

OPTIMISING ACTIVATION POLICIES TO INTEGRATE UNEMPLOYED PEOPLE INTO THE LABOUR MARKET



photo: Ian W Scott

High employment rates and income security are key to economic development and robust fiscal budgets. They are also important in establishing inclusive labour markets accessible to vulnerable groups.

Increasing employment rates is a target of Europe 2020, a strategy for smart, sustainable and inclusive growth. Its goal is to increase the employment rate for people aged 20 to 64 to 75% by 2020. To achieve this, the EU's employment guidelines highlight the importance of 'increasing labour market participation of women and men, reducing structural unemployment and promoting job quality'. They also emphasise that activation is key to increasing labour market participation. Countries should 'step up social dialogue and tackle labour market segmentation with measures addressing precarious employment, underemployment and undeclared work' (Council of the EU, 2010).

The EU strategy also establishes the framework for candidate countries and potential EU accession candidates. This process is supported and funded by the

EU's Instrument for Pre-Accession Assistance and has led to a gradual modernisation of employment policies and services. Improving activation policies is one of the main challenges facing the Western Balkan countries and Turkey. It is a challenge that calls for customised approaches that take specific conditions into account.

Successful activation policies combine obligations and support measures to motivate and empower unemployed people. Support measures include information, counselling and guidance, better placement and referral services, training measures, support for self-employment and other forms of active labour market measures. Job seekers' rights and responsibilities are clearly defined and communicated to registered unemployed individuals; non-compliance is sanctioned by cuts in cash benefits or elimination from the unemployment register. Such carrot and stick approaches have proved to be successful in many EU countries. However, conditions in the Western Balkan countries and Turkey are different.

The economic crisis resulting from the global financial crisis of 2007/08 led to increased unemployment rates in Croatia, Montenegro and Serbia, while Albania and Turkey managed to reverse negative labour market trends.

Employment rates in the region are far below the EU average, with only Croatia coming relatively close. The primary reasons for this are low female employment rates (lowest in Kosovo* and Turkey, where less than one quarter of the female working-age population is employed) and low youth employment rates. Long-term unemployment is high in many countries. Youth unemployment is alarmingly high in Kosovo, Bosnia and

Herzegovina, and the former Yugoslav Republic of Macedonia. The labour markets are characterised by persistent informal employment in the form of undeclared or under-declared labour and vulnerable self-employment. Tailor-made demand and supply-side measures are needed to enhance the effects of activation ●

This policy briefing focuses on how to improve activation approaches to integrate unemployed people into the labour market. It explores current practices applied by public employment services, analyses interrelated factors at play in Western Balkan countries and Turkey and concludes with recommended approaches for more coherent activation policies. It addresses primarily policymakers and practitioners in the candidate countries and potential candidate countries for European Union (EU) accession. It may also be relevant to any country aiming to upgrade its employment policies and services.

The findings of this policy briefing are based on the joint work conducted with a community of practice on activation, which was established in 2009 within the framework of the European Training Foundation's (ETF) Mutual Learning Programme. The ETF, together with experts and practitioners from the public employment services in Western Balkan countries and Turkey, analysed the current activation approaches and framework conditions and elaborated policy options to improve activation results ●

DEFINITION

Activation is a combination of mutually supporting policies formulated to increase the capabilities and motivation of unemployed people (registered unemployed) or welfare

benefit recipients who are able to work, to participate in active labour market measures and to search actively for a job. The aim of activation is to get job seekers into jobs that provide them with an adequate income, thereby helping them to avoid poverty and exclusion ●

* Under UNSCR 1244/1999, hereinafter 'Kosovo'.

INFORM

DEMAND-SIDE CHALLENGES

Factors that affect the demand for labour and the effectiveness of activation policies include total labour costs, the legal and administrative procedures related to hiring workers, irregular employment practices and possible sanctions for such practices.

For many people in the region it does not make financial sense to work in the formal sector if they can access unemployment-related benefits and work in the informal economy at the same time. The irregular payment of wages and defaulting on social security contribution payments is a widespread practice and creates a strong disincentive to work, especially for more highly qualified individuals in the workforce.

Relatively high labour costs discourage employers from hiring and reduce the potential demand for labour. Cost issues and administrative procedures can lead to the employment of shadow (informal) workers, a phenomenon that reinforces the segmentation of the labour market. Limited sanctions for employers who work outside the regulatory environment and employ informal workers and an acceptance of non-compliance with fiscal obligations and labour legislation help to sustain the system.

When hiring, employers prefer individuals with relevant work experience, but discriminate against older workers, women and people with lower qualifications.

Managerial skills are also an issue, particularly with regard to deploying and

developing workers in small and medium-sized enterprises. This may be an impediment to innovation and further business development and growth.

As a result of these factors, the level of formal sector vacancies is low, despite the fact that this is a key condition for successful activation and job placement by public employment services ■

SUPPLY-SIDE CHALLENGES

Labour supply relates to the available skills of the workforce as well as working conditions, the competitive price of labour in the informal economy and the alternative, non-work-related financial resources available. Low net wages at the lower end of the qualification scale curtail the supply of labour in the formal sector. This contrasts with the availability of social benefits combined with informal employment.

A number of key challenges face the region in this regard. The eligibility criteria for registering as unemployed are relatively liberal, but the focus is generally on the individual's status as an unemployed person, rather than as a job seeker and someone able to work. The public employment services' unemployment registers are structured in such a way that inactivity and employment in the informal economy make it very difficult for these services to fulfil some of their usual goals and functions. Legislation does not distinguish clearly between employed, unemployed and inactive. Public employment services do not always identify those who are employable and those who need different kinds of

support measures (Croatia, Serbia and Montenegro are the exceptions). Given the limited resources of the public employment services and the limited number of vacancies, it is difficult to implement obligations such as monitoring job search activities or imposing sanctions if job seekers decline job offers.

In many Western Balkan countries, receiving benefits is contingent upon being registered as unemployed – a logical requirement. All countries, with the exception of Kosovo, offer an unemployment insurance scheme with unemployment cash benefits. However, coverage is limited (only a few of the registered unemployed receive cash benefits). Wage replacement rates are low and the maximum duration of such schemes is 12 months (with some exceptions for pre-retirement schemes). These factors result in a situation that offers little income security and motivates people to work in the informal sector, even though they are registered as unemployed. Attempts to legalise low-waged work and make this compatible with the receipt of unemployment benefits are still at an early stage.

Unemployed people can avail of many other social benefits but accessing them is a complex procedure. Many are small and seemingly insignificant but they do add up. The institutions granting the benefits rarely work together. We can conclude from this that the social security system generally functions by providing benefits for various purposes through multiple institutions. Unless these income support measures are redesigned to make work more attractive and to better target those in need, unemployment levels will remain excessively high and public employment services will remain overloaded with benefit administration.

All countries offer vocational training and re-training and facilitate the uptake of various basic or generic skills as part of their active labour market measures. Even though the measures and numbers of participants have increased over the last few years, they still fall far short of what is needed. The low skill levels of the working-age population, particularly among unemployed and inactive people, make activation difficult and expensive.

The public employment services' staffing levels and budgets required to ensure reasonable coverage of passive and active labour market measures are extremely limited ■



EFFECTIVE ACTIVATION

Any possibility of effective reform requires an integrated approach to activation, covering supply and demand issues as well as support measures and individual obligations. While public employment services are mainly responsible for activation measures, they cannot be expected to act alone. Their most obvious partners are relevant ministries, social partners, social welfare centres, education and training providers, local authorities and employers.

The limited demand for labour in the formal sector is the main impediment to activation. Tackling this is a priority. Economic development, regional, industrial, fiscal, investment and entrepreneurship development policies need to be reformed to strengthen competition, increase labour mobility, create a vibrant entrepreneurial environment and a stable regulatory framework, which facilitates enterprise creation, innovation and growth.

Apart from establishing a macro-economic environment to encourage job creation, governments must implement longer-term policies to curb the informal economy. As long as only some beneficiaries pay insurance premiums, contribution rates must be kept high, leading to increased labour costs. Employers who do not pay contributions to the social security system must be sanctioned. Incentives for employers to move into more lucrative sectors and making (formal) work pay may motivate employers and employees to take up formal employment. Policies to make certain categories of workers, such as new labour market entrants, less expensive to employ should be implemented. Some countries have already introduced employment incentive schemes to stimulate the recruitment of specific target groups (Croatia and Turkey).

On the supply side, the nature of the current skills of job seekers poses the biggest challenge to more effective activation. Furthermore, public employment services have to address other issues to break the vicious circle of low demand for labour, limited incentives to take up formal work and long spells of unemployment. These are summarised below.

Eligibility and profiling of registered unemployed people

The public employment services' registers should remain open to all who wish to find work for whatever reason. However, registration must be restricted to individuals able and willing to work according to the International Labour Organisation (ILO) definition. They should be seen as job seekers rather than unemployed people. Changes in legislation are needed in some Western Balkan countries to distinguish between employed, unemployed and inactive individuals. This is the only way to monitor the activity status of registered unemployed people.

Some countries also need to profile people who register as unemployed. Profiling systems help to identify individual employability, assess the risk of long-term unemployment and the level of assistance needed and target the appropriate services (Weber, 2011). Currently, only Croatia and Montenegro keep records of who has marketable skills and who needs simple support measures (such as vocational guidance, advice on how to look for a job, job fairs and activities in job clubs) and who is hard to place and in need of the most support. Profiling the unemployed requires sufficient staff capacities.

Those who are registered as unemployed but are actually working in the informal economy should be given the



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opportunity to legalise their status. Social welfare or health insurance should not be contingent on being registered as unemployed. Positive examples of schemes that separate health insurance from the unemployment register can be found in Croatia and Turkey.

Public employment services' resources, capacities and service delivery

Public employment services need more resources for passive and active labour market measures. The caseload of staff working with clients should be reduced. Staff should be moved from administrative duties to work directly with clients. The activation rate (percentage of registered job seekers participating in active employment measures) should be increased. The effects of active labour market measures should be regularly evaluated and funds should be strategically directed to the most effective approaches.

Female employment rates need to be increased. Gender mainstreaming approaches should be applied to ensure that both women and men in the working-age population participate pro rata in all measures. This must be combined with targeted approaches for disadvantaged women (low-skilled women, women with family responsibilities). Support services for specific vulnerable groups could be outsourced to non-governmental organisations, for example.

In order to improve their reputation as a service provider, public employment services should provide better services to employers. A new approach that considers employers as partners and customers of the public employment services could cover services such as recruitment support (by pre-selecting suitable candidates). Subsidies could be offered for hiring hard-to-place job seekers rather than imposing quota systems with sanctions for non-compliance. This implies a change of mindset in some employment services – providing a service to employers instead of fulfilling an administrative function. The development of a communications and service strategy vis-à-vis employers, preferably with specialised counsellors for employers could also be envisaged.

Activation approaches should include both obligations and support measures. Support measures are needed to increase employability and provide basic income security for job seekers, thus making informal sector income unnecessary. This must be accompanied by more stringent measures to tackle informal employment and ensure that job seekers are actively searching and available for work.

Skills matching

Labour market training is a cornerstone of active labour market measures adopted by public employment services in all the Western Balkan countries and Turkey. Training measures need to be more effective and results measured in terms of job placement rates. It is essential that training programmes provide qualifications needed by the labour market. This, in turn, requires that they are implemented in close cooperation with employers. Skills mismatches can only be reduced if the training content is based on a reliable skills needs analysis. The systematic screening of economic sectors is needed to identify crucial occupations and monitor changing skills needs. Training providers should plan their training programmes based on these analyses and engage in ongoing dialogue with employers and analysts on current and future skills needs (employment partnerships, human resource development centres and sector councils).

There is a need for a system that systematically collects and transfers information from the local to the national labour

market. The employment service is possibly the only institution that could set up such a labour market information system for human resource needs.

Conclusion

Overall, there is no easy way of making activation approaches more effective. Activation needs to be embedded in a policy mix that tackles informal employment, invests in demand-driven skills, increases the scope and effectiveness of active labour market measures and modernises social security systems. Public employment services in the candidate countries and potential EU candidate countries can learn from good practices and failures in EU countries, but they can learn even more from each other. Mutual learning within the framework of regional and international public employment services networks can make an important contribution to improving activation policies ●



photo: John 'K'

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