy (ALMP) are regarded as being not unemployed. Long-term unemployed (LTU) are persons who are unemployed for at least one year. Responsibility for LTU in Germany is organized according to the benefits which these persons receive (for details see Section A.1.3). For LTU who are eligible for unemployment benefits (UB1) the PES is responsible, for those LTU who receive UB2-benefits the Jobcenters are responsible. From **Table A.1.a** it becomes transparent that between 2008 and 2014, on average, only around 20% of all LTU received UB1-benefits. The total number of LTU declined from slightly more than 1.3 million in 2008 to around 1.1 million in 2014.

**Table A.1.a: Long-term unemployed in Germany**

| Year | Total number of LTU | In UB2-system | In UB1-system | Share in UB2-system (%) |
|------|---------------------|---------------|---------------|-------------------------|
| 2008 | 1,326,540           | 924,047       | 402,493       | 69.7                    |
| 2009 | 1,138,132           | 801,394       | 336,738       | 70.4                    |
| 2010 | 1,140,368           | 784,019       | 356,350       | 68.8                    |
| 2011 | 1,068,130           | 905,816       | 162,314       | 84.8                    |
| 2012 | 1,046,635           | 904,496       | 142,139       | 86.4                    |
| 2013 | 1,069,721           | 920,634       | 149,087       | 86.1                    |
| 2014 | 1,076,752           | 950,597       | 126,155       | 88.3                    |

Source: Statistics of the Federal Employment Agency (BA)

#### 4.1.2. Means-tested subsistence benefits for non-employed

UB2-benefits and social assistance are the two means-tested subsistence benefits schemes for non-employed in Germany. The decisive difference between both schemes is the ability to work. UB2-benefit recipients are able to work (for details see below); recipients of social assistance are not. Hence, the largest group among social assistance recipients are disabled persons, followed by retired persons in need. Social assistance is strictly means-tested with the same rules as those for UB2-benefits. Furthermore, the amount of money (lump-sum benefit) is equivalent to that of UB2. The municipalities are responsible for the social assistance system. However, since these recipients are not able to work, they will no longer be considered in the following analysis.

Persons who are not or no longer eligible for UB1-benefits and who cannot (or at least not fully) make a living from other sources, are entitled to UB2-benefits. Hence, UB2-benefits are strictly means-tested. Those eligible are the so-called “able-to-work persons in need” and persons who live together with an “able-to-work person in need” in one

household ("household in need"). "Able-to-work Persons in need" are individuals living in Germany who are older than 15 years and younger than 65 years of age, who are able to work and who cannot (or at least not fully) make a living from other sources. Thus, to be eligible consideration of the household's financial situation is essential and for means-testing all incomes and assets of the household are considered. The group of persons who live together in one household with the "able-to-work persons in need" comprise partners (irrespective of marital status) of "able-to-work persons in need", non-married children under 25 years of age and the parents of non-married "able-to-work persons in need" less than 25 years of age. The definition of "able to work" is rather wide: able to work are those who can work for at least three hours a day under the usual conditions of the labour market. Thus, many individuals with health problems and also disabled persons receive UB2-benefits because they are considered as being "able to work". Children under 15 years of age and other persons who are not able to work but live in a "household in need" do not receive UB2-benefits but instead are eligible for a special form of it called "social money".

**Table A.1.b** illustrates that the total number of "able-to-work persons in need" in 2014 amounted to around 4.4 million, of which only almost 1.9 million were regarded as unemployed and only slightly more than 950.000 as LTU. Thus, less than one quarter of all UB2-recipients are counted as LTU which is even more remarkable given that, for instance in 2014, more than 2.8 million "able-to-work persons in need" had been receiving UB2-benefits for at least two years (see lower panel of **Table A.1.b**). Hence, there is a large discrepancy between the number of LTU (according to the legal definition) and the number of "able-to-work persons in need" who had been benefit recipients for a relatively long time.

**Table A.1.b: Number and structure of UB2-benefit recipients**

|  | 2014      | 2013      | 2012      | 2011      | 2010      |
|--|-----------|-----------|-----------|-----------|-----------|
| Total number of "households in need"           | 3,231,863 | 3,245,876 | 3,246,903 | 3,340,840 | 3,496,400 |
| One adult household                            | 1,787,289 | 1,798,192 | 1,782,242 | 1,816,286 | 1,875,721 |
| Single parent household                        | 628,892   | 627,670   | 624,828   | 627,750   | 640,883   |
| Two adults without children household          | 346,163   | 353,834   | 369,903   | 397,441   | 429,485   |
| Two adults with child(ren) household           | 469,519   | 466,180   | 469,931   | 499,363   | 550,312   |
| Total number of persons in "household in need" | 6,104,451 | 6,126,322 | 6,142,658 | 6,353,482 | 6,712,953 |
| Men  | 3,004,363 | 3,017,113 | 3,025,112 | 3,145,554 | 3,342,145 |
| Women  | 3,100,076 | 3,109,209 | 3,117,545 | 3,207,929 | 3,370,808 |
| under 25 years                                 | 2,402,288 | 2,404,309 | 2,412,864 | 2,498,015 | 2,659,397 |
| 15 years and older                             | 4,466,639 | 4,498,971 | 4,522,393 | 4,693,437 | 4,970,999 |
| Total number of "able-to-work persons in need" | 4,393,101 | 4,423,731 | 4,442,894 | 4,615,057 | 4,894,219 |
| Men  | 2,128,937 | 2,146,046 | 2,155,204 | 2,254,953 | 2,410,249 |
| Women  | 2,264,164 | 2,277,684 | 2,287,690 | 2,360,105 | 2,483,970 |
| under 25 years                                 | 739,633   | 750,168   | 760,625   | 804,776   | 883,162   |
| 25 to 50 years                                 | 2,425,965 | 2,443,462 | 2,463,100 | 2,587,579 | 2,788,292 |
| 50 to 55 years                                 | 484,323   | 484,109   | 480,145   | 484,720   | 493,485   |
| 55 years and older                             | 743,181   | 745,992   | 739,024   | 737,982   | 729,279   |

Cost–benefit analysis of remedial interventions for the long-term unemployed

|   | 2014      | 2013      | 2012      | 2011      | 2010      |
|---|-----------|-----------|-----------|-----------|-----------|
| Total number of unemployed "able-to-work persons in need" | 1,882,340 | 1,899,620 | 1,907,446 | 1,992,069 | 2,073,251 |
| Men   | 1,008,622 | 1,017,653 | 1,017,465 | 1,065,573 | 1,118,553 |
| Women   | 873,718   | 881,967   | 889,981   | 926,496   | 954,698   |
| Long-term unemployed (more than 12 months)                | 950,597   | 920,634   | 904,496   | 905,816   | 784,019   |

|  | 2009      | 2008      | 2007      | 2006      | 2005      |
|--|-----------|-----------|-----------|-----------|-----------|
| Total number of "households in need"           | 3,472,174 | 3,491,578 | 3,642,799 | -         | -         |
| One adult household                            | 1,828,634 | 1,784,809 | 1,844,756 | -         | -         |
| Single parent household                        | 646,620   | 663,244   | 669,541   | -         | -         |
| Two adults without children household          | 440,650   | 451,245   | 482,992   | -         | -         |
| Two adults with child(ren) household           | 556,270   | 592,280   | 645,509   | -         | -         |
| Total number of persons in "household in need" | 6,726,800 | 6,908,991 | 7,241,250 | 7,347,140 | 6,756,097 |
| Men  | 3,335,127 | 3,408,490 | 3,608,423 | 3,719,041 | 3,453,306 |
| Women  | 3,391,672 | 3,500,489 | 3,632,786 | 3,628,099 | 3,302,791 |
| under 25 years                                 | 2,690,232 | 2,814,669 | 2,964,761 | -         | -         |
| 15 years and older                             | 4,984,105 | 5,082,259 | 5,346,243 | -         | -         |
| Total number of "able-to-work persons in need" | 4,909,085 | 5,011,438 | 5,277,556 | 5,392,166 | 4,981,748 |
| Men  | 2,403,051 | 2,434,591 | 2,600,752 | 2,717,195 | 2,545,200 |
| Women  | 2,506,034 | 2,576,841 | 2,676,769 | 2,674,913 | 2,436,525 |
| under 25 years                                 | 913,330   | 956,289   | 1,037,033 | 1,122,504 | 1,030,639 |
| 25 to 50 years                                 | 2,801,382 | 2,876,608 | 3,081,194 | 3,164,494 | 2,941,872 |
| 50 to 55 years                                 | 485,948   | 490,329   | 505,724   | 501,667   | 469,062   |
| 55 years and older                             | 708,425   | 688,212   | 653,605   | 603,502   | 540,175   |

|  | 2009      | 2008      | 2007      | 2006      | 2005      |
|--|-----------|-----------|-----------|-----------|-----------|
| Total number of unemployed "able-to-work persons in need"              | 2,147,459 | 2,185,352 | 2,445,672 | -         | -         |
| Men  | 1,150,075 | 1,137,388 | 1,290,679 | -         | -         |
| Women  | 997,384   | 1,047,961 | 1,154,976 | -         | -         |
| Long-term unemployed (more than 12 months)                             | 801,394   | 924,047   | 1,069,559 | -         | -         |
|  | 2013      | 2012      | 2011      | 2010      | 2009      |
| Total number of long-term UB2-benefit recipients*                      | 3,881,230 | 3,910,515 | 3,649,850 | 3,710,103 | 3,717,522 |
| "Able-to-work persons in need" being long-term UB2-benefit recipients* | 2,844,858 | 2,876,365 | 2,687,476 | 2,741,993 | 2,743,623 |

Source: Statistics of the Federal Employment Agency (BA). \* Two years and more

This discrepancy is partly due to the fact that participants of ALMP-measures are not regarded as unemployed. Another major reason is that more than 1.3 million recipients of UB2-benefit are employed and around 100.000 receive UB2-benefits in addition to UB1-benefits. For both groups UB2-benefits serve as a complementary income to secure

the legally defined minimum standard of living because earnings or UB1-benefits are not high enough. Income from employment is deducted from total UB2-benefit claims with different amounts of exemption. The latter decrease as labour income increases. The basic amount of exemption is 100€ which is applied in any case. This provides an incentive for UB2-recipients to take up a so-called Mini-Job with earnings of up to 450€ per month. Around one half of all employed UB2-recipients work in one of these Mini-Jobs which are also attractive for employers (see **Table A.1.c**).

**Table A.1.c: Employed recipients of UB2-benefits and simultaneous receipt of UB1- and UB2-benefits**

|                                     | 2007        | 2008        | 2009        | 2010        | 2011        | 2012        | 2013        | 2014        |
|-------------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Employed UB2-recipients             | 1,221,027   | 1,323,941   | 1,325,438   | 1,381,382   | 1,354,548   | 1,324,387   | 1,309,761   | 1,300,946   |
| with income from dependent employm. | 1,152,774   | 1,233,528   | 1,220,150   | 1,265,385   | 1,237,767   | 1,208,634   | 1,193,574   | 1,186,111   |
| <= 450 Euro                         | 606,153     | 668,035     | 692,818     | 722,388     | 689,524     | 644,486     | 657,089     | 632,498     |
| > 450 Euro to <= 850 Euro           | 197,485     | 218,905     | 224,092     | 232,913     | 239,952     | 240,737     | 227,820     | 234,634     |
| > 850 Euro                          | 349,136     | 346,589     | 303,240     | 310,084     | 308,291     | 323,411     | 308,665     | 318,979     |
| with income from self-employment    | 72,172      | 96,463      | 112,883     | 125,138     | 126,710     | 126,165     | 126,985     | 125,848     |
|                                     | <b>2007</b> | <b>2008</b> | <b>2009</b> | <b>2010</b> | <b>2011</b> | <b>2012</b> | <b>2013</b> | <b>2014</b> |
| Recipients of UB1- and UB2-benefits | 108,102     | 100,781     | 120,718     | 102,945     | 81,839      | 88,214      | 99,235      | 96,965      |

Source: Statistics of the Federal Employment Agency (BA)

#### 4.1.3. Institutional responsibility for LTU and service provision

In this section the institutional responsibility for LTU in Germany is first explained and then there is a description of the principles of service provision in the German Jobcenters.

#### 4.1.4. Institutional responsibility

Responsibility for LTU in Germany is organized according to the benefits which these persons receive. The PES is responsible for LTU who are eligible for unemployment benefits (UB1 and for those LTU who receive UB2-benefits the Jobcenters are responsible. UB1-benefits are not means-tested and depend on the duration of employment, subject to social security contributions as well as age. UB1-benefits are calculated and disbursed by the local labour offices. These offices are also responsible for the provision of labour market oriented services including ALMP-measures. Hence, local labour offices offer the full range of individual counselling and guidance, provide job offers (based on acquired vacancies by specialized employer units in the labour offices), conclude an individual action plan (IAP) with jobseekers based on an assessment of the person's employment potential (profiling) and can allocate jobseekers to different forms of ALMP-measures. These services are, in principle, also available to LTU for which the local labour offices are responsible. Due to the definition of LTU (unemployment of more

than one year) among the recipients of UB1-benefits, only individuals over 50 years of age who are eligible for unemployment benefits for more than 12 months (due to relatively long times of prior employment) can be LTU in the UB1-system.

LTU who receive UB2-benefits and in general all “able-to-work persons in need”, are obliged to register with the so-called Jobcenters. Currently, there are 410 Jobcenters of which 106 are run by the municipality alone (municipal Jobcenters), whereas 304 are run in co-operation between the municipality and the local labour office (co-operative Jobcenters).

#### 4.1.5. Service provision in the Jobcenters

Jobcenters are responsible for UB2-benefit calculation and disbursement as well as for the provision of labour market oriented services. In principle, the labour market oriented services offered by the Jobcenters are the same as those offered by local labour offices. Hence, Jobcenters also offer the full range of individual counselling and guidance, provide job offers (based on acquired vacancies by either the local labour office or the Jobcenter itself), conclude an IAP with jobseekers based on an assessment of the person’s employment potential (profiling) and can allocate jobseekers to different forms of ALMP-measures.

The major difference is that Jobcenters have a slightly different set of ALMP-measures at their disposal compared to local labour offices. Exclusively for UB2-benefit recipients the so-called “1€-Jobs” (short- and medium-term employment on the secondary labour market) as well as a long-term (up to two years) wage subsidy with high rates (up to 75%) are available. Furthermore, the self-employment start-up subsidy for UB2-benefit recipients is somewhat different from that of UB1-recipients. However, in general the full set of labour market oriented services with some special ALMP-measures are *de jure* available for all UB2-benefit recipients (for *de facto* use of ALMP-measures see **Section 5**). Finally, UB2-benefit recipients have also access to complementary social services. These services are provided by the municipalities (for details see below).

All Jobcenters (co-operative as well as municipal) have implemented some form of profiling system. In the *co-operative* Jobcenters this system is part of the so-called “4-phase model of an individual integration approach”. This model demands that counselling of and service provision to each and every “able-to-work persons in need” is organized as follows: (1) assessment of employment potential (profiling), (2) choice of target occupation, (3) choice of individual integration strategy (including signing of IAP) and (4) follow-up of strategy. It is worth emphasizing that within this individual integration approach, ALMP-measures *can, but not necessarily* have to be used as an element of the individual integration strategy. In other words, the central characteristic of this approach is to implement a closed circuit of (i) “diagnosis”, (ii) “therapy planning”, (iii) “therapy implementation” and (iv) “progress monitoring” in which ALMP-measures might be just one element. Thus, the provision of labour market oriented services comprises considerably more than the referral of jobseekers to ALMP-measures.

Consequently, the model implies (intensive) meetings of jobseekers with his/her individual contact person at least every six months. According to case studies and surveys<sup>97</sup>, these meetings typically last between 45 minutes (first contact) and 30 minutes (subsequent contacts). Currently, several initiatives and pilot projects are implemented in which the contact interval is reduced to one month and the factual caseload of employment counsellors is reduced to 1:100 for specific customer segments (following the experiences from the pilot project “Berlin Job-Offensive”). For all Jobcenters a legal regulation for the caseloads of employment counsellors exists (§ 44 SGB II): It has to be 1:75 for “able-to-work persons in need” under 25 years and 1:150 for older “able-to-work persons in need”. According to the Federal Employment Agency

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<sup>97</sup> See e.g. ISG/SMC (2013), Qualitätssicherung im SGB II: Governance und Management. Endbericht. BMAS-Forschungsberichte 437, Download (in German only): [http://www.sgb2.info/sites/default/files/publication/files/endbericht\\_qs-im-sgbii.pdf](http://www.sgb2.info/sites/default/files/publication/files/endbericht_qs-im-sgbii.pdf)

these requirements are met for co-operative Jobcenters. However, evidence from case studies suggests that factual caseloads are somewhat higher (between 1:150 and 1:200 for jobseekers for older than 25 seems to be a realistic estimate). There is no comparable regulation for counsellors in charge of benefit calculation. According to evidence from case studies actual caseloads seem to vary between 1:100 and 1:150 (“households in need”).

Furthermore, the principle of mutual obligations (“rights and duties”) is another central element of the system. This implies that the vast majority of “able-to-work persons in need” are obliged to regularly show up at Jobcenters, to document job search activities, to accept job offers, to accept referrals to ALMP-measures and to sign an IAP which has to be up-dated at least every six months. Those who do not fulfil these obligations can be sanctioned. These sanctions are regulated by law and vary between 30% and 100% (for factual rates and associated benefit cuts see **Table A.1.d**).

**Table A.1.d: Sanction rates and benefit cuts**

|                                     | 2007            | 2008            | 2009            | 2010            |
|-------------------------------------|-----------------|-----------------|-----------------|-----------------|
| Rate of sanctions in %*             | 2.3             | 2.5             | 2.5             | 2.8             |
| Average benefit cut in % per person | 27.3            | 28.1            | 26.6            | 25.4            |
| Average benefit cut in € per person | 126.0           | 131.0           | 127.0           | 124.0           |
| Total amount of benefit cut in €    | 187,247,59<br>2 | 200,241,36<br>0 | 188,338,96<br>8 | 202,899,21<br>6 |
|                                     | 2011            | 2012            | 2013            | 2014            |
| Rate of sanctions in %*             | 3.2             | 3.4             | 3.3             | 3.3             |
| Average benefit cut in % per person | 23.1            | 21.3            | 20.8            | 19.8            |
| Average benefit cut in € per person | 116.0           | 110.0           | 108.0           | 107.3           |
| Total amount of benefit cut in €    | 203,692,75<br>2 | 198,421,08<br>0 | 189,962,49<br>6 | 184,349,45<br>3 |

Source: Statistics of the Federal Employment Agency (BA). \* Share of “persons in need” with sanctions

In co-operative Jobcenters minimum standards for service provision and key indicators for quality assurance exist. These standards and key indicators comprise target values for aspects such as the maximum length of handling applications, the maximum length until the first interview with the individual contact person, the minimum number of up-to-date IAPs etc. All indicators are regularly monitored and results are available to executives of the co-operative Jobcenters. Finally, in these Jobcenters customer reactions are typically analysed for quality assurance and a customer satisfaction survey is regularly conducted among UB2-benefit recipients.

Furthermore, all Jobcenters have a rather sophisticated system of electronic records for UB2-benefit recipients. These records comprise individual-level and daily data on the complete labour market history (dependent employment including earnings, benefit receipt including amount, ALMP-participation, unemployment) and some basic socio-demographic, as well as household characteristics. This administrative data can be (and has been) provided to external researchers for evaluation studies.

All Jobcenters are monitored according to a predefined set of indicators based on legal requirements (§ 48a SGB II) to compare performance. These indicators are also used for target agreements (see below). The data on all indicators is publicly available for each and every Jobcenter (including names) on a monthly basis since January 2011 and can be downloaded from the internet (website in German only; <http://www.sgb2.info/kennzahlen/einstieg>).

The allocation of funds to *co-operative* Jobcenters is based on target agreements within a management-by-objectives framework with negotiations. For target agreements the above mentioned set of indicators is used and Jobcenters are grouped within clusters. During the year, performance dialogues take place on a regular basis. For the *municipal* Jobcenters no such target agreements exist and also performance dialogues are not conducted, at least not comprehensively. Performance monitoring within the *co-operative* Jobcenters is done on the level of teams (typically 10-15 employees) but not on the level of individual counsellors. The latter is prevented by public services law and the co-determination rights of the works councils. However, executive managers of *co-operative* Jobcenters have contracts in which part of their remuneration depends on performance (defined in target agreements). It is not clear whether such an incentive system also exists for executive managers of Jobcenters for which the municipalities are alone responsible.

In general, the effectiveness of service providers is evaluated by a system called TrEffeR ("Treatment Effects and Prediction") in *co-operative* Jobcenters. Case studies, however, suggest that evaluation results are rarely used in practice (probably because they are not fully understood). No comparable system exists for all other Jobcenters and payment of service providers does *not* depend on placement performance.

As mentioned above, UB2-benefit recipients have access to complementary social services. *De jure* these services (according to § 16a SGB II) comprise:

- debt counselling
- substance use (alcohol/drug etc.) counselling
- family counselling incl. child care
- psycho-social counselling
- support for caring for family members

Municipalities are solely responsible for providing these complementary social services and co-operation with Jobcenters varies greatly: In regions, in which the Jobcenter is run by the municipality alone, the co-operation has to be organised between the different units of one administrative authority. In theory, this should be relatively easy. However, evidence from case studies suggests that, in practice, the handling of cases is not as smooth as might be expected. In all other regions (Jobcenters are run by municipalities and labour offices together) the co-operation between municipalities and Jobcenters for the provision of complementary social services is highly fragmented. In some regions formal service agreements and ex-ante plans for service provision exist. In other regions not even the number of UB2-recipients making use of complementary social services is known.

A practical problem in this context is data protection regulation that makes the exchange of information difficult. The sharing of data between Jobcenters and municipalities is strictly limited to information which is perceived as being absolutely essential to provide social services by municipalities. Evidence from case studies suggests that in many cases there is no back-reporting to the extent that Jobcenters do not receive any feedback on either the appearance of a beneficiary at the municipality or the results of service provision, unless the beneficiary personally tells their contact person in the Jobcenter. Furthermore, nothing is known about actual caseloads for counsellors in charge of complementary social service provision and the number of employees working in the municipalities in this field is also unknown.

Due to an under-developed reporting system (partly due to the above mentioned data protection regulations) data on the utilisation of social services is highly fragmented. **Table A.1.e** illustrates that only around two-thirds of all Jobcenters deliver data on this issue. According to the available information, the share of "able-to-work persons in need" utilizing one of these services is around 1.5%. Even if the assumption that inflows correspond to persons holds true and if it is assumed that a linear extrapolate can be made from reporting Jobcenters to non-reporting Jobcenters, the share of "able-to-work persons in need" utilizing social services will not exceed 3%. Hence, in quantitative terms

(i.e. considering participation rates) complementary social services are much less relevant than ALMP-measures (see **Section 5**).

**Table A.1.e: Inflows in social service measures**

| Year | Total number of inflows into social service measures | Share of Jobcenters delivering data on inflows into social service measures | Share of "able-to-work persons in need" using social service measures (in %)* |
|------|--|---|---|
| 2006 | 8,685  | 17.4  | 0.2   |
| 2007 | 23,050   | 30.9  | 0.4   |
| 2008 | 61,131   | 68.1  | 1.2   |
| 2009 | 77,261   | 70.3  | 1.6   |
| 2010 | 81,930   | 68.0  | 1.7   |
| 2011 | 74,156   | 67.5  | 1.6   |
| 2012 | 72,797   | 66.8  | 1.6   |
| 2013 | 76,295   | 64.7  | 1.7   |
| 2014 | 61,706   | 66.9  | 1.4   |

Source: Statistics of the Federal Employment Agency (BA). \* Assuming that inflows correspond to persons which does not necessarily has to be the case

Moreover, **Table A.1.f** indicates that debt counselling is the most important social service. On average around one half of all social services used between 2006 and 2014 fall into this category. For debt counselling some information on costs is available from a small number of Jobcenters in 2011: Case studies for five large cities suggest the costs for one case of debt counselling varied between 477€ and 1,790€; on average the costs per case were 1.121€. Thus, assuming that total inflows into such services in 2013 amounted to 114,450 (=76,300 x 3/2) and the average costs per case were 1,200€, total expenditures for social services (direct as well as administrative costs) were around 137 million €, so also relatively low.

**Table A.1.f: Relative utilization of social services**

|                | Inflows in different measures relative to total inflows (in %) |                        |                  |                           |                           |
|----------------|--|------------------------|------------------|---------------------------|---------------------------|
| Year           | child care   | care of family members | debt counselling | psycho-social counselling | substance use counselling |
| <b>2006</b>    | 4.1  | 0.3                    | 70.6             | 11.8                      | 13.1                      |
| <b>2007</b>    | 5.8  | 0.2                    | 59.9             | 17.3                      | 16.9                      |
| <b>2008</b>    | 22.0   | 0.3                    | 43.5             | 18.4                      | 15.8                      |
| <b>2009</b>    | 17.1   | 0.3                    | 46.1             | 22.7                      | 13.7                      |
| <b>2010</b>    | 17.3   | 0.1                    | 47.3             | 22.7                      | 12.6                      |
| <b>2011</b>    | 16.4   | 0.1                    | 46.1             | 25.7                      | 11.8                      |
| <b>2012</b>    | 15.6   | 0.1                    | 44.7             | 27.4                      | 12.3                      |
| <b>2013</b>    | 16.1   | 0.2                    | 44.7             | 28.0                      | 11.1                      |
| <b>2014</b>    | 17.3   | 0.2                    | 42.9             | 29.1                      | 10.5                      |
| <b>Average</b> | 14.6   | 0.2                    | 49.5             | 22.6                      | 13.1                      |

Source: Statistics of the Federal Employment Agency (BA)

#### 4.1.6. Use and costs of ALMP-measures

All ALMP-measures in Germany are discretionary measures, meaning that Jobcenters can, but do not necessarily have to allocate jobseekers to one of these measures. In those Jobcenters for which local labour offices and municipalities are responsible in co-operation, the allocation to ALMP-measures is guided (or more or less constrained) by the customer segments which are the result of customer profiling. This means, that there is a recommendation that jobseekers in specific customer segments should not be allocated to specific measures (e.g. hard-to-place in long-term qualification measures or good-to-place in “1€-Jobs”). In general, the following group of ALMP-measures are available:

- job search training/advice in form of in-house or externally provided courses (typically one to four weeks duration)
- different wage subsidies (usually up to six months duration with up to 50% of wage costs covered; special form: up to 24 months duration and 75% of wage costs covered)
- classroom-training programmes of up to 24 months duration (in practice typically three to six months)
- training and traineeship programmes in firms
- work experience programme (“1€-Jobs”): typically three to four months duration with a top-up of 1.5-2.5€ per working hour for participants; only on secondary labour market; longer periods (up to one year) are possible and were not rare in the past
- public employment programmes on secondary labour market: “citizen work” (“Bürgerarbeit”) since 2011 in around half of all Jobcenters; to be eligible for the programme jobseekers have to pass through a special and intensive activation phase of at least six months prior to the programme to examine if they are employable in the primary labour market

## Cost–benefit analysis of remedial interventions for the long-term unemployed

- individualised complex programmes (combination of services): Jobcenters can combine different programmes (e.g. traineeship with a subsequent wage subsidy for the same employer)

From **Table A.1.g** it becomes transparent that, on average, between 2006 and 2013 an average stock of around 680.000 participants in ALMP-measures was counted per year. Relative to the total number of "able-to-work persons in need" this is equivalent to almost 14%. This share is typically called the "activation rate". However, this indicator has rather limited information value since it fails to recognise that activation of benefit recipients can also be conducted by other means (e.g. regular contacts with job offers) and often is. Finally, the table indicates that total expenditures declined substantially between 2010 and 2013 due to budget cuts.

**Table A.1.g: Participants in ALMP-measures and expenditures (UB2-system only)**

|   | 2006    | 2007    | 2008    | 2009    | 2010    | 2011    | 2012    | 2013    |
|---|---------|---------|---------|---------|---------|---------|---------|---------|
| Average yearly stock of participants in ALMP-measures           | 753,223 | 816,940 | 837,061 | 823,116 | 758,786 | 553,772 | 472,680 | 449,410 |
| Share of "able-to-work persons in need" in ALMP-measures (in %) | 14.0    | 15.5    | 16.7    | 16.8    | 15.5    | 12.0    | 10.6    | 10.2    |
| Total expenditures for ALMP-measures (in million €)             | 4,470   | 4,833   | 5,357   | 5,902   | 6,017   | 4,445   | 3,751   | 3,534   |
| Expenditures per participant (in €)                             | 5,935   | 5,916   | 6,400   | 7,170   | 7,930   | 8,027   | 7,936   | 7,864   |
| Expenditures per "able-to-work person in need" (in €)           | 829     | 916     | 1069    | 1202    | 1229    | 963     | 844     | 799     |

Source: Statistics of the Federal Employment Agency (BA)

**Table A.1.h** indicates that between 2009 and 2013 on average 37% of all participants were in measures to promote employment on the secondary labour market. The second largest group are participants in short-term training measures (e.g. job application training, ability diagnosis, preparatory courses for self-employment, etc.). On average between 2009 and 2013 around 21% of participants were in such measures. By contrast, medium- and long-term qualification measures, as well as wage subsidies for employment on the primary labour market, were less often used.

**Table A.1.h: Participants in selected groups of ALMP-measures (UB2-system only)**

|                        | 2006   | 2007   | 2008   | 2009   | 2010   | 2011   | 2012   | 2013   |
|------------------------|--------|--------|--------|--------|--------|--------|--------|--------|
| Qualification measures | 52,730 | 66,919 | 81,605 | 92,010 | 91,868 | 72,882 | 68,099 | 65,261 |

Cost–benefit analysis of remedial interventions for the long-term unemployed

|   | 2006    | 2007    | 2008    | 2009    | 2010    | 2011    | 2012    | 2013    |
|---|---------|---------|---------|---------|---------|---------|---------|---------|
| Short-term training measures*   | -       | -       | -       | 65,051  | 147,082 | 126,996 | 120,167 | 136,580 |
| of which: in company  | -       | -       | -       | 6,371   | 7,400   | 6,808   | 6,120   | 6,298   |
| Measures to promote employment on primary labour market (mainly wage subsidies) | 79,116  | 99,669  | 111,286 | 126,183 | 126,906 | 92,690  | 67,268  | 56,416  |
| Measures to promote employment on secondary labour market                       | 365,366 | 355,879 | 349,508 | 335,499 | 307,462 | 197,292 | 165,223 | 146,423 |

Source: Statistics of the Federal Employment Agency (BA). \* Reform in 2009; data prior to 2009 not comparable and therefore not reported

In **Table A.1.i** average expenditures per participant per month, as well as the average duration of participation in these measures are reported. The table reveals quite considerable heterogeneity across years for all groups except qualification measures. This is due to the fact that the concrete measures summarized in these groups vary over time. In general, however, qualification measures are the most expensive programmes, followed by employment programmes on the secondary labour market and wage subsidies directed to the primary labour market.

**Table A.1.i: Average expenditures per participant and month (in €) and average duration of participation (in months)**

| <b>Average expenditures per participant and month (in €)</b>                    | <b>2009</b> | <b>2010</b> | <b>2011</b> | <b>2012</b> | <b>2013</b> |
|---|-------------|-------------|-------------|-------------|-------------|
| Qualification measures  | 814         | 846         | 833         | 880         | 890         |
| Short-term training measures  | 344         | 426         | 420         | 472         | 441         |
| Measures to promote employment on primary labour market (mainly wage subsidies) | 621         | 686         | 584         | 555         | 641         |
| Measures to promote employment on secondary labour market                       | 820         | 814         | 682         | 696         | 561         |
| <b>Average duration of participation (in months)</b>                            | <b>2009</b> | <b>2010</b> | <b>2011</b> | <b>2012</b> | <b>2013</b> |
| Qualification measures  | 4.7         | 4.9         | 5.4         | 5.4         | 5.3         |
| Short-term training measures  | 0.9         | 1.8         | 2.5         | 1.9         | 2.5         |
| Measures to promote employment on primary labour market (mainly wage subsidies) | 7.7         | 8.8         | 9.6         | 10.1        | 8.7         |
| Measures to promote employment on secondary labour market                       | 6.1         | 4.8         | 4.9         | 4.5         | 5.4         |

Source: Statistics of the Federal Employment Agency (BA)

#### 4.1.7. Administration costs

In this section the administrative costs of the UB2-system are discussed. However, the term “administration costs” can be somewhat misleading: these costs do not only comprise the costs of compiling the records for jobseekers, up-dating them and other activities of “pure administration”, but also the costs of personnel and necessary equipment (such as software and hardware) for counselling and guiding of, as well as the provision of job offers to jobseekers (i.e. the most important service for jobseekers).

Administrative costs at the level of Jobcenters are very transparent because there is a special budget for this, details of which are regularly published (see **Table A.1.j**). This budget is allocated to each and every Jobcenter to finance their expenditures for personnel and equipment (including IT). There is also a budget for integration services (especially ALMP-measures). Jobcenters are able to shift money between both budgets. Between 2006 and 2013 Jobcenters have used this option exclusively in favour of the budget for personnel and equipment (i.e. they increased their budget for the latter by on average 4.4% by shifting money from the budget for integration measures). On average, the actual (i.e. considering all shifts) amount of the administrative budget was around 4.8 billion € between 2006 and 2013. In contrast to the budget for ALMP-measures, the administrative budget did not experience a comparable decline during the past few years. In 2005 (i.e. the year in which the UB2-system was introduced by combining the old systems of unemployment and social assistance) Jobcenters received an additional amount of around 568 million € to finance first year implementation costs (personnel, IT, software etc.); this was equivalent to around 175€ per “household in need”.

**Table A.1.j: Administrative costs of Jobcenters**

|  | 2006 | 2007  | 2008  | 2009  | 2010  | 2011  | 2012  | 2013  |
|--|------|-------|-------|-------|-------|-------|-------|-------|
| Total administrative costs of Jobcenters (in billion €)*       | 4.2  | 4.4   | 4.5   | 5.0   | 5.2   | 5.1   | 5.0   | 5.3   |
| Administrative costs per "household in need" (in €)            | -    | 1,198 | 1,283 | 1,426 | 1,484 | 1,518 | 1,525 | 1,635 |
| Administrative costs per person in "households in need" (in €) | 578  | 603   | 649   | 736   | 773   | 798   | 806   | 866   |
| Administrative costs per "able-to-work person in need" (in €)  | 787  | 827   | 894   | 1,009 | 1,060 | 1,099 | 1,115 | 1,200 |

Source: Statistics of the Federal Employment Agency (BA). \* including cost share of municipalities

As mentioned above, Jobcenters have two main tasks: (i) UB2-benefit calculation and disbursement and (ii) provision of labour market oriented services. There is no breakdown of administrative costs for these two tasks available separately. However, considering factual caseloads (see above) and assuming constant overhead costs for both tasks, it appears reasonable that one half of total administrative costs relates to task (i) and correspondingly the other half to task (ii).

For the governance level (Federal Ministry of Labour and Social Affairs, Federal States, Head Office and Regional Directorates of BA as well as the central associations of municipalities) administrative costs are less transparent. Estimates based on expert

assessments suggest that they currently amount to around 180 million € (see **Table A.1.k**). Hence, relative to the administrative costs of the Jobcenters they are practically irrelevant.

**Table A.1.k: Rough estimates of administrative costs of governance level (2014)**

| Governance group                              | Costs per year in million € |
|---|-----------------------------|
| Federal Ministry of Labour and Social Affairs | 16.7                        |
| Federal States                                | 8.1                         |
| Head Office and Regional Directorates of BA   | 155.0                       |
| Central associations of municipalities        | 0.5                         |
| <b>Total</b>                                  | <b>180.3</b>                |

Source: Expert assessment

In summary, therefore, the total costs of labour market-oriented service provision (i.e. costs for ALMP-measures plus administrative costs minus share of administrative costs for calculation and disbursement of UB2-benefits) in 2013 amounted to 6.1 billion € (3.5 billion € + 2.6 billion €). Relative to the number of “able-to-work persons in need” this is equivalent to costs of around 1,380€ per head.

#### 4.1.8. Future initiatives

The Federal Minister for Labour and Social Affairs recently announced two initiatives aimed at LTU in a wider sense, those recipients of UB2-benefits who do not necessarily have to be LTU according to the legal definition. In the first initiative, wage subsidies of up to 100% should be made available for 10,000 LTU (primarily those with health problems) if they are employed in a job subject to social security contributions. For this initiative 75 million € are earmarked in 2015 and 150 million € for each following year.

The second initiative is a programme for LTU which is co-financed by the ESF with the aim of supporting up to 33,000 UB2-benefit recipients over 34 years of age who are classified as being hard-to-place on the primary labour market, who have been non-employed for at least the last two years, do not have an up-to-date vocational qualification and for whom no other integration perspective exists. UB2-benefit recipients who have been non-employed for more than at least the last five years can receive intensified support. The programme is implemented via the Jobcenters which can (but do not have to) apply for it.

Participating Jobcenters receive financial resources to employ “job-hunters” who should acquire vacancies for the target group of the programme. The job-hunters can offer potential employers a decreasing wage subsidy of up to 75% of earnings for up to 18 months. After a participant has been employed, both employees and employers receive coaching by an (internally or externally provided) expert to stabilize the match and to support employees to cope with requirements of every day working life. This coaching is mandatory for six months and can be extended by up to twelve months. Finally, some resources for on-the-job training of employees should be made available. Altogether almost 900 million € (ESF- plus national funds) are earmarked for this programme.

#### 4.1.9. Summary

Overall the German system for the provision of services to LTU in a wider sense can be characterized as follows:

- a) **Coverage:** The system fully covers all persons who are able to work, cannot (or at least not fully) make a living from other sources and, therefore, receive benefits. This includes all LTU according to the legal definition.
- b) **Individualization:** All individuals covered by the system have access to the full range of individual counselling and guidance by an individual contact person, the provision of job offers, conclusion of an IAP based on an assessment of the individual's employment potential (profiling) and to different forms of ALMP-measures. The whole process is regularly followed up and actual caseloads are around 1:150 to 1:200. Currently, several initiatives and pilot projects are run to reduce the caseload to 1:100 for selected groups of UB2-benefit recipients.
- c) **Employer integration:** Employers can receive monetary incentives (i.e. wage subsidies) and specialized support by "job-hunters" who try to acquire vacancies that are explicitly suitable for UB2-benefit recipients. The latter service is, however, not implemented in all Jobcenters. In the near future, the provision of coaching for employees as well as for employers is planned.
- d) **Institutional integration:** The Jobcenters are institutions which have been established especially for the purpose of the UB2-system. In the majority of cases they combine personnel from the local labour offices and the municipalities and both institutions are jointly responsible for the Jobcenters. In a minority of case, the municipalities are solely responsible for the Jobcenters.

## 4.2. A.2 Denmark

### 4.2.1. Definition and magnitude of long-term unemployment

Long-term unemployment is reported in two alternative ways in Denmark. Statistics Denmark discloses the number of the LTU according to the ILO definition.<sup>98</sup> The Danish Agency for Labour Market and Recruitment on the other hand considers LTU as those aged 16 to 66 who receive unemployment benefit or social assistance, are 'ready for work' and have been unemployed for 80% of the time in the last 52 weeks. LTU are also classified according to their benefit status, with a distinction between those receiving insurance-based unemployment provisions and those receiving means-tested social assistance.

**Table A.2.a** clearly demonstrates that since 2011 the number of the LTU has decreased according to both measures. It is further noticeable that the distribution of the social assistance (SA) and the unemployment insurance (UI) beneficiaries is undergoing a transformation. The increase in the number of SA recipients (together with the simultaneous decrease in the number of the UI recipients) coincides with the limitation of the maximum period during which unemployed people can receive benefits. The shortening of the benefit period from four to two years was decided in 2010 and became effective in mid-2012.

#### **Table A.2.a: Long-term unemployed in Denmark**

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<sup>98</sup> According to the ILO definition, a person qualifies as LTU, if she/he is between 16 and 64 years of age and has been unable to find a job for the previous 12 months and has not been employed (even for a short time period) in this time.

| Year | Total number of LTU (statistikbanken.dk) | Total number of LTU (jobindstat.dk) | In UB-system (jobindstat.dk) | In SA-system (jobindstat.dk) |
|------|--|-------------------------------------|------------------------------|------------------------------|
| 2010 | 32 331                                   | 46 476                              | 37 370                       | 9 106                        |
| 2011 | 39 205                                   | 52 708                              | 42 994                       | 9 714                        |
| 2012 | 37 187                                   | 50 320                              | 39 723                       | 10 597                       |
| 2013 | 31 951                                   | 45 452                              | 24 938                       | 20 514                       |
| 2014 | 28 874                                   | 39 698                              | 19 828                       | 19 870                       |

Source: Statistics Denmark: <http://www.statistikbanken.dk/AULK04>, The Danish Agency for Labour Market and Recruitment: [www.jobindsats.dk](http://www.jobindsats.dk)

The total number of the unemployed registered at job centres was about 138,000 in 2014 including around 28,000 persons in activation (see **Table A.2.b**).

**Table A.2.b: Registered unemployed in Denmark**

| Year | Gross unemployment | Unemployed recipients of unemployment benefits | Activation of persons on unemployment benefits | Unemployed recipients of social assistance | Activation of persons on social assistance (prepared for employment) |
|------|--------------------|--|--|--|--|
| 2010 | 163 869            | 96 670   | 34 151   | 17 475                                     | 15 572   |
| 2011 | 159 980            | 89 893   | 38 175   | 18 774                                     | 13 139   |
| 2012 | 161 309            | 97 560   | 31 103   | 20 499                                     | 12 147   |
| 2013 | 153 402            | 87 967   | 21 034   | 29 806                                     | 14 595   |
| 2014 | 138 046            | 80 485   | 16 545   | 29 589                                     | 11 427   |

Source: Statistics Denmark: <http://www.statistikbanken.dk/AUF02>; seasonally adjusted

#### 4.2.2. Insurance-based and means-tested subsistence benefits for non-employed

Since the maximum duration of *unemployment benefit* (UB) is 2 years, it is available both for short-term and LTU. Unemployment insurance is voluntary and approximately 77% of the labour force is insured. The amount of the benefit is equivalent to 90% of former income, (i.e. approx. 100 € per day with a ceiling of approx. 2,300 € per month).

Recipients of the UB are obliged to register as a jobseeker at the PES and granting is subject to behavioural requirements. Beneficiaries have the duty to sign an individual action plan within three months after registration and attend a contact interview with the PES at least once every three months. ALMP participants must remain available and actively looking for work. UB recipients need to continue active job search and accept job referrals, regardless of their previous occupation. Only valid reasons may justify a refusal to accept a job offer (e.g. health problems, family-care obligations, education, etc.).

LTU can receive means-tested *social assistance* (SA) when they stop receiving UI<sup>99</sup>. The implementation of the 2013 social benefits reform<sup>100</sup> among other things replaces social assistance (kontanthjælp) with educational assistance (uddannelseshjælp) for young

<sup>99</sup> Or never received it (e.g. in the case of uninsured workers who do not qualify for unemployment benefits because unemployment insurance is voluntary).

<sup>100</sup> Implemented in January 2014.

uneducated people under 30 years of age. This assistance is tied to the duty to educate oneself and young people receive a new benefit equal to the normal State Student's Grant (DKR 5,753 a month before tax). The total number of SA recipients is reported in **Table A.2.b**.

SA serves as the lowest income security net. However, in Denmark there is no officially approved poverty threshold for SA, it is set locally by the municipality who are also responsible for its payment. There is no limit on benefit duration. Benefit levels depend on age, period of residence and parental status and it is means-tested on a household basis (approx. 80% of UB).

Studies suggest that one quarter of the SA recipients above 30 years of age is ready for the labour market, about half of them are unprepared for the labour market, and the remainder (28% of the total) were temporarily inactive at the time the study was conducted<sup>101</sup>. Among recipients under 30 years of age one-third were prepared for work, half of them were able to be prepared for work and the remainder (15%) are temporarily inactive (OECD 2014 p.112)<sup>102</sup>. Another study shows that around one quarter of SA recipients have been on social assistance for over three years (Arbejderbevægelsens Erhvervsråd 2012)<sup>103</sup>.

The grant of social and educational assistance is subject to behavioural requirements. Beneficiaries have a duty to attend an interview at the jobcentre at least once every third month (and for young people aged under 30 this becomes every month).

Unemployed who are considered "ready for the labour market" (see profiling system in **Section A.2.3**) are subject to job search requirements and they have to report their activities online. Furthermore, they must accept appropriate offers to participate in activation measures (e.g. guidance and upgrading of skills and qualifications, practical work training in enterprises, etc.).<sup>104</sup>

As a result of the recent reforms, early activation has been strengthened. Participation in ALMP is obligatory after a certain length of unemployment. Unemployed under 30 years of age or above 50 years of age are obliged to participate in activation measures during the first three months of unemployment. Clients between 30-49 years have to participate in mandatory activation measures after 6 months at the latest.<sup>105</sup>

Payment of UB or SA is suspended or reduced if the beneficiary refuses, without legitimate reason, to participate in an activation measure or repeatedly fails to accept a job opportunity in the framework of activation. Proportional reduction of the benefit (depending on the degree of absence) occurs if recipients fail to participate in the whole programme. For instance, if the recipients fail to report for one day, they will lose 20% of their benefits for one week. If a beneficiary refuses, without legitimate reason, to

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<sup>101</sup> These categories come from the profiling system (see **Section A.2.3**)

<sup>102</sup> OECD (2014), OECD Economic Surveys: Denmark 2013, OECD Publishing, DOI:10.1787/eco\_surveys-dnk-2013-en

<sup>103</sup> Arbejderbevægelsens Erhvervsråd (2012), Mange tunge kontanthjælpsmodtagere ender på førtidspension [http://www.ae.dk/files/dokumenter/analyse/ae\\_mange-tunge-kontanthjælpsmodtagere-ender-paa-fortidspension\\_.pdf](http://www.ae.dk/files/dokumenter/analyse/ae_mange-tunge-kontanthjælpsmodtagere-ender-paa-fortidspension_.pdf)

<sup>104</sup> Since January 2015, those SA recipients who are considered ready for the labour market can be required to undertake community service work until they find work.

<sup>105</sup> Previously, the mandatory activation period was the following: under 30: 13 weeks; 30-59 years: 9 months; above 60: 6 months.

participate in an activation measure (training, education) for the first time she/he will lose a third of her/his benefit for 3 weeks and for 20 weeks in the case of repeated refusal of the offer within 1 year. A temporary loss of the total benefit may occur if the recipient misses counselling concerning a job or a job plan agreement, until the client meets the counsellor. Recurrence within a year leads to the reduction of the benefit by one-third for 2 weeks, and 20 weeks when it repeated more than twice within a year. Finally, chronic offenders may lose their benefits entirely for a longer period of time to be determined by their case workers.<sup>106</sup>

#### **4.2.3. Institutional responsibility for LTU and service provision**

As a result of the 2007 structural reforms, the public employment system has been reorganised in Denmark. The 98 municipalities have the responsibility for operating 94 integrated jobcentres (essentially PES) for all jobseekers (insured and uninsured). Social cash benefits (SA) are calculated and paid directly by the municipality and it is the responsibility of the Unemployment Insurance Funds to provide and pay unemployment benefits (UB) for registered unemployed. The PES has the main coordinating role for dealing with all LTU. These offices are also responsible for the direct contact with the unemployed (counselling) and the provision of labour market oriented services. These ALMP services are (*de jure*) available to all LTU (for *de facto* use of ALMP-measures see **Section 2.2.5**).

The current Danish matching system is mainly based on caseworker-based *profiling* in which caseworkers' discretion is high.<sup>107</sup> In this system, there are three 'match groups' which serve as a rough indication for assignment to activation measures, as follows:

- Group 1: Ready to take on a job (individuals on UB automatically)
- Group 2: Ready for active employment measures
- Group 3: Temporarily on passive support

No data can be provided concerning *caseloads* as the number of client-facing staff is decided autonomously by every single jobcentre and central government does not collect data on this issue. Around 60% of the local PES staff are in front of office roles and contact the client directly. One estimate of caseloads – based on a survey in three municipalities – is 29 registered unemployed per caseworker. It is derived from numbers of clients and client-facing staff, so it may not reflect day-to-day reality.

Social services are coordinated by the municipality. The PES is an integrated part of the municipal administration that provides all additional social support services and it is up to the municipalities to decide whether to contract with private providers. There is no data on LTU flows between the different authorities/service providers.

Municipalities receive two kinds of *financial resources* from the state: block grants and state reimbursements. Block grants are not ring-fenced and the municipalities have the

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<sup>106</sup> Sanctioning rates in the SA system are much higher due to stronger requirements and slight reductions. (UB: 3.1%; SA: 21%; EA: 12.1%)

<sup>107</sup> Earlier the system (Job Barometer) was more data-assisted, with all unemployed categorized into five match groups according their qualifications, experience, social situation etc. Even though Job Barometer was developed in close cooperation with caseworkers, it was rejected by the caseworkers in 2009 because they perceived their autonomy of decision was overly reduced by its application.

right to decide how the money is spent on income support and active measures, except that there is a ceiling on co-financing of active measure. State reimbursement covers a certain share of municipal expenditures but as a financial incentive, full cost reimbursement is possible if the municipality fulfils a set of minimum service requirements.

A system of financial incentives encourages municipalities to involve clients in active measures, since a higher proportion (65-75%) of the cost of active measures is refunded than for other services (35-50%). Part of the state subsidy is allocated on the basis on the performance of the municipalities, taking into account the local employment situation. The performance indicators are collected and fed into the National PES-IT-system “Job Effort” ([www.jobindsats.dk](http://www.jobindsats.dk)), which is under the responsibility of The National Agency of Employment and Recruitment (STAR).

#### 4.2.4. Use and costs of ALMP-measures

Most of the active measures and services are delivered in-house by the PES, but in the service delivery to LTU external providers can be involved. However, the formal responsibility for LTU service provision always stays with the municipality. Counselling services consist of face-to-face and telephone interviews including one CV interview, short (six weeks) educational courses<sup>108</sup> and group coaching sessions and is financed by the unemployment insurance fund. More than 50% of all the services – in terms of frequency – is made up by guidance and upgrading of skills and qualifications.

In addition to counselling services two main types of ALMP-measures (as defined in the Eurostat classification) can be offered to all unemployed by the PES. *Practical work training* in enterprises is used for retraining to upgrade the qualifications. This training is a 4 weeks programme where the jobseeker continues her/his unemployment insurance benefit while doing an internship at a company to develop her/his skills.

One-fifth of the ALMP-measures is covered by *wage subsidies* (private and public sector), which are provided to employers upon hiring a person who has been unemployed for at least 6 months. Public and private companies can receive a wage subsidy to hire an unemployed person for a period of 6-12 months. In private enterprises the employer is subsidized by DKK 73 (10 €) per hour (which is equivalent to around one-third of the average wage of an unskilled worker), while in public enterprises the subsidy is DKK 141 (19 €) per hour.<sup>109</sup>

**Table A.2.c** presents data on the expenditure and the number of participants by intervention type in 2012. Data are not available by duration of unemployment.

**Table A.2.c: Expenditure and participants in ALMP interventions in Denmark, 2012**

|  | Expenditure<br>(million DKK) | Number of<br>participants<br>(stock) |
|--|------------------------------|--------------------------------------|
|--|------------------------------|--------------------------------------|

<sup>108</sup> After 4 months of unemployment since 1<sup>st</sup> of July 2013. Previously, unemployed were entitled to this course after the first day of unemployment.

<sup>109</sup> Participation is voluntary for private companies, while there is a quota in place for public companies. This is the reason why the subsidy is higher for the latter.

|  | Expenditure<br>(million DKK) | Number of<br>participants<br>(stock) |
|--|------------------------------|--------------------------------------|
| 1 - Labour market services   | 9,428                        | :                                    |
| 1_DK5 - Public employment service  | 2,549                        | :                                    |
| 11_DK40_1 - [Component] Guidance and upgrading - Labour market services                            | 6,879                        | :                                    |
| 2 - Training   | 8,267                        | 56,421                               |
| 21_DK40_2 - [Component] Guidance and upgrading - Training  | 8,075                        | 53,163                               |
| 24_DK31 - Adult apprenticeship support   | 192                          | 3,258                                |
| 4 - Employment incentives  | 7,192                        | 54,248                               |
| 41_DK30 - Support of disabled  | 452                          | 5,598                                |
| 41_DK39 - Seniorjob  | 61                           | 472                                  |
| 41_DK6 - Wage subsidies  | 3,694                        | 20,081                               |
| 41_DK7 - Practical work training in enterprises  | 2,606                        | 26,949                               |
| 43_DK38 - Job rotation scheme  | 379                          | 1,148                                |
| 5 - Supported employment and rehabilitation  | 11,171                       | 63,477                               |
| 51_DK21 - Flex jobs, including flex jobs for self-employed   | 8,986                        | 52,296                               |
| 51_DK22 - Wage subsidies for recipients of early retirement pension (formerly known as light jobs) | 136                          | 5,363                                |
| 52_DK20 - Rehabilitation   | 1,856                        | 4,307                                |
| 52_DK28 - Pre-rehabilitation   | 192                          | 1,511                                |

\*data on LTU participant are available only in categories 2-7

#### 4.2.5. Administration costs

Data on benefit administration costs are published by the OECD, but the operational costs of the Danish PES are not transparent. According to the OECD statistics, the benefit administration costs amounted to about 2,276 million DKR (approximately 285 million €). According to the 2014 budget forecast the operational costs amounted to 575 million DKK (approximately 72 million €).

#### 4.2.6. Future initiatives

Starting from January 1<sup>st</sup> 2015, there is increased emphasis on activation of insured LTU. After 16 months of claiming UB, the PES will provide an intensive and individual effort during the remaining UB period. This involves the assignment of a personal job counsellor and extra support for job-seeking. Before the reform the long-term recipients of UB were to a great extent offered standardized active measures. From 2015, the PES is obliged to offer individually targeted active measures which prove to help unemployed find jobs on the primary labour market.

The recent labour market reforms of 2015 will lead to increasing incentives for municipalities to re-integrate unemployed into the labour market faster. This is due to the fact that the state reimbursement of non-insurance-based benefits for municipalities

will depend on the length of the spell of benefits. The rate of reimbursement will be falling from 80% in the beginning of the benefit spell to 20% for spells lasting over one year.

#### 4.2.7. Summary

Overall the Danish system for the provision of services to LTU can be characterized as follows:

- a) **Coverage:** The system covers all persons who receive welfare benefits, including all LTU.
- b) **Individualization:** All individuals covered by the system have access to the full range of individual counselling and guidance as well as the provision of job offers. Clients are profiled into three broad categories, individual action plans are signed prior to assignment to (mandatory) activation measures. Clients regularly attend meetings (every three months) when their IAPs are updated and job-search activities are monitored. Personal counsellors are generally not available to LTU (though this practice differs across municipalities), but actual caseloads appear to be low (based on an estimation). For insured LTU, access to personal job counsellors and more frequent counselling sessions have been recently piloted and since 2015 insured unemployed (after their 16<sup>th</sup> month of unemployment) will be obliged to attend meetings with caseworkers more frequently (once a month).
- c) **Employer integration:** Employers are involved in a large variety of active measures, including wage subsidies, adult apprenticeship programmes and job training measures. Jobcentres regularly co-operate with employers with the objective of finding jobs for LTU, but this varies from municipality to municipality.
- d) **Institutional integration:** The jobcentres are part of municipalities which deliver most public services, including employment and social services.

### 4.3. A.3 Hungary

#### 4.3.1. Definition and magnitude of long-term unemployment

Official Hungarian statistics distinguish the terms “registered jobseekers” and “unemployed persons” based on data sources and methodology. The definition of unemployed persons follows the ILO definition and statistics are based on data from the Labour Force Survey. The number of registered jobseekers comes from the unemployment register administered by the PES, (Nemzeti Foglalkoztatási Szolgálat (NFSZ)). The definition of unemployed used by the PES is regulated by the Employment Act (Act IV of 1991 on promoting employment and on the provision of Unemployment Benefit). This defines a registered jobseeker as a person who meets all the necessary conditions for the establishment of an employment relationship; is not engaged in full-time studies at any educational institution; is not eligible for old-age pension or rehabilitation benefit; is neither employed, nor pursues any other gainful activities, with the exception of temporary employment; cooperates with the competent local employment office to find employment; and has been registered with the PES as a jobseeker. A long-term unemployed (LTU) person is defined as having a continuous registered unemployment spell that lasts for at least 12 months. **Table A.3.a** presents

the number of LTU based on the Eurostat (> 6 months if aged < 25 years, > 12 months if aged 25+ years) and the national PES (> 12 months) definitions.

**Table A.3.a: Long-term unemployed in Hungary**

| Year | Number of LTU* (Eurostat) | Number of registered LTU** (NFSZ) |
|------|---------------------------|-----------------------------------|
| 2008 | 154,507                   | 141,700                           |
| 2009 | 162,910                   | 145,258                           |
| 2010 | 182,409                   | 164,955                           |
| 2011 | 169,078                   | 152,048                           |
| 2012 | 161,842                   | 143,659                           |

\*Source: Eurostat. Definition: >6 months if aged <25, >12 months if aged 25+,

\*\*Source: NFSZ. Definition: >12 months.

In Hungary, participants in public work schemes are not considered as registered unemployed in unemployment statistics but are officially regarded as being employed, even though they are still required to remain in contact with the local PES. Since participating in public work schemes for at least 30 days (in practice, it usually lasts longer) is a requirement for receiving certain means-tested benefits (i.e. the FHT; see Section 2.3.2), the difference between official unemployment statistics and the *de facto* number of unemployed persons can be substantial. As participants of public work schemes are not employed in the primary labour market, their wages are directly paid by the state and they receive lower wages than those obtaining in the market<sup>110</sup>, in calculations done for this report on the length of unemployment spells based on individual-level register data<sup>111</sup>, participants are considered as unemployed rather than employed during their period of participation. Based on this the number of unemployed registered for at least 12 months are presented in **Table A.3.b**. It is clear that the estimated number of long-term (quasi-registered) non-employed is about 50% higher than the officially reported figure.

**Table A.3.b: Number of LTU based on calculations using individual-level data, 2012**

| Number of registered long-term unemployed (LTU), stock in January 2012* | Number of registered long-term unemployed (LTU), average month in 2012** |
|---|--|
|   |  |

<sup>110</sup> Since 2011, participants in public work schemes receive a so-called “public work wage” set to about 76-88% of the net minimum wage. Before 2011, public workers were paid the minimum wage.

<sup>111</sup> Please note here that we work with a 50% simple random sample of the whole Hungarian population. It is interesting to note that our estimates of the number of LTU matches the numbers reported by NFSZ very well.

## Cost–benefit analysis of remedial interventions for the long-term unemployed

| Public workers count as unemployed | Public workers count as not unemployed | Public workers count as unemployed | Public workers count as not unemployed |
|------------------------------------|--|------------------------------------|--|
| 211,594                            | 141,412                                | 222,952                            | 144,444                                |

Source: own calculations based on register data from the National Employment Office.  
 \*Those who are LTU in January 2012. \*\*In- and outflows into/from LTU status during the year 2012 are considered.

### 4.3.2. Means-tested subsistence benefits for non-employed

The main means-tested benefits for the LTU are covered by the term ‘benefits for persons in active age (aktív korúak ellátása)’. These are provided to ensure a minimum standard of living for persons of active age who are not employed. Up until 2015<sup>112</sup>, 80-95% of the total benefit paid was financed from the central budget and for 5-20% from the budgets of local governments. Two types of cash benefits are paid under this provision, regular social allowance (rendszeres szociális segély [RSZS]) and employment substituting benefit (foglalkoztatást helyettesítő támogatás [FHT]).

The RSZS is granted to those assessed as ‘not capable for work’ (that is, those who are health-impaired, people who have five years or less until retirement age, persons who have a child under 14 whose attendance at a day-care institution is not guaranteed<sup>113</sup>). The amount of RSZS depends on the size, composition and income of the household. Recipients have to cooperate with the organisation appointed by the administering office (usually the family support centres). Since RSZS-recipients are not capable of work and so are not a target group for activation (since 2009), they will no longer be considered in the following analysis.

Disadvantaged persons who are capable of work are entitled to the means-tested employment substituting benefit (FHT). Claimants must have exhausted all their entitlement to the jobseeker benefit (granted for insured unemployed for a maximum duration of 90 days), or not be entitled to the jobseeker benefit due to lack of sufficiently long work experience. The amount of the benefit is fixed at 80% of the minimum old-age pension (i.e. 22,800 HUF/month in 2014). The maximum duration of the FHT is one year, but claimants can apply again after the expiration of the period but those re-applying must fulfil the requirement of participating in public work for at least 30 days again.

Recipients of FHT have the obligation to register as jobseekers at the PES and are subject to further behavioural requirements. These are:

- regular visits at the employment offices (every 3 months)

<sup>112</sup> Since 1<sup>st</sup> of March 2015, the welfare system of Hungary has been rearranged. The state has abandoned its role in numerous forms of social assistance support, leaving it to the discretion and offers of municipalities, and a few automatic entitlements (e.g. the benefits for persons in active age) are now handled by district-level (LAU 1) government offices (járások). Only very poor municipalities can count on state aid to be able to give assistance to people in need.

<sup>113</sup> Up until 1<sup>st</sup> of March 2014, municipalities responsible for administering the benefit had the authority to set up further rules and conditions for the assessment of work capability.

- accepting suitable job offers, participation in public work schemes, services and training
- signing an individual action plan (IAP) for reintegration.

Failure to collaborate with the PES or failing to report working activity can lead to a suspension of benefits for 1 month. In cases of serious violations or repeatedly performing undeclared work, the benefit can be terminated. Statistics concerning the incidence of sanctioning are not reported.

#### 4.3.3. Institutional responsibility for LTU and service provision

The PES (NFSZ) is responsible for the activation of all registered unemployed in Hungary. The PES has the duty of administering and paying jobseeker benefits (to insured unemployed) whereas benefits for persons in active age (FHT and RSZS) were administered by the municipality until 1 March 2015<sup>114</sup>. Nevertheless, recipients of FHT have an obligation to register and cooperate with the PES, as described in the previous section. The PES offers a wide range of labour market services for all registered unemployed (see **Section 2.3.5** for details).

The PES does not use any statistical profiling or targeting system for categorising jobseekers. Assigning clients to labour market programmes is based on centrally-set eligibility rules and caseworker discretion. However, introducing a new information system based on statistical profiling models is planned in the near future and is currently being piloted with the aim, of rolling it out nation-wide from the 1<sup>st</sup> of January 2016.

While minimum standards of service provision, as well as indicators for quality assurance exist and are regularly monitored, PES local offices have considerable leeway in the day-to-day organisation of their work. This means that in some offices clients are channelled to caseworkers based on their municipality of residence and hence, in practice, clients have a 'personal advisor'. However, in other offices caseworkers also specialise by function (e.g. ALMP organisation, contact with young jobseekers, etc) which can lead to a different caseworker handling a given client's dossier at different stages of the client's unemployment spell.

Similarly, while the use of IAPs is recommended, it is voluntary. In practice, the large majority of clients who have an IAP are those who participate in an ESF-funded complex programme. As a result, only some 10% of the stock of registered jobseekers has signed an IAP. In principle, with the introduction of the new profiling system, all clients will be required to sign an IAP.

Data on typical caseloads are presented in **Table A.3.c.** (calculated for 2013 based on the annual average stock of registered jobseekers divided by the number of PES staff at regional and local level who are directly servicing clients).

**Table A.3.c: Typical caseloads in the Hungarian PES, 2013**

| Type of case-load                                 | 2013  |
|---|-------|
| Number of jobseekers per officer directly serving | 171.5 |

<sup>114</sup> Since 1 March 2015, FHT and RSZS are administered by district-level (LAU 1) government offices (járások).

clients

Source: PES Business Model 2014 – Country fiche, Hungary

Up-to-date electronic records of all important information concerning jobseekers (background characteristics, registration start and end, interruptions in registration, participation in ALMPs, UB payments) which relate to the immediate tasks of the PES have been maintained centrally since 2004. Since 2010, up-to-date information about participation in public works programmes is also part of the PES information system. Although the regulations oblige local municipalities to inform the local PES offices about all activities relating to jobseekers (receipt of welfare benefits. etc.), the quality of the information exchange between the PES and municipalities has not been systematic largely because of the lack of incentives attached to data sharing.

Social services are usually provided by the municipality’s welfare office. Family support centres provide services for families who need help due to social or mental health problems and other crises (e.g. LTU, debt burden, housing problems, health impairment, addictions, etc.). In practice, there is little exchange of information between the PES and the welfare offices.

#### 4.3.4. Use and costs of ALMP-measures

The PES provides various services for the registered unemployed, but most of them do not have a special focus on the LTU. **Tables A.3.d** and **A.3.e** present Eurostat data on the expenditures and number of participants by intervention type, covering data for all unemployed.

**Table A.3.d: Expenditure by LMP intervention (million €)**

| LMP_TYPE/TIME                                    | 2009     | 2010     | 2011     | 2012     |
|--|----------|----------|----------|----------|
| Labour market services                           | 55.38    | 58.18    | 12.93    | 95.32    |
| Training   | 45.31    | 48.11    | 26.06    | 3.41     |
| Employment incentives                            | 84.01    | 99.39    | 98.29    | 126.89   |
| Supported employment and rehabilitation          | :        | :        | :        | :        |
| Direct job creation                              | 222.59   | 378.46   | 216.50   | 455.31   |
| Start-up incentives                              | 5.60     | 8.49     | 8.36     | 5.23     |
| Out-of-work income maintenance and support       | 630.18   | 697.84   | 661.20   | 407.89   |
| Early retirement                                 | :        | :        | :        | :        |
| Total LMP (categories 1-9)                       | 1,069.14 | 1,319.34 | 1,026.40 | 1,116.49 |
| Total LMP measures (categories 2-7)              | 357.52   | 534.46   | 349.22   | 590.84   |
| Total LMP measures and supports (categories 2-9) | 987.70   | 1232.30  | 1010.41  | 998.73   |
| Total LMP supports (categories 8-9)              | 630.18   | 697.84   | 661.20   | 407.89   |

Source: Eurostat (DG EMPL). Note: : = not available

**Table A.3.e: Participants by LMP intervention**

| LMP_TYPE/TIME                              | 2009    | 2010    | 2011    | 2012    |
|--|---------|---------|---------|---------|
| Labour market services                     | :       | :       | :       | :       |
| Training                                   | 13,548  | 18,681  | 10,959  | 15,351  |
| Employment incentives                      | 65,292  | 83,935  | 74,341  | 241,897 |
| Supported employment and rehabilitation    | :       | :       | :       | :       |
| Direct job creation                        | 48,117  | 102,565 | 75,810  | 63,023  |
| Start-up incentives                        | 1,430   | 2,756   | 2,413   | 1,836   |
| Out-of-work income maintenance and support | 314,487 | 353,623 | 340,706 | 271,365 |
| Early retirement                           | :       | :       | :       | :       |
| Total LMP measures (categories 2-7)        | 128,387 | 207,937 | 163,523 | 322,107 |
| Total LMP supports (categories 8-9)        | 314,487 | 353,623 | 340,706 | 271,365 |

Source: Eurostat (DG EMPL). Notes: : = not available

*Labour-market services* include individual case management (drawing up an IAP and regular job-seeking consultations; for FHT-recipients, meeting with counsellors is mandatory at least in every three months), group training on job-seeking techniques, job seekers' clubs and placement services as well as the provision of labour market information. Some of the services (e.g. job brokering, career fairs) are also available for non-unemployed.

*Training programmes* are subsidies for vocational training (in most cases), or training aiming to improve language, computer or entrepreneurial skills. PES in-house training as well as outsourced training are available for registered jobseekers. Participants also receive financial support which can take various forms, such as income maintenance assistance if the training lasts 20 hours/a week or more, the reimbursement of training and exam costs and expenses related to accommodation, food and travel if participation in the course requires commuting.

*Employment incentives* cover wage subsidies. Employers are eligible to decrease the cost of employment through wage subsidy, wage and social security contributions subsidy, social security contribution exemptions including the Start-cards which were available until December 31, 2013. This scheme was replaced in 2012 by the subsidies which were part of the so-called *Job Protection Act*. Finally, wage subsidies usually target disadvantaged jobseekers (e.g. those with health impairment, the uneducated, young mothers, LTU). In most cases<sup>115</sup>, the maximum duration is one year and the subsidy covers up to 50% (60% in case of disabled jobseekers) of the gross wage of the beneficiary.

Public work schemes under the *direct job creation* category take up a substantial part of ALMP-expenditures in Hungary. Recipients of employment substituting benefit are obliged

<sup>115</sup> The exception is some ESF-funded complex programs, see below.

to accept the offered public work. Programmes are usually organised by municipalities or other public bodies, and can include work related to all municipal tasks (e.g. maintenance works in public infrastructure, flood control, etc.). Up to 100% of the costs can be reimbursed from the central budget. As of 2015, the legally set maximum duration of participation is 11 months, but it can be extended if an application is made and approved.

*Start-up incentives* include grants for jobseekers unemployed for at least one month and wish to become self-employed. Another requirement is that the local employment office is unable to offer him/her a suitable job in the region. The grants amount to either a maximum of 3 million HUF for initial capital expenditures, or equal to the minimal wage paid for a maximum of 6 months (but can be extended for 12 months in certain cases). The grants can be partly or fully refundable or non-refundable at all and require collateral from the beneficiary that covers a minimum 20% of the investment costs. The grants are usually supplemented with consulting and entrepreneurial training. Since 2012, *early retirement* schemes have no longer been available (except for women with 40 years of work experience).

Although most of the measures described above are not explicitly aimed at the LTU, there have been some ESF-funded complex programmes in the last decade that targeted disadvantaged jobseekers (uneducated jobseekers, mothers returning from maternity leave, youth unemployed, unemployed aged 50 and above, jobseekers with a health impairment, Roma jobseekers, and LTU). These programmes offered an individualised combination of labour market measures, customised for the needs of the client and usually include mentoring, counselling, training, and wage subsidies of up to 100% of gross wages.

A wage subsidy scheme between 2007 and December 2013<sup>116</sup> called 'Start Plusz' was also aimed at supporting the LTU, parents with young children and people caring for family members to return to work. The Start Plusz wage subsidy was universally available to those eligible and had a maximum duration of two years. In the first year of employment, the employer paid only 10% instead of the usual 27% social security contribution on the gross wage of the beneficiary and in the second year, the employer paid 20%. In addition, the employer was also exempt from paying the lump-sum health contribution (about 2,000 HUF/month). During the same period, LTU aged 50 or above or those with a maximum of primary level education (8 years) were eligible for participation in the Start Extra scheme, which entitled them for an even larger wage subsidy (0% instead of 27% social security contributions owed by employers in the first year and 10% in the second year).

The *Job Protection Act*, introduced in 2012 provided employment incentives to a large variety of disadvantaged jobseekers: including those below age 25, or above age 55, those returning from child-care benefits, those working in jobs requiring no qualifications and LTU. The subsidy consists of a reduction in (employers') social security contribution which can be claimed for a maximum of three years and applies to both newly recruited and already employed persons. The subsidy specifically targeted those who have been

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<sup>116</sup> The Start Plusz card that entitled the claimant to the wage subsidy could be claimed until 31 December 2011, thus all of the subsidies had been exhausted by 31 December 2013.

unemployed for at least 6 months in the nine months prior to claiming the subsidy. It amounted to a reduction of social security contributions up to 27% of the gross salary for that part of the salary up to 100,000 HUF (approximately 323 €) in the first two years of the subsidized period<sup>117</sup>, then falling to 14.5% of the gross salary (again for the part up to 100,000 HUF) in the third year of the subsidy.

Based on individual-level register data, the number of LTU has been calculated separately for each measure for 2012. The group of LTU is defined as those who have an uninterrupted unemployment spell of at least 12 months in January 2012 and considering those on public works programmes as unemployed (see the first column in **Table 2.3.b**). **Table 2.3.f** presents the number of LTU receiving FHT, RSZS, training subsidy, wage subsidy, public work wage, or other provision<sup>118</sup>, averaged over the 12 months in 2012. The same calculations for sub-groups based on age categories (>25, 26-49, 50<) and education level (max. 8 years, lower secondary without final examination, upper secondary with final examination, tertiary with degree) are available upon request. It becomes clear that: (a) a large number of long-term non-employed do not receive any form of financial support and (b) 90% of ALMP participation among long-term non-employed comes in the form of public works schemes.

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<sup>117</sup> Thus it amounts to a maximum reduction of total wage costs of 27,000 HUF per month (approximately 87EUR).

<sup>118</sup> Our register dataset from the National Employment Agency only contains data on whether the individual received one or more of the provisions in a given month. It does not have any information on the amount of money spent on the provisions, neither on services (e.g. job placement, counselling, mentoring) the unemployed individual might have received.

**Table 2.3.f: Number/rate of LTU receiving a type of provision, 2012**

|                       | Number/rate of LTU receiving provision, 2012 |       |                  |              |              |         | Not receiving any provisions | Total number of LTU, 2012 |
|-----------------------|--|-------|------------------|--------------|--------------|---------|------------------------------|---------------------------|
|                       | FHT  | RSZS* | Training subsidy | Wage subsidy | Public works | Other** |                              |                           |
| <b>Number</b>         | 92,907                                       | 2,283 | 2,281            | 1,557        | 38,670       | 157     | 88,787                       | 211,594                   |
| <b>% of total LTU</b> | 43.9   | 1.1   | 1.1              | 0.7          | 18.3         | 0.1     | 42.0%                        |                           |

Source: own calculations based on data from the National Employment Agency. \*Although RSZS-recipients are assessed as not capable of work, they can (voluntarily) be registered at the PES. \*\*Start-up incentives & covering commuting costs. Note: the reason for the sum of rows being somewhat higher than the total number of LTU is that one person can receive more than one provision at the same time.

#### 4.3.5. Administration costs

Data on administration costs of the Hungarian PES are not transparent. According to official statistics, these costs amounted to about 22.4 million € in 2013. Since in principle this should cover the administrative costs of calculating and disbursing unemployment benefits and all other administration related to registered unemployed, it is useful to divide this figure by the official number of registered unemployed. This calculation yields 156 €/person.

#### 4.3.6. Future initiatives

There are a number of important recent changes which started in 2015. In terms of *institutional* arrangements, the most important is that the Hungarian PES has ceased to be an independent legal entity as of January 1<sup>st</sup> 2015. This means that the Head Office has been split up and the majority of its tasks (and staff), including the management of ALMPs, research and data collection have been delegated to the Ministry for National Economy (to the Deputy State Secretariat for the Labour Market). A minority of the Head Office tasks, namely those managing and monitoring public works programmes, are now performed by the Ministry of Interior. Similarly, the PES local offices have been integrated into the district-level government offices and are now responsible for calculating and disbursing all benefits for (able-bodied) unemployed persons as well as the provision of labour market services.<sup>119</sup>

The most notable development in terms of service delivery is the piloting of a new (statistical) profiling system during 2015 (which is funded by the ESF)<sup>120</sup>. The profiling is to be rolled out nation-wide starting from January 1<sup>st</sup> 2016 and it will contain guidance as to what type of services packages (including ALMPs) to offer to customers. The current version of the system segments customers based on their background characteristics, vocational skills and job search motivation into six different categories.

<sup>119</sup> Information on the costs of these institutional rearrangements are not available.

<sup>120</sup> The complex development of the PES (including the profiling system) is financed through the SROP 1.3.1, with a total budget of 9.4 million €.

As for ALMPs, the plans concern (a) public works programmes and (b) complex programmes for disadvantaged jobseekers. While public works are scheduled to be expanded (with a planned 50% increase in public funds devoted to them), in the context of an ESF funded project a small proportion of public works participants (about 30,000 persons) will be offered vocational training programmes.<sup>121</sup> The government is also planning to follow-up previous ESF-funded projects (notably SROP 1.1.2 and SROP 2.1.1), which provided complex programmes to disadvantaged unemployed. These follow-up initiatives are likely to be implemented again within the context of ESF projects.

#### 4.3.7. Summary

Overall the system of service provision to LTU in Hungary can be characterized as follows:

- a) **Coverage:** The system fully covers all persons who are non-employed, able and ready to work, and receive welfare benefits. This includes all LTU according to the legal definition.
- b) **Individualization:** All individuals covered by the system have, in principle, access to the full range of services and measures and are obliged to contact the labour office every three months. There are, however, several shortcomings in this approach: (a) the use of an individual contact person (caseworker) largely depends on the staffing strategy of local labour offices; (b) formalised profiling and targeting is not used; (c) only a small fraction of clients sign an IAP and (d) factual caseloads are around 1:170. While the regulation for these elements are in place, a new service concept is currently being piloted, including profiling and targeting, the usage of individual action plans, regular updating of client profiles and IAPs. The new system of service provision is planned to be rolled out starting January 1<sup>st</sup> 2016.
- c) **Employer integration:** Monetary incentives for employers in the form of wage subsidies is provided for the recruiting and continued employment of a wide range of disadvantaged persons, including LTU. Less than 2% of staff resources are devoted to keeping and seeking contact with employers.
- d) **Institutional integration:** The local labour offices have recently been subordinated to the district-level government offices, which also provide all major welfare benefits (for working-age individuals). Municipalities are only responsible for providing complementary social services and minor (local) welfare benefits.

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<sup>121</sup> The monitoring of public works programmes (most of which are directly organized by municipalities), will also be strengthened.

#### 4.4. A.4 Italy

##### 4.4.1. Definition and magnitude of long-term unemployment

According to the legal definition, the unemployed are persons who are non-employed not due their own fault and who are registered at a local labour office as being available to work. Long-term unemployed (LTU) are persons who are unemployed for at least for one year. Participants ALMP- measures are regarded as being *not* unemployed. **Table A.4.a** reports the development of LTU in Italy over eight years. According to Eurostat (EU-LFS), the rate of LTU has varied at around 3% between 2006 and 2008 and then increasingly higher from 2009-2013. In 2013 the total LTU was almost 1.8 million.

**Table A.4.a: Long-term unemployed in Italy**

|  | 2006    | 2007    | 2008    | 2009    | 2010      | 2011      | 2012      | 2013      |
|--|---------|---------|---------|---------|-----------|-----------|-----------|-----------|
| <b>Long-term unemployment in % of active population*</b> | 3.4     | 2.9     | 3.1     | 3.5     | 4.1       | 4.4       | 5.7       | 6.9       |
| <b>Active population (in 1,000)*</b>                     | 24,662  | 24,728  | 25,096  | 24,970  | 24,975    | 25,075    | 25,643    | 25,533    |
| <b>Total number of LTU**</b>                             | 838,491 | 717,100 | 777,988 | 873,950 | 1,023,967 | 1,103,309 | 1,461,623 | 1,761,763 |

\* Source: Eurostat, EU-LFS; \*\* own calculations

##### 4.4.2. Unemployment benefits and means-tested subsistence benefits for non-employed

In general, two different systems can be distinguished in Italy:

- *The system of unemployment benefits:* This system combines different unemployment benefits (for details see below) and addresses all those persons who are non-employed not due to their own fault, who are able to prove a minimum period of secured work by the payment of appropriate unemployment contributions, who submit a formal claim to the INPS (the National Institute for Social Insurance) for benefit and who are registered at a local labour office as being immediately available to work. Access to this system is therefore limited to registered unemployed. A particular provision of the Italian unemployment benefit system is that a range of benefits are in available to employers in situations where an employee faces losing their job with the intention of keeping the employee in work.
- *The system of social welfare:* This system also combines a wide range of social welfare subsidies (financial and/or in-kind as well as counselling, etc.) with responsibility resting with local governments and municipalities. This system is strictly means-tested. It is applied when an individual's income (including unemployment benefits) is not sufficient to reach the "minimo vitale", a figure published by ISTAT (the Italian Statistical Office) on an annual basis indicating the subsistence level income. On basis of this figure, the municipalities have to determine a local subsistence level income on a *political* level taking into account

local conditions. This “*minimo vitale*” mainly serves to define the minimum level of old-age pensions, but also serves as the minimum level of social assistance. The “*minimo vitale*” is also guaranteed if entitlement to unemployment benefits has expired. As long as a person is entitled to social welfare together *and* unemployment benefits, the obligation of immediately being available on the labour market still applies. However, there is no obligation on the national level to work or to be available for work if a person receives social welfare subsidies *only*. Nevertheless, municipalities may (and often do) impose duties to beneficiaries of social welfare subsidies, including the participation in public work programmes etc. This system therefore applies to all those who are not able to achieve a minimum income from their own resources whether they work or not, if they are able to work or not and if they are registered as unemployed or not. It is important to note that with the Jobs Act (for details see below) a minimum wage will be introduced in Italy. The minimum wage level has not yet been fixed, but should fall within the range between 6.50 and 7.00 € per hour.

Both systems are characterized by a high degree of heterogeneity and, hence, of a lack of transparency as discussed below.

### *Unemployment benefits*

The system of unemployment benefits has been subject to continuous change in the past few years. Currently approximately twelve different types of unemployment benefit exist in Italy. Some of the schemes have expired (or will expire in the near future) and were replaced with new ones as consequence of labour market reforms. The most important unemployment benefits in 2015 are the Unemployment Benefit for the agricultural sector, the Unemployment Insurance Benefit and the Mini-Unemployment Insurance Benefit for unemployed with a restricted contributions record. **Table A.4.b** provides an overview on the selected characteristics of these unemployment benefits.

**Table A.4.c** provides an overview on the development of the most important UBs of the past few years. The individual level of unemployment benefits differ according to working periods, contribution periods and total amounts paid to the contribution system. Despite of gender, age and the distribution among the Italian regions, no information is available on the structure of beneficiaries and so it remains unclear to what extent benefit recipients are LTU.

In 2009, 43% of all persons registered at the local Employment Agency were beneficiaries of at least one of the unemployment benefits; the other 57% had their own financial resources or were depending on subsistence benefits. There is no evidence related to the duration of unemployment/non-employment of all persons registered at the local Employment Agency. Of those registered who received unemployment benefits, around 44.4% were LTU.

**Table A.4.b: Most important unemployment benefits in 2015**

| Type of unemployment  | Who is entitled?  | Kind of benefits   | Duration of payment  | Entitlement conditions   |
|---|---|--|--|--|
| <b>Unemployment benefit for agriculture ("Disoccupazione agricola")</b>                       | Former employees in agriculture with limited contracts including small farmers, helping family members and employees in agriculture with unlimited working contracts who only work on a seasonal basis. | Unemployment benefit; 40 % of average earnings in the reference period   | Maximum of 365 days depending on the number of previous days in which secured work has been carried out and contributions have been paid                 | Minimum of 2 working years in which contributions to the unemployment scheme have been paid, of which a minimum of 102 working days refer to the year in which the application of the unemployment benefit is submitted  |
| <b>Unemployment insurance ("Assicurazione sociale per l'impiego - ASPI")</b>                  | Former dependent employees outside public administration and agriculture  | 75% of average monthly wage of the last 24 months worked up to a maximum of € 1.192,98 (2014) per months. The amount is fixed on a yearly basis by law. If the average monthly wage is higher than the amount fixed on a yearly basis, the unemployment benefit is calculated as follows: amount fixed on a yearly basis + 25% of the difference between monthly average wage and amount fixed on a yearly basis. The unemployment benefit is decreased by 15% after 6 months and by additional 15% after 12 months. | 8 to 10 months for unemployed below 50 years, 12 months for unemployed between 50 and 54 years and 12 to 16 months for unemployed aged 55 years and over | The unemployed must be registered as unemployed at the local Employment Agency. The Employment Agency must declare that the previous job was lost involuntarily. The unemployed must declare his/her immediate ability and willingness to work. A minimum of 1 contribution year must be proofed within the last two calendar years. |
| <b>Reduced unemployment insurance ("Mini assicurazione sociale per l'impiego - MiniASPI")</b> |   |  |  |  |

Source: Source: INPS-homepage; URL: [http://www.inps.it/webidentity/banchedatistatistiche/menu/Politiche\\_Occupazionali/main.html](http://www.inps.it/webidentity/banchedatistatistiche/menu/Politiche_Occupazionali/main.html)

**Table A.4.c: Number of recipients of unemployment benefits**

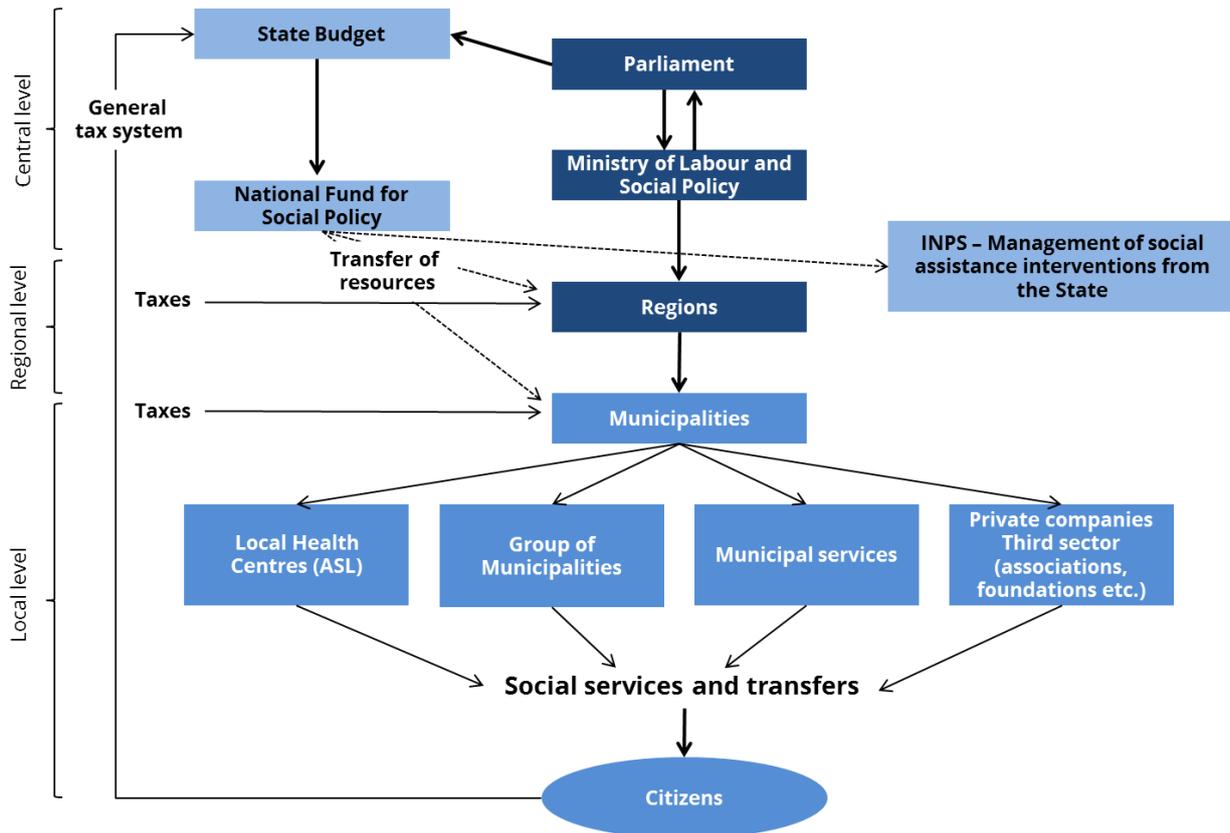
| Type of unemployment benefit  | 2011  |         |         | 2012    |         |           | 2013                                  |         |         |
|---|---|---------|---------|---------|---------|-----------|---------------------------------------|---------|---------|
|   | Women   | Men     | Total   | Women   | Men     | Total     | Women                                 | Men     | Total   |
| <b>Unemployment benefit for agriculture ("Disoccupazione agricola")</b>   | 257,524                                       | 276,465 | 533,989 | 244,204 | 279,431 | 523,635   | 232,302                               | 281,398 | 513,7   |
| <b>Unemployment benefit for the sectors outside agriculture ("Disoccupazione ordinaria non agricola")</b>                                   | 454,385                                       | 447,007 | 901,392 | 521,84  | 541,333 | 1,063,173 | 45,307                                | 60,561  | 105,868 |
| <b>Unemployment insurance ("Assicurazione sociale per l'impiego - ASPI")</b>  |   |         |         |         |         |           | 487,642                               | 486,241 | 973,883 |
| <b>Reduced unemployment insurance ("Mini assicurazione sociale per l'impiego - MiniASPI")</b>   | Unemployment benefits were introduced in 2013 |         |         |         |         |           | 200,888                               | 185,626 | 386,514 |
| <b>Unemployment benefit for the sectors outside agriculture with reduced requirements ("Disoccupazione non Agricola Requisiti Ridotti")</b> | 261,609                                       | 290,675 | 552,284 | 243,718 | 272,398 | 516,116   | Unemployment benefits expired in 2012 |         |         |
| <b>Unemployment benefit for the construction sector ("Disoccupazione Edile")</b>  | 1,431   | 8,957   | 10,388  | 873     | 6,67    | 7,543     | 432                                   | 1       | 1,432   |
| <b>Mobility benefit ("Indennità di mobilità")</b>   | 59,021  | 100,999 | 160,02  | 71,271  | 123,633 | 194,904   | 67,787                                | 125,316 | 193,103 |

Source: INPS-homepage; URL: [http://www.inps.it/webidentity/banchedatistatistiche/menu/Politiche\\_Occupazionali/main.html](http://www.inps.it/webidentity/banchedatistatistiche/menu/Politiche_Occupazionali/main.html)

*Social welfare*

In addition to and/or after the end of entitlement to unemployment benefits, social welfare benefits are disbursed upon request of persons, families and households in need. Social welfare benefits are strictly means-tested. The system for subsistence benefits is somewhat complicated due to competing responsibilities of the national state, the regions and the local authorities (municipalities) (see **Figure A.4a**).

**Figure A.4.a: Structure of social welfare assistance in Italy**



Source: Università Milano Bicocca, *Le politiche di assistenza sociale*, Milano 2013, p. 11

Subsistence benefits are financed by the State budget (tax financed) and are allocated in different funds. In quantitative terms the most important is the National Fund for Social Policy which was founded in 1997 and which foresees a National Plan for Social Inclusion covering a three-year period. All schemes at the national level are run by the INPS. Most of the support is targeted to families, persons with disabilities and pensioners. Furthermore, maternity and parental leave benefits are subject of the National Plan. The most important schemes at the national level addressing persons who are *not employed, but able to work* are:

- *The Benefit for large families* (“Assegno per il nucleo familiare dei Comuni”) with a minimum of 3 children and an income below 25.384,91 € per year. This benefit is disbursed by the INPS via the municipalities, which are responsible for checking eligibility criteria. The entitlement to the benefit is restricted to persons with an income below the above mentioned amount independent of the source of income.
- *Subsidies for unemployed* in public works programmes or in vocational qualification/training measures (“Sussidi [LSU; LPU]”).

## Cost–benefit analysis of remedial interventions for the long-term unemployed

On the *regional level*, all Italian regions (as well as the autonomous provinces of Bolzano and Trento) define a Regional Social Plan, describing the institutional set-up of social policy on a regional level (including subsistence benefits), the objectives, role and tasks of local authorities. There are sometimes big differences within the Regional Social Plans. For example while the Lombardy region transfers all funds allocated to the local authorities without running its own programmes, the Piedmont region reserves a share of the budget at the regional level for direct housing benefits to persons/households in need.

*Local authorities* carry out all tasks foreseen by regional laws and defined in the Regional Social Plan. It is up to the local authorities how to implement the Regional Social Plan, which measures of support (financial/in kind) are offered and how services are organized. In general, local authorities develop a local plan (“Piano di zona”) in which the institutional arrangements, objectives and actions are described. The available funds generally belong to the categories of

- direct services (e.g. counselling, housing assistance, health services, training support, etc.),
- direct benefits (direct financial aid including those aimed at the reintegration into the labour market) and
- structures (e.g. daily health care centres, family centres, etc.).

Information on the number and structure of recipients of subsistence benefits is mostly out-of-date as far as official data sources are concerned. The latest available statistics at national level are reported in the National Report on Social Cohesion from 2013, but refer to 2010. Different types of subsistence benefits, generally subdivided by direct services (assistance, counselling, placements in day care, etc.), economic support (direct benefits) and structures (information centres etc.) are broken down by target groups (families/minors, persons with disabilities, homeless people, elder people and others), but not by age-group, gender or status of employment/unemployment or even duration of unemployment (see **Table A.4.d**).

**Table A.4.d: Users/beneficiaries of social assistance in Italy 2010 according to intervention fields**

|   | Persons with disabilities | Persons depending on others | Elder persons    | Families and minors | Immigrants     | Poverty and homeless persons | Others           | Total             |
|---|---------------------------|-----------------------------|------------------|---------------------|----------------|------------------------------|------------------|-------------------|
| <b>Users of direct services (in-kind)</b>                   | 569,892                   | 169,152                     | 1,759,706        | 1,583,399           | 486,59         | 482,931                      | 24,483           | 5,076,153         |
| <b>Beneficiaries of direct benefits (economic benefits)</b> | 129,315                   | 14,364                      | 293,511          | 557,200             | 62,606         | 331,999                      |                  | 1,388,995         |
| <b>Users of structures</b>                                  | 51,984                    | 10,373                      | 598,304          | 995,476             | 28,200         | 55,687                       | 2,062,989        | 3,803,013         |
| <b>Total</b>  | <b>751,191</b>            | <b>193,889</b>              | <b>2,651,521</b> | <b>3,136,075</b>    | <b>577,396</b> | <b>870,617</b>               | <b>2,087,472</b> | <b>10,268,161</b> |

Source: Ministero del Lavoro e delle Politiche Sociali, *Rapporto sulla coesione sociale, Anno 2013*,

#### 4.4.3. Institutional responsibility for LTU and service provision

As mentioned above, LTU and long-term non-employed can be found in either the system of unemployment benefits or in that of social welfare, which are separated on a structural level. The first system is run by the INPS as the National Authority at a central level and is depending on governance structures of local municipalities for which a framework has been established by regional authorities. The ability and willingness to work is subject to a written declaration of the non-employed (“Dichiarazione d’impiego immediato – DID”) that has to be presented to the local labour offices. Without this declaration no unemployment benefit is disbursed and no other support is provided to jobseekers.

Based on this self-declaration, the jobseeker and the local labour office agree upon an individual integration plan setting out different ALMP measures. If the jobseeker refuses to take part in the proposed measures and/or is not immediately available for integration into the labour market, then in theory sanctions can be imposed. However, in practice the only sanction which seems to be imposed refers to undeclared work. In this case the disbursement of unemployment benefits is immediately and completely suspended. Sanctions for refusing a job offer do practically not have an importance since in most cases the local labour offices simply fail to offer jobs to their clients in due time.<sup>122</sup> In addition, no official statistics on actual sanctioning and sanction rates exist.

Responsibility for benefit calculation rests with the central service of INPS. Applications can only be submitted electronically or by the applicant or by the officers at the local INPS-offices comprising 344 agencies and 1,646 contact points. There are no regulations concerning caseloads per counsellor, either in charge of benefit calculation (at the INPS) or responsible for labour market integration (at the local labour offices).

All means-tested subsistence benefits are calculated on the basis of the declaration of need by the applicant and the accompanying documents (Dichiarazione I.S.E.E./I.S.E.). This standard declaration can be submitted to the social assistance structures at a local level, to the municipality, to the INPS agencies and contact points, or to a local office of the fiscal authority. Once the declaration has been made, all relevant information is stored in a central INPS database to which any of the above mentioned organization has access. The declaration has a validity of one year beginning with the date on which the declaration was first presented. The declaration contains information on the regular income of all family/household members and of their properties. Any change in the economic situation has to be declared to one of the above mentioned organizations so that the single dataset can be updated. On basis of the content of the dataset, entitlement to different forms of social assistance is calculated.

There is no formal cooperation between the above mentioned organizations, but they all use the same database for the assessment of applications to subsistence benefits and other forms of social assistance (building on the I.S.E.E./I.S.E.-declaration mentioned above). Furthermore, there are no regulations concerning caseloads per counsellor either in charge of benefit calculation at the INPS or at the local level.

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<sup>122</sup> Roberto Cicciomessere, *La capacità d’intermediazione degli operatori pubblici e privati del lavoro: criticità e proposte per superarle*, Indagine conoscitiva sulla gestione dei servizi per il mercato del lavoro e sul ruolo degli operatori pubblici e privati, Roma 2014, p. 3

According to Decree No. 206/2014 ("Decreto 16 dicembre 2014, n. 206") a central assistance register ("Casellario dell'assistenza") should be implemented which keeps personal records on all beneficiaries and in which every public administration at all levels adds appropriate data, though it seems that the register is not yet fully operational. There are different longitudinal panels kept at ISTAT for research purposes, but it seems that they do not play a significant role in monitoring the effectiveness of ALMP and for managing the different support systems (contribution system, social assistance system and system of active labour market policies). Furthermore, it is unclear to what extent different entities/public administrations (will) make use of available information.

In relation to the treatment of a single case of unemployed/non-employed, the IAP specifies all the actions aiming at labour market integration. Relevant decisions and agreements are stored in a database to which all relevant stakeholders – the INPS, the local Employment Agency, the municipality and the Fiscal Authority – have access.

There is no regulation determining caseloads per officer at local labour offices, the INPS or the municipalities but there is some analysis of the actual caseloads within the local labour offices: According to an assessment published by ISFOL in 2013 (referring to 2012), the average caseload is 254 unemployed/non-employed who had signed a declaration of immediate availability. Within this average there are considerable differences between the regions and provinces the highest caseload among the provinces in Bari (1:1,029) in the Apulia region and the lowest in Prato (1:11) in the Toscana region. At the regional level, the Abruzzo region had the lowest average (1:99) and the Lombardy region the highest (1:516).

Moreover, funds not allocated to regional/local PES and/or social service units based on effectiveness measures. However, there is a continuous debate on the effectiveness and efficiency of the local Employment Agency and the different institutional set-ups in the Italian regions. Allocation of funds strongly depends on the "need" of a region (in terms of unemployment and poverty indicators) as far as the National budget is concerned. It may be added on the regional level by own resources (tax-financed) and/or by regional ESF-programmes.

Pay and employment conditions of PES counsellors do not depend on their performance based on integration rates. Instead pay depends on the labour contract content which is generally linked to an increase of qualifications achieved through regular participation in training. The more experienced and more qualified the employee gets, the higher the salary. Apart from the local Employment Agencies, private placement agencies can be accredited upon request. Their income depends on the proven capacity to place unemployed into the labour market. As far as evaluation is concerned, ISFOL and Italia Lavoro carry out monitoring, research and evaluation activities of labour market policies in Italy. The ESF dispersed by the regions is evaluated by independent private research institutes, universities and/or consultancies.

In the near future, it is planned to create a National Employment Agency (similar to Pôle Emploi in France or the Bundesagentur für Arbeit in Germany). The new Jobs Act (of which some parts concerning work contracts already came into force in early March 2015 and others in May 2015) plans the implementation of such a central agency by the end of 2016. The Assembly of Regions is generally receptive to such a central body but will only

support this structure as long as the regions will still be able to control the regional and local structure which currently is explicitly not foreseen in the Jobs Act.

#### **4.4.4. Use and costs of ALMP-measures**

Several Laws (Decreto Legislativo 19 dicembre 2002, n. 297 and Legge 28 giugno 2012, n. 92) define services for registered unemployed and non-employed via the local labour offices ("Centro per l'Impiego"). The laws refer to all registered unemployed and non-employed who register at the local Employment Agencies, declare their immediate availability to work and sign an individual agreement for labour market integration with the local labour office. The laws set out the following actions:

1. Personal meeting with the PES officer within three months after registration as unemployed or as non-employed: Within three months after registration at the local labour office the unemployed or non-employed persons receives an invitation to a personal meeting the objective of which is to give information about the integration process and the services offered by the labour office and to clarify any question the unemployed/non-employed person may have concerning the different forms of support.
2. Collective orientation measures between three and six months of unemployment: As a first step towards integration into the labour market, the unemployed/non-employed is required to participate in collective orientation measures. These offer initial information on job possibilities, training and further training measures, support for entrepreneurs, subsidies to employers and any other relevant issue concerning integration into the labour market. The participation of the unemployed in one or more collective orientation measures usually takes place between the third and sixth month after registration at the PES. Their duration varies from a couple of hours to one or more days.
3. Establishment of an individual action plan ("Progetto personalizzato") in order to facilitate labour market integration: After collective orientation measures, the local labour office and the unemployed/non-employed person agree upon an IAP for their labour market integration. The IAP is a formal agreement that defines the responsibilities and duties of the local office, as well as those applying to the unemployed/non-employed person. Furthermore, it defines the next integration steps that usually include training/re-training as well as subsidies to employers for job integration or to self-employment. Additional measures may be offered depending on the regional strategy and the provisions of the ESF-related Operational Programme and/or new programmes within the national active labour market policy framework.
4. Personal meetings for the entire period for which un-/non-employment persists: The IAP also requires regular meetings between the unemployed/non-employed and the PES officer in order to assess progress regarding employability, preferences and decisions of the unemployed/non-employed person after having participated in the collective orientation and training measures.
5. Training with a minimum duration of two weeks and a maximum duration of six months: Usually, the individual action plan foresees the participation of the unemployed/non-employed in training courses in order to re-fresh competences or to create new competences and qualifications that may increase their labour market

opportunities. Depending on the individual needs and qualification deficits, the training may vary in terms of duration, contents and organization, as well as the degree of practical elements (for example in form of internships or practical training in companies). A minimum of participation in one training measure is fixed, but participation in more is possible. Generally, the training is classroom-based and highly standardized.

6. Job offers and placements via direct subsidies to enterprises: Part of the individual action plan is also the regular offer of jobs to the unemployed/non-employed person by the labour office. In addition, direct grants are offered to employers for increasing the placement opportunities. Subsidies to the unemployed/non-employed are also available for the persons creating their own business or becoming self-employed.
7. “Any other measure favourable to their labour market integration”: The National laws also give local labour offices and unemployed/non-employed the opportunity to define “any other measure favourable to their labour market integration” within the IAP. Here the ESF becomes an important funding instrument for any kind of ALMP measure not explicit in the national laws. The ESF-opportunities may therefore allow the allocation to trainee programmes, public work projects (short- and long-term) and/or individualized programmes including a series of different measures targeted to the specific situation of the unemployed/non-employed person. Depending on the resources from ESF and on political priorities in the regions, it is also used to support the mentioned measures regulated by national laws. For instance, training which is normally limited to a six-month period can be prolonged or the classroom training extended by practical training periods in enterprises.

Apart from the measures defined in the IAP, employers can obtain subsidies for their social security contributions when hiring an unemployed person. These subsidies were formerly restricted to the creation of jobs for LTU and were available from January 2015 for all unemployed. On the operational level, the local labour offices are responsible for the provision of labour market oriented services. In case of training they usually cooperate with external service providers. In this context, an OECD report highlights that training provision in Italy is relatively ineffective: compared to other European countries, being among the most expensive (per participant hour) yet failing to significantly increase the chances of participants to enter the labour market (see OCED, Studi economici dell’OCSE, Italia, Febbraio 2015, Overview, p. 25). The laws also foresee that the above mentioned job-placement offers and/or offers for the participation in training or requalification measures are proposed to LTU within six months after registration at the local labour office.

The strategic orientation of local labour offices is determined by the regions and their action plans for the labour market. Apart from the mix of ALMP-measures, the regions define how it is carried out, how the local labour offices are organized, how many employees they have, which recruitment strategies apply, etc. The regional plans can also define the general rules for the cooperation of different stakeholders at local level such as the local labour offices and municipalities who are responsible for actions to combat poverty and who are entitled to include mechanisms aiming at the integration into the labour market into their portfolio. The specific resources for cooperation on local level are determined by the local employment plans province level. The role of

municipalities, local labour offices and other stakeholders, as well as the way they can cooperate is regulated in these plans.

Finally, it is important to note that some measures considered as being actions falling within passive labour market policy (for example out-of-work income and early retirement schemes) in other countries are traditionally regarded as being part of ALMP in Italy. In this context of the total expenditure on labour market policy, more than three quarters are spent on out-of-work income and early retirement schemes with just 18.3% being devoted to active measures whereas a further 1.2% on administrative costs (see **Table A.4.e**). Around 60% of all participants in ALMP-measures belonged to out-of-work income maintenance and support and early retirement in 2012, and this share has increased over previous years (2010: 53.9%; see **Table A.4.f**).

**Table A.4.e: Expenditures for labour market policy in Italy 2012**

| <b>Category</b> | <b>Measure</b>  | <b>mIn Euro</b>   | <b>Share in % of total expenditure</b> |
|-----------------|---|-------------------|--|
| <b>1</b>        | <b>Administrative costs</b>   | <b>386,818</b>    | <b>1.3</b>                             |
| 2               | Labour market services (orientation and individual assistance for individualized labour market integration) | 72,403            | 0.2                                    |
| 3               | Training  | 537,709           | 1.7                                    |
| 4               | Employment incentives   | 4,658,207         | 15.0                                   |
| 5               | Supported employment and rehabilitation   | 108,074           | 0.4                                    |
| 6               | Direct job creation   | 76,520            | 0.3                                    |
| 7               | Start-up incentives   | 220,400           | 0.7                                    |
| <b>2-7</b>      | <b>Total active labour market policy without early retirement and out-of work maintenance and support</b>   | <b>567,3313</b>   | <b>18.3</b>                            |
| 8               | Out-of-work income maintenance and support  | 23,708,330        | 76.5                                   |
| 9               | Early retirement  | 1,241,158         | 4.0                                    |
| <b>8-9</b>      | <b>Out-of-work income maintenance and support and early retirement</b>                                      | <b>24,949,488</b> | <b>80.5</b>                            |
| <b>1-9</b>      | <b>Total expenditure</b>  | <b>31,009,619</b> | <b>100.0</b>                           |

*Source: Ministero del Lavoro e delle Politiche Sociali, Ufficio di Statistica, Spesa per le politiche occupazionali e del lavoro, Anno 2012 (=Quaderni di studi e statistiche sul mercato di lavoro, numero 6 - Agosto 2014), Roma 2014*

Furthermore, around 44% of all participants in ALMP measures were LTU in 2012 (see **Figure A.2.b**). Across the regions there are substantial differences with a range of 95.5% LTU in the Basilicata region, to 11.8% in the Lombardy region.

**Table A.4.f: Participants/beneficiaries of labour market measures in Italy 2010-2012**

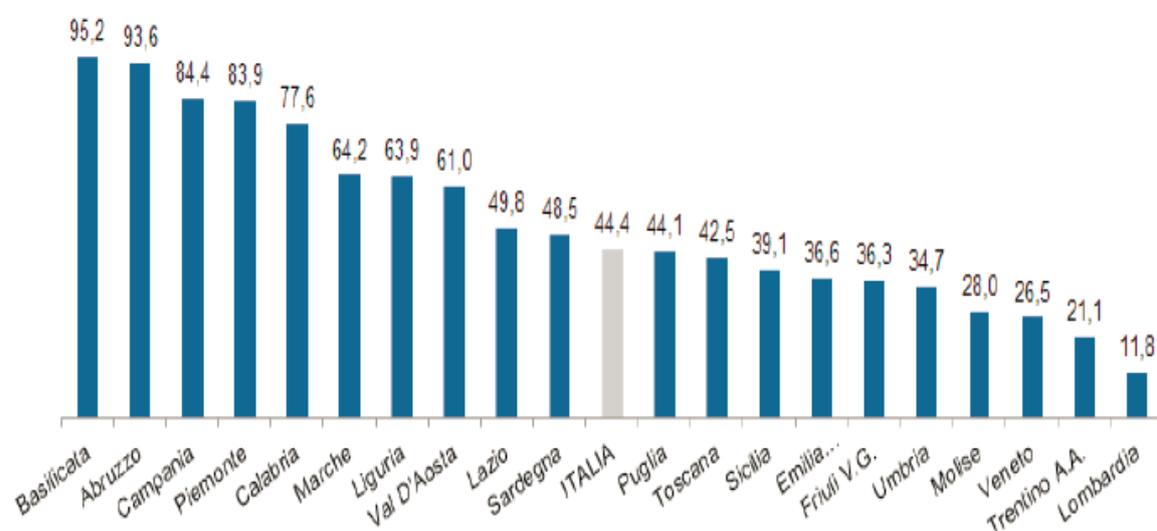
|                           | Labour market services | Training | Employment incentives | Supported employment and rehabilitation | Direct job creation | Start-up incentives | Out-of-work income maintenance and support | Early retirement | Total active labour market policy without early retirement and out-of-work maintenance and support | Out-of-work income maintenance and support and early retirement |
|---------------------------|------------------------|----------|-----------------------|---|---------------------|---------------------|--|------------------|--|---|
|                           | 1                      | 2        | 3                     | 4                                       | 5                   | 6                   | 7  | 8                | Categories 2-6   | Categories 7-8  |
| <b>Total</b>              |                        |          |                       |   |                     |                     |  |                  |  |   |
| <b>2010</b>               | n.a.                   | 644,755  | 614,336               | n.a.                                    | 18,796              | n.a.                | 1,181,226                                  | 312,493          | 1,277,887  | 1,493,719   |
| <i>Male</i>               |                        | n.a.     | 327,534               |   | 9,192               |                     | 692,058                                    | 238,794          | 654,593  | 930,852   |
| <i>Female</i>             |                        |          | 283,003               |   | 9,603               |                     | 489,167                                    | 73,699           | 549,174  | 562,866   |
| <b>2011</b>               |                        |          | 634,740               |   | 17,105              |                     | 1,177,577                                  | 315,327          | 1,216,021  | 1,492,904   |
| <i>Male</i>               |                        |          | 346,542               |   | 8,339               |                     | 669,040                                    | 241,965          | 653,632  | 911,005   |
| <i>Female</i>             |                        |          | 285,397               |   | 8,766               |                     | 505,537                                    | 73,362           | 533,658  | 578,899   |
| <b>2012</b>               |                        |          | 623,902               |   | 15,506              |                     | 1,369,395                                  | 308,744          | 1,173,325  | 1,678,139   |
| <i>Male</i>               |                        |          | 338,381               |   | 7,761               |                     | 798,551                                    | 236,275          | 628,332  | 1,034,826   |
| <i>Female</i>             |                        |          | 283,470               |   | 7,745               |                     | 570,844                                    | 72,469           | 519,024  | 643,313   |
| <b>Less than 25 years</b> |                        |          |                       |   |                     |                     |  |                  |  |   |
| <b>2010</b>               | n.a.                   | n.a.     | 88,977                | n.a.                                    | n.a.                | n.a.                | 55,380                                     | n.a.             | 413,122  | 55,380  |
| <i>Male</i>               |                        |          | 52,477                |   |                     |                     | 38,091                                     |                  | 247,415  | 38,091  |
| <i>Female</i>             |                        |          | 36,500                |   |                     |                     | 17,289                                     |                  | 165,707  | 17,289  |
| <b>2011</b>               |                        |          | 84,112                |   |                     |                     | 47,927                                     |                  | 382,132  | 47,927  |
| <i>Male</i>               |                        |          | 49,954                |   |                     |                     | 31,402                                     |                  | 228,944  | 31,402  |

## Cost–benefit analysis of remedial interventions for the long-term unemployed

|               |  |  |        |  |  |        |  |         |        |
|---------------|--|--|--------|--|--|--------|--|---------|--------|
| <i>Female</i> |  |  | 34,158 |  |  | 16,524 |  | 152,758 | 16,524 |
| <b>2012</b>   |  |  | 76,765 |  |  | 72,840 |  | 351,984 | 72,840 |
| <i>Male</i>   |  |  | 44,419 |  |  | 48,234 |  | 207,836 | 48,234 |
| <i>Female</i> |  |  | 32,346 |  |  | 24,606 |  | 143,401 | 24,606 |

Source: EUROSTAT, LMP participants by type of action - summary tables (source: DG EMPL) [Imp\_partsumm], URL: [http://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=Imp\\_partsumm&lang=en](http://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=Imp_partsumm&lang=en)

**Figure A.4.b: Share of long-term unemployed registered at the local Employment Agencies in 2012 taking part in measures of active labour market policy by region**



Source: Ministero de Lavoro e delle Politiche Sociali, *Indagine sui servizi per l'impiego 2013, Rapporto di monitoraggio, Roma 2013, p. 29*

In general, programmes and measures do not differ for short-term and long-term unemployed or for those who receive or do not receive unemployment benefits. They usually follow the structure described above and are strongly linked to the mutually agreed IAP. The Italian ALMP has been subject to substantial criticism over the past ten years. Apart from critical statements from employers' organizations and chambers in particular,<sup>123</sup> the inefficiency of Italian labour market policy has been discussed by international organizations such as the OECD<sup>124</sup> and European Commission<sup>125</sup> and been proved by evaluation results (see for example studies by ISFOL, Italia Lavoro and others).<sup>126</sup> The biggest problem appears to be that in the past, ALMP was assessed by only taking into account the share of expenditures in relation to GDP: the higher this share was, the better performance was perceived. Another problem is the large differences between national, regional and local levels, made worse by the variety of competing funding schemes, overlapping responsibilities of stakeholders and unclear interfaces between passive and active labour market policies.

#### *Complementary social services*

<sup>123</sup> See for example: Ufficio Studi Confartigianato, *I centri per l'impiego: alcuni dati su efficacia e spesa*, Elaborazione flash, 21/10/2013, Roma 2013 and Ufficio Studi Confartigianato, *Scheda di aggiornamento su mercato del lavoro e centri per l'impiego precedente analisi in Elaborazione Flash del 11-20-2013*, Elaborazione flash, 26/11/2013, Roma 2013

<sup>124</sup> See for example: see OCED, *Studi economici dell'OCSE, Italia, Febbraio 2015* and OECD, *Italia, Riforme strutturali: impatto su crescita e occupazione*, Febbraio 2015

<sup>125</sup> See for example: European Commission, *Commission Staff Working Document, Country Report Italy 2015, including an In-Depth Review on the prevention and correction of macroeconomic imbalances {COM(2015) 85 final}*, Brussels, 18.3.2015, SWD(2015) 31 final/2

<sup>126</sup> See for example: ISFOL, *Lo stato dei Servizi pubblici per l'impiego in Europa: tendenze, conferme e sorprese*, Isfol Occasional Paper, numero 13/marzo 2014, Roma 2014; ItaliaLavoro, *Le Politiche Attive del Lavoro in Europa Scheda ITALIA*, Roma; ItaliaLavoro, *Benchmarking sui Servizi pubblici per l'impiego in Europa*, Roma; Ministero del Lavoro e delle Politiche Sociali - DG Politiche dei Servizi per il Lavoro/ ItaliaLavoro, *Indagine sui servizi per l'impiego 2013, Rapporto di monitoraggio*, Roma 2014

## Cost–benefit analysis of remedial interventions for the long-term unemployed

Additional (financial and non-financial) services within the minimum subsistence guarantee and focused on the needs of vulnerable groups are defined in Law no. 328/2000 ("Legge 8 novembre 2000, n. 328"). However, the law only regulates what generally is covered within the integrated system of social services interventions and not *what precisely these services include and how they are organized*.

In this context, services for persons with disabilities, for those taking care of persons with disabilities, housing support, information and counselling, support for homeless people, refugees, migrants, assistance to elder persons (including care centres) and to minors, as well as any support to other persons in need are mentioned. Furthermore, the Law defines the role of the national state, the regions, the provinces, the municipalities, the welfare associations and other state bodies in the health sector and leaves most implementing responsibilities to local self-organization. The framework for municipalities is the annual local plan ("Piano di zona"), in which priorities for actions, most vulnerable groups, objectives of interventions, necessary instruments, financial and non-financial support measures, budgets, etc. are defined. **Table A.4.g** provides an overview of social services available in the Piedmont region, the number of beneficiaries and expenditures in 2012.

**Table A.4.g: Number of beneficiaries and expenditures of social services in the Piedmont region 2012**

| Support measure   | Support measures | Expenditures in € | Expenditures in € per application |
|---|------------------|-------------------|-----------------------------------|
| Professional social service/consultation service to individuals                         | 251.505          | 46.521.000        | 184,97                            |
| Financial support for persons placed in residential homes(elderly, minors and disabled) | 12.470           | 92.640.000        | 7.429,03                          |
| Financial support for integration in day care   | 7.937            | 26.304.000        | 3.314,10                          |
| Integration in short-term care  | 1.045            | 376.000           | 359,81                            |
| Residential care for minors, adults and elder persons                                   | 4.520            | 10.402.000        | 2.301,33                          |
| Day care for minors and minors with disabilities  | 2.381            | 5.835.000         | 2.450,65                          |
| Support for adoptions   | 1.790            | 1.196.000         | 668,16                            |
| Interventions in the frame of family guidance   | 599              | 272.000           | 454,09                            |
| Parenthood support  | 4.307            | 2.429.000         | 563,97                            |
| Support in accordance with guardianship regulations                                     | 3.882            | 2.860.000         | 736,73                            |
| Cultural mediation  | 7.923            | 408.000           | 51,50                             |
| Social counselling in school education  | 4.795            | 6.686.000         | 1.394,37                          |
| General social counselling services in the region                                       | 13.335           | 27.636.000        | 2.072,44                          |

Cost–benefit analysis of remedial interventions for the long-term unemployed

| Support measure                                     | Support measures | Expenditures in €  | Expenditures in € per application |
|---|------------------|--------------------|-----------------------------------|
| Support for integration in employment               | 3.188            | 6.506.000          | 2.040,78                          |
| Home care related social assistance                 | 12.407           | 21.886.000         | 1.764,00                          |
| Integrated home care services/medical care          | 10.411           | 16.386.000         | 1.573,91                          |
| Remote alarm facilities and similar services        | 3.972            | 898.000            | 226,08                            |
| Vouchers, care cheques, medical cards               | 7.747            | 34.915.000         | 4.506,91                          |
| Additional support for assistance to domicile       | 13.739           | 9.160.000          | 666,72                            |
| Loan for families in need                           | 129              | 104.000            | 806,20                            |
| Financial subsidies for personal/household services | 36.859           | 23.600.000         | 573,30                            |
| Financial subsidies to low family income            | 424              |                    |                                   |
| Financial subsidies for medical treatment           | 1.596            |                    |                                   |
| Financial subsidies for labour market integration   | 2.286            |                    |                                   |
| Financial subsidies to foster-families              | 7.054            |                    |                                   |
| Social secretariat and counselling                  | 176.388          | 3.649.000          | 20,69                             |
| Other   | n.a.             | 7.013.000          | n.a.                              |
| <b>Total</b>  | <b>341.184</b>   | <b>355.396.000</b> | <b>1.041,65</b>                   |

*Source: Regione Piedmont, Direzione Politiche Sociali e Politiche per la Famiglia, I servizi sociali territoriali in cifre, 2014, Torino 2014, p. 45-49*

As a result of this, the provision of services varies from region to region and municipality to municipality: Services may be offered by the region itself, the social and assistance services of the municipalities ("Comuni"), the local health care centres, organizations that act as technical assistance for the region and/or the municipalities, or both (such as happens in Veneto), or by (private and/or public) service providers on a local level and/or by associations.

Official statistics on factual caseloads in these organisations are not available but the following figures may be indicative of the situation. In the Piedmont region 341,184 individuals benefitted from individual counselling in 2012 (see **Table 2.4.g**) while the social assistance sector counted 3,570 employees in the same year, belonging to the following areas: (a) social assistants (971), (b) trainers and social workers in the educational field (718), (c) operators in the fields of health and medical care (983) and (c) 898 counsellors and administrative staff. Not taking into account employees in the private sector and within associations, this implies a caseload of 1:95.

No information is available regarding the duration of unemployment or non-employment of users/beneficiaries of social services and/or subsistence payments. For instance, for

the Piedmont region, information on beneficiaries of social services is only disaggregated by age-groups, the existence of a disability and the province.

#### 4.4.5. Administration costs

Due to the large institutional heterogeneity it is impossible to provide a comprehensive picture of administrative costs at all levels. For instance, for the costs of benefit disbursement the INPS had a total number of 31,848 employees in 2013 with total expenditures of 2,235 million €. However, there is no information on staff deployed on the disbursement of unemployment and social assistance benefits.

In 2012, 3,864 persons were employed in the social services of the Piedmont Region with 971 working as social assistants and executives and a further 898 as administrative staff. In the same year, expenditure for general administration, management and control were 27,796,500 € and 121,068,000 € was spent on salaries of all its own 3,864 employees. Approximately 84 million € was spent on salaries of employees in organizations that have been delegated to deliver social services on behalf of the public administrations at regional and/or local levels. There is no specific information available concerning staff and/or administrative costs related to the disbursement of benefits for persons in need. Furthermore, there is no information is available on the average pay of counsellors in charge of subsistence benefit calculation and disbursement. However, extracting from this information it is possible to give the following indicative figures. The average salary for staff within the social services of the local/regional level is around 2,600 € per month and the average salary for employees at the INPS is around 5,012 € per month (not taking account the function of the employee).

In the last few years staff and financial expenses for employees have considerably decreased at regional and national levels. For example between 2010 and 2012, the number of employees in the social services of the Piedmont region has been cut by 7.9% leading to a reduction of 10.3% of staff expenditure. At the national level, the number of employees decreased by 2.9% between 2012 and 2013 and staff expenditures fell by 6.2%. As far as the INPS is concerned, it is likely that the trend of further falls in the number of employees will continue in the next few years in line with the Government's Stability Act that foresees a reduction of the number of employees in public administration and services.

**Table A.4.h** shows that the highest amount of expenses within labour market policy (80.5%) in Italy was dedicated to out-of-work income maintenance and to early retirement schemes. More than 11.200 € per head was spent in 2012 for this kind of support to (registered) unemployed. In addition, around 2,560 € per (registered) unemployed was spent for ALMP-interventions in the same year and 175 € per (registered) unemployed covered the administration budget of 386.8 million €.

**Table A.4.h: Administrative costs and costs for active labour market policy in Italy 2012 – total expenditures and expenditures per registered unemployed and per unemployed**

| Measure | mIn Euro | Euro per registered unemployed <sup>1</sup> | Euro per unemployed <sup>2</sup> |
|---------|----------|---|----------------------------------|
|---------|----------|---|----------------------------------|

|   |            |           |           |
|---|------------|-----------|-----------|
| <b>Administrative costs</b>   | 386,818    | 174.63    | 140.98    |
| <b>Total active labour market policy without early retirement and out-of work maintenance and support</b> | 5,673,313  | 2,561.27  | 2,067.74  |
| <b>Out-of-work income maintenance and support and early retirement</b>                                    | 24,949,488 | 11,263.69 | 9,093.29  |
| <b>Total expenditure</b>  | 31,009,619 | 13,999.59 | 11,302.02 |

<sup>1)</sup> on basis of average number of registered unemployed in 2012; <sup>2)</sup> on basis of average number of unemployed in 2012

*Source: Ministero del Lavoro e delle Politiche Sociali, Ufficio di Statistica, Spesa per le politiche occupazionali e del lavoro, Anno 2012 (=Quaderni di studi e statistiche sul mercato di lavoro, numero 6 - Agosto 2014), Roma 2014 and ItaliaLavoro, Staff die Statistica Studi e Ricerche sul Mercato del Lavoro, Benchmarking sui Servizi pubblici per l'impiego in Europa, Roma 2014, p. 21*

#### 4.4.6. Future initiatives

As already mentioned above, the functioning of the labour market policy in Italy and especially the effectiveness of its institutions have been subject to major criticism in the last years. This criticism is a general one and not specifically related to the support for long-term unemployed. The most important issues raised in the public discussion are:<sup>127</sup>

- With high caseloads it is not possible to offer individualized services to the unemployed and to activate them properly. This is seen as a major reason that the Italian PES exhibits a relatively low rate of placements related to all job-integrations of unemployed;
- The majority of local labour offices does not offer services to employers with the consequence that only a small number of vacancies is acquired;
- Behavioural policies of the single local labour offices cannot be applied effectively also because the system of counselling and orientation within the PES on the one hand, the disbursement of unemployment benefits by ISFOL and the social assistances by the local level are not or only partially linked together;
- Limited cooperation between the PES and the private employment agencies.

The most recent reform, the Jobs Act, adopted in December 2014, consists of an enabling law that awaits translation into implementing legislation. The two key elements in relation to LTU are:

- the extension in duration and coverage of unemployment benefits (plus 6 months from 18 to 24 months), an additional unemployment assistance scheme for some disadvantaged groups and stronger conditionality with activation measures. An implementation decree has already been adopted. Hence, this element became effective for people becoming unemployed as of May 2015. A budget of about 2 billion € is estimated for this element of the Jobs Act until the end of 2016.

<sup>127</sup> See Roberto Cicciomessere, La capacità d'intermediazione degli operatori pubblici e privati del lavoro: criticità e proposte per superarle, Indagine conoscitiva sulla gestione dei servizi per il mercato del lavoro e sul ruolo degli operatori pubblici e privati, Roma 2014, p. 3-4

- the revision and reinforcement of ALMP, with a stronger coordination that should be ensured by a new agency for active and passive labour market policies. This decree has still to be issued (it is expected by June 2015). Therefore, the design of the measure is not yet known but it needs to take into account the planned Constitutional reform that will bring back competences for ALMP to the central level. In principle this should involve the establishment of a national coordination agency to improve the governance of the system, as well as the link between passive and active policies. The creation of the agency is also expected to require planning and implementing a comprehensive national strategy on employment services, including a better integration between public and private services. Unfortunately, no information is available on the funds earmarked for this element of the Jobs Act.

Finally, regarding the institution of a National Agency of Employment, the aim of the reform is to better coordinate the labour market services throughout the national territory, implementing ALMP-measures and creating a stronger network of all organizations with competences in the field of labour market policies. During the last ministers meeting (of June 11<sup>th</sup>, 2015), the first draft of the legislative decree on the reform of the employment services and active labour market policies has been adopted. It is foreseen that the new National Agency for the Active Labour Market Policies (“ANPAL – Agenzia nazionale per le politiche attive del lavoro” will be set up on January 1<sup>st</sup>, 2016.

#### 4.4.7. Summary

Overall the Italian system for the provision of services to LTU can be characterized as follows:

- a) Coverage:** The system is highly fragmented and heterogeneous. It covers only persons who register with the PES and this group comprises individuals who are eligible for some form of unemployment benefit and those who voluntarily register without being eligible for benefit. As such it is very likely that a large share of those able-to-work recipients of other benefits is not covered. However, due to the lack of suitable data, it is not possible to estimate the numbers not covered by the system.
- b) Individualization:** *De jure* individual support is provided through an agreement between an individual and the public and private employment services in a framework of mutual obligations. The service agreement should be translated into an individual action plan which has to contain participation in at least one training measure. However the extent to which this is implemented *de facto* is unclear. There is also a lack of clarity on how regularly this process is followed up and the caseloads among staff in the relevant agencies, though it seems that these tend to vary significantly across regions.
- c) Employer integration:** Employers are only integrated into the system by the provision of monetary incentives such as wage subsidies for the hiring of LTU, as well as subsidies to prevent the dismissal of the existing employed.
- d) Institutional integration:** There would appear to be a serious lack of coherent and systematic connections between employment and social assistance services. Cooperation, coordination and partnership between the institutions responsible for these services do not exist in a coherent and systematic way throughout the whole

## Cost–benefit analysis of remedial interventions for the long-term unemployed

country, with any interaction between them being sporadic and the exchange of data not systematic.

## 4.5. A.5 Lithuania

### 4.5.1. Definition and magnitude of long-term unemployment

According to the Law on Support for Employment of the Republic of Lithuania, the unemployed are persons who are jobless, of working age, able of work, not a full-time student and have registered with the local labour exchange. Long-term unemployed (LTU) are persons who are unemployed for more than 6 months (persons under 25 years of age) or for more than 12 months (persons older than 24 years of age). **Table A.5.a** shows the number of unemployed, the number of LTU, as well as the share of LTU among all unemployed. It clearly illustrates the rather large variation over time with a strong increase in LTU between 2008 and 2010/2011 and a decline thereafter. However, this decline in LTU was less pronounced than that for overall unemployment and so the share of LTU among all unemployed remained high in 2014.

**Table A.5.a: Long-term unemployed in Lithuania**

| Year | Average annual stock |         |                   |
|------|----------------------|---------|-------------------|
|      | Total unemployed     | LTU     | Share of LTU in % |
| 2008 | 73,380               | 3,775   | 5.1               |
| 2009 | 203,118              | 15,710  | 7.7               |
| 2010 | 312,116              | 96,994  | 31.1              |
| 2011 | 247,202              | 116,218 | 47.0              |
| 2012 | 216,873              | 65,923  | 30.4              |
| 2013 | 201,322              | 57,122  | 28.4              |
| 2014 | 173,006              | 58,167  | 33.6              |

Source: Data provided by the Lithuanian Labour Exchange under the Ministry of Social Security and Labour.

The unemployed receive unemployment insurance benefits which depend on the length of contribution to the fund. It is paid for a maximum duration of nine months and so by definition LTU *cannot* receive this benefit. Since 2013, the Social Insurance Fund Board has had responsibility for the disbursement of unemployment insurance benefits. **Table A.5.b** shows some key figures on unemployment benefit recipience in Lithuania.

**Table A.5.b: Recipience of unemployment insurance benefits**

|   | 2010  | 2011  | 2012  | 2013  | 2014* |
|---|-------|-------|-------|-------|-------|
| Average number of unemployed receiving unemployment insurance benefits ( thousands) | 56.4  | 35.7  | 35.0  | 42.4  | 40.9  |
| Average amount of unemployment insurance benefits (in € per month)                  | 161.0 | 158.4 | 163.1 | 160.2 | 176.5 |
| Average share of unemployed receiving the benefit relative to the total number of   | 18.1  | 14.4  | 16.1  | 21    | 23.6  |

|  | 2010 | 2011 | 2012 | 2013 | 2014* |
|--|------|------|------|------|-------|
| the registered unemployed (in %)   |      |      |      |      |       |
| Average duration of payment of the unemployment insurance benefits (in months) | 4.8  | 4.2  | 4.1  | 3.9  | 3.8   |

Source: Data provided by the Lithuanian Labour Exchange under the Ministry of Social Security and Labour, average annual number; \*preliminary data

#### 4.5.2. Means-tested subsistence benefits for non-employed

Long-term unemployed can receive social benefits in the form of:

- *Social assistance*: This benefit is paid to low-income families and individuals living alone where the income per family member is lower than that supported by the State and the value of property held does not exceed the property value norm (i.e. it is means-tested). Social assistance benefit is paid according to 100% of the difference between state-supported income (since January 2015 102 € per family member per month) and the average monthly income of the family. Municipal social assistance departments are responsible for payment of social benefits.
- *Reimbursement of expenditures on heating and water supply*: These expenditures are partly reimbursed to low-income families and individuals living alone. Municipal social assistance departments are responsible for the disbursement of social benefits.

As becomes transparent from **Table A.5.c**, in 2014 on average almost 140,000 persons received social assistance which on average amounted to around 62 € per month. The number of persons receiving reimbursements for their expenditures in heating and water supply was around 200,000.

**Table A.5.c: Recipients of social benefits**

|  | 2010  | 2011  | 2012  | 2013  | 2014* |
|--|-------|-------|-------|-------|-------|
| Recipients of social assistance benefit (thousands)              | 181.3 | 221.1 | 221.9 | 190.0 | 139.8 |
| Average benefit (in € per month)                                 | 68.0  | 66.9  | 65.2  | 64.6  | 61.9  |
| Recipients of heating and water supply reimbursement (thousands) | 166.5 | 220.9 | 198.8 | 204.9 | 200.7 |

Source: Data provided by the Ministry of Social Security and Labour, on average per month; \*preliminary data

In 2014, almost 34% of all social benefit recipients were registered at the local labour offices as unemployed and of them around 56% were LTU. During 2012-2014 the number of income support recipients decreased, but the number of LTU increased (see **Table A.5.d**).

**Table A.5.d: Registered unemployed, long-term unemployed and persons receiving social benefits (in thousands)**

## Cost–benefit analysis of remedial interventions for the long-term unemployed

| Year | Unemployed | Of them: social benefit recipients | LTU  | Of them: social benefit recipients |
|------|------------|------------------------------------|------|------------------------------------|
| 2014 | 169.2      | 46.9                               | 52.9 | 26.4                               |
| 2013 | 203.5      | 48.3                               | 62.3 | 24.0                               |
| 2012 | 210.2      | 47.3                               | 51.0 | 16.0                               |

Source: Data provided by the Lithuanian Labour Exchange under the Ministry of Social Security and Labour

During 2013-2014 the number of social support recipients decreased by 26.4 % and the number of working age social support recipients decreased the most (see **Table A.5.e**).

**Table A.5.e: Structure of recipients of social benefits (thousands)**

|                                       | 2014  | 2013  | 2012  |
|---------------------------------------|-------|-------|-------|
| Women                                 | 69.0  | 92.0  | 107.7 |
| Men                                   | 70.8  | 98.0  | 114.2 |
| under 25 years                        | 62.9  | 89.4  | 109.6 |
| 25 to 50 years                        | 47.9  | 68.1  | 79.4  |
| 50 to 55 years                        | 12.2  | 15.5  | 16.3  |
| 55 years and older                    | 16.8  | 17.0  | 16.6  |
| 1 person under 30 years household     | 8.8   | 16.5  | 20.7  |
| 1 person 30 to 64 years household     | 32.7  | 41.1  | 42.2  |
| 1 person 65 years and older household | 0.8   | 0.6   | 0.4   |
| Single parent household               | 31.1  | 40.7  | 48.8  |
| Two adults with children household    | 58.0  | 81.7  | 99.3  |
| Two adults without children household | 8.5   | 9.9   | 10.4  |
| Total                                 | 139.8 | 190.0 | 221.9 |

Source: Data provided by the database of the beneficiaries of the social assistance (SPISS)

### 4.5.3. Institutional responsibility for LTU and service provision

As illustrated in **Table A.5.f**, different institutions are responsible for the payment of unemployment benefits and social assistance, but the Lithuanian Labour Exchange (LLE) under the Ministry of Social Security and Labour is responsible for labour market oriented service provision to all recipients. Hence, the LLE is also responsible for the integration of LTU into the labour market (provision of labour market oriented services and implementation of ALMP-measures). Since 1<sup>st</sup> January 2015, municipalities calculate and disburse social benefits and one of the eligibility criteria is registration at the local labour office.

**Table A.5.f: Institutional responsibilities**

| Type of allowance/benefit | Responsibilities   |              |                                    |
|---------------------------|--------------------|--------------|------------------------------------|
|                           | Registration       | Payments     | Employment services for recipients |
| <b>Unemployment</b>       | The LLE undertakes | State Social | LLE                                |

| Type of allowance/benefit | Responsibilities   |   |                                    |
|---------------------------|--|---|------------------------------------|
|                           | Registration   | Payments  | Employment services for recipients |
| <b>insurance benefit</b>  | initial registration and on-going monitoring of continued eligibility  | Insurance Fund Board under the Ministry of Social Security and Labour (SODRA) |                                    |
| <b>Social assistance</b>  | Municipalities (one of the conditions to get benefits for the unemployed or part-time workers is registration at the LLE). | Municipalities  | LLE                                |

In 2014, the LLE had 1,441 employees, of who 432 provided services to the LTU and the average caseload for PES specialists working with LTU is 1:136 (see **Table A.5.g**). According to the *Law on Support for Employment of the Republic of Lithuania* and the *Declaration of the Conditions and Procedures of Labour Market Service Provision*, the LLE provides information, counselling, employment mediation, as well as individual action planning and implements active labour market policy measures. Complementary social services for LTU are not provided. Social support departments in municipalities consider individual requests for social benefits, check eligibility, calculate and disburse them. However, these departments do not provide complementary social services for the LTU.

**Table A.5.g: Caseloads at LLE**

| Type of caseload   | Ratio   |
|--|---|
| Average caseload, all client-facing staff                                      | 1:240   |
| Average caseload for employment counsellors working with registered jobseekers | 1:333   |
| Average caseload for specialist categories of employment counsellors           | 1:213 for counsellors working with youth<br>1:136 for counsellors working with long term unemployed |

At the LLE labour market-oriented services for clients are provided differentially, according to their proximity to the labour market and their motivation. Jobseekers are placed into four target groups: (i) prepared for the labour market and motivated, (ii) prepared for the labour market but unmotivated, (iii) not prepared for the labour market but motivated and (iv) not prepared for the labour market and unmotivated. According to the individual needs of a jobseeker and relevant client segment, the jobseeker and counsellor agree on an individual action plan (IAP), which contains specific services and actions aiming at the jobseeker's successful integration into the labour market. IAPs for social support recipients and youth (16-29 years of age) must be agreed upon within a period of one month and for other target groups within a period of three months.

Clients of local labour offices are provided with information and counselling services according to their individual needs, abilities and the situation in the labour market.

Counselling services for LTU are provided individually or in groups and are divided into separate topics: the improvement of job search skills, motivation, vocational guidance and counselling and self-employment (see **Table A.5.h**).

**Table A.5.h: Counselling and guidance of jobseekers**

| Services provided   | Target group of the service                  | Delivery of the service               | Number of people reached (monthly average) |
|---|--|---------------------------------------|--|
| <b>Individual counselling</b>   | All jobseekers                               | Face to face interviews               | 106,918                                    |
| <b>Job clubs</b>  | Young people, long-term unemployed           | Group coaching sessions               | 2,807                                      |
| <b>Group counselling 'Mano pasiekimų aplankas' (My achievement portfolio)</b> | Demotivated older, long-term unemployed      | Group coaching sessions               | 578  |
| <b>Group counselling 'Aš galiu' (I can)</b>                                   | Demotivated young, long-term unemployed      | Group coaching sessions               | 241  |
| <b>Self-service</b>   | Prepared for the labour market and motivated | Web-based job-vacancy and CV database | 190,000                                    |

In order to receive financial social support, working age individuals must be registered at the local labour offices, actively search for a job, be ready and willing to accept a suitable job offer, create an IAP and participate in services and measures agreed in the IAP. The jobseeker's registration at the local labour office is terminated in the event of:

- refuses a suitable job offer;
- without excuse does not appear at the local labour office at the agreed time to accept a suitable job offer;
- without excuse refuses or does not arrive at the agreed time to participate in the ALMP-measure, which was agreed on in the IAP;
- without serious cause terminates participation in a vocational training measure or refuses to be employed after finishing the vocational training measure.

Jobseekers whose registration at the local labour office was terminated due to the above reasons can re-register at the local labour office only after a period of six months has elapsed.

In 2014 registration at the local labour exchange office due to the above reasons was terminated for 49,100 jobseekers, 10,600 of who were LTU (on average a rate of 900 each month). LTU whose registration at the local labour offices was terminated accounted for 1.5% of the average number of the total registered LTU.

Municipal Councils have an exclusive competence to approve the *Declaration of the Conditions of the Provision of Monetary Social Support*, which determines:

- the conditions of allocation and payment of financial social support;
- reasons when financial social support can be allocated on other occasions, not specified in the *Law on Monetary Social Support*, when this support can be increased or decreased, suspended, terminated, renewed, etc.;
- the conditions of involvement of community-based organisations, NGOs, representatives of local communities and other stakeholders in the process of determining the conditions of the allocation of financial social support.

Based on a mutual data provision agreement, there is an information interchange between the LLE's information system and that of the Ministry of Social Security and Labour. Data provision agreement includes data about social support recipients registered at the local labour offices and their participation in the ALMP-measures. For jobseekers who are receiving social support, LLE provides more intensive labour market oriented services (information, counselling and employment mediation) and implements ALMP-measures. Furthermore, jobseekers who are also social support recipients are the target group of public works programmes.

#### 4.5.4. Use and costs of ALMP-measures

LTU can participate in the following ALMP-measures: vocational training, subsidised employment, support for the acquisition of professional skills, job rotation, public works and support for local mobility. Furthermore, they can receive subsidies for the acquisition of a business certificate. **Table A.5.i** provides a brief characterization of the measures.

**Table A.5.i: Available ALMP-measures**

| Ref. | Name of measure       | Brief description  | Delivered in house/by external providers          |
|------|-----------------------|--|---|
| 1    | Vocational training   | Measure is designed for the unemployed and employees who have been given a notice of dismissal seeking to gain qualifications and/or develop professional abilities.   | Delivered by external providers.                  |
| 2    | Job rotation          | Placement of jobseekers registered with territorial labour exchanges to temporarily substitute employees during planned vacation periods or in cases provided for in collective agreements. Employers receive a subsidy and compensation on compulsory state social insurance. | Delivered in-house.                               |
| 3    | Subsidised employment | The measure is designed for integration into the labour market and providing support for socially disadvantaged groups. An employer can receive reimbursement of at least 50% of the employed person's salary and social security costs.                                       | Delivered in-house in cooperation with employers. |
| 4    | Public works          | Temporary employment measure for maintaining vocational skills. This   | Implemented by territorial labour                 |

Cost–benefit analysis of remedial interventions for the long-term unemployed

| Ref. | Name of measure  | Brief description  | Delivered in house/by external providers                     |
|------|--|--|--|
|      |  | measure is mostly applied for the rural population, low-skilled older workers, and LTU.  | exchanges, in cooperation with municipalities and employers. |
| 5    | Support for the acquisition of professional skills       | Aimed to support graduates of universities, further education and vocational training schools and the unemployed completing vocational training and in-service professional rehabilitation. Employers receive a subsidy and compensation on compulsory state social insurance. | Delivered in-house.  |
| 6    | The support for self-employment (business certificates ) | Reimbursement of a business license acquisition costs and partly mandatory social security contributions.  | Delivered in-house.  |

**Table A.5.j** provides an overview on the number of participants in ALMP-measures for the two most recent years available. In 2014 more than 23,000 LTU participated in ALMP-measures, equivalent to almost 40% of all LTU.

**Table A.5.j: Participants in ALMP-measures**

|             | Unemployed | LTU    | of which:  |  |
|-------------|------------|--------|--|--|
|             |            |        | under 25 years, unemployment duration > 6 months | over 25 years, unemployment duration > 12 months |
| <b>2013</b> | 54,842     | 21,395 | 3,600  | 17,795   |
| <b>2014</b> | 57,759     | 23,119 | 3,057  | 20,062   |

Source: Data provided by the Lithuanian Labour Exchange under the Ministry of Social Security and Labour

From **Table A.5.k** it becomes clear that in quantitative terms the most important programme type was public works programmes. In 2013 this one programme accounted for around 69% of all ALMP participants though this fell to 55% in 2014.

**Table A.5.k: ALMP participation by measures**

|  | 2013    |     |           | 2014    |     |          |
|--|---------|-----|-----------|---------|-----|----------|
|  | Unemplo | LTU | of which: | Unemplo | LTU | of which |

## Cost–benefit analysis of remedial interventions for the long-term unemployed

|  | 2013   | 2014   | under 25 years, unemp. duration > 6 months | over 25 years, unemp. duration > 12 months | 2013   | 2014   | under 25 years, unemp. duration > 6 months | over 25 years, unemp. duration > 12 months |
|--|--------|--------|--|--|--------|--------|--|--|
| <b>Vocational training</b>                                 | 6,843  | 1,284  | 774  | 510  | 5,429  | 1,270  | 351  | 919  |
| <b>Job rotation</b>  | 340    | 59     | 20   | 39   | 546    | 74     | 29   | 45   |
| <b>Subsidised employment</b>                               | 10,420 | 2,632  | 700  | 1,932                                      | 20,286 | 6,527  | 1,234                                      | 5,293                                      |
| <b>Public works</b>  | 25,621 | 14,750 | 1,163                                      | 13,587                                     | 21,250 | 12,710 | 790  | 11,920                                     |
| <b>Support for the acquisition of professional skills</b>  | 3,508  | 1,228  | 684  | 544  | 2,768  | 1,052  | 412  | 640  |
| <b>Support for self-employment (business certificates)</b> | 6,609  | 1,293  | 223  | 1,070                                      | 5,832  | 1,229  | 205  | 1,024                                      |
| <b>Other</b>   | 1501   | 149    | 36   | 113  | 1648   | 257    | 36   | 221  |

Source: Data provided by the Lithuanian Labour Exchange under the Ministry of Social Security and Labour

**Table 2.5.I** shows the expenditures for ALMP-measures with, in 2013 and 2014 more than 14 million € were spent for ALMP-measures for LTU equivalent to almost 30% of the total expenditure. Therefore per-capita ALMP-expenditures for LTU were on average around 2,314 € in 2013 and 2,081 € in 2014.

**Table A.5.I: Expenditures (in million €) for ALMP-measures**

|  | 2013 | 2014 |
|--|------|------|
| Total expenditures   | 49.5 | 48.1 |
| of which: Measures for long-term unemployed  | 14.8 | 14.4 |
| of which: measures for recipients of means-tested subsistence benefits between 15 and 64 | 10.6 | 9.2  |

Source: Data provided by the Lithuanian Labour Exchange under the Ministry of Social Security and Labour

#### 4.5.5. Administration costs

**Table A.5.m** shows that the staff costs of LLE and other administration costs amounted to around 19 million € in 2013. This is equivalent to approximately 23% of total PES expenditures. Given that the number of unemployed in this year amounted to some 201,000 of which about 57,000 were LTU (see **Table A.5.a**) and considering that the caseload for counsellors working with LTU is much smaller than the average caseload (1:136 vs. 1:333, see **Table A.5.e**) it appears reasonable that the administrative costs of labour market oriented service provision for LTU was around one half, about 9.5 million € in 2013. This is equivalent to around 163 € per LTU.

**Table A.5.m: Administrative costs of PES**

|                            | 2013 | 2014 |
|----------------------------|------|------|
| Total PES expenditure      | 84.9 | 86.6 |
| Of which:                  |      |      |
| Staff costs                | 15.3 | 16.7 |
| Other administration costs | 4.0  | 4.0  |

#### 4.5.6. Future initiatives

In the current ESF-period, for 2014-2016a project exclusively targeting LTU with a total budget of 18 million € is planned.

#### 4.5.7. Summary

Overall the Lithuanian system for the provision of services to LTU in a can be characterized as follows:

- a) **Coverage:** All LTU who receive subsistence benefits are obliged to register with the PES (LLE) which indicates that coverage appears to be complete.
- b) **Individualization:** The LLE provides information, counselling, employment mediation as well as IAPs and implements ALMP-measures. These services are provided according to a jobseekers' proximity to the labour market and their motivation and this determines their segment for access to services. Jobseeker and counsellor agree on an IAP setting out specific services and actions aimed at the jobseeker's successful integration into the labour market. The caseloads for LTU are lower than that for other unemployed (1:136 vs. 1:333).
- c) **Employer integration:** Employers are only addressed by the provision of financial incentives such as wage subsidies.
- d) **Institutional integration:** Based on a mutual data provision agreement, there is an information interchange between the LLE's information system and that of the Ministry of Social Security and Labour. The data provision agreement includes covers information about social support recipients registered at the local labour offices and their participation in the ALMP-measures.

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