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Accompanying the document:  
Communication from the Commission to the European Parliament, the  
Council, the European Economic and Social Committee and the Committee of  
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Delegations will find attached Commission document SWD(2013) 39 final.

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## **Social Investment Package**

### **COMMISSION STAFF WORKING DOCUMENT**

**Follow-up on the implementation by the Member States of the 2008 European Commission recommendation on active inclusion of people excluded from the labour market - Towards a social investment approach**

*Accompanying the document*

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

**Towards Social Investment for Growth and Cohesion - including implementing the European Social Fund 2014-2020**

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## 1. ACTIVE INCLUSION: A EUROPEAN STRATEGY TO FIGHT SOCIAL EXCLUSION

Active inclusion entails reaching out to the most disadvantaged and enabling them to fully participate in society, including the labour market. It is one of the priority social policy areas at EU level. The 2008 European Commission recommendation on active inclusion introduced an ambitious plan for Member States based on the integrated implementation of three pillars: adequate income support, inclusive labour markets, and access to quality services.

Four years later, it is time to assess how Member States have responded. This Staff Working Document (SWD) prepared by the Commission with the support of various stakeholders has identified the main challenges to active inclusion implementation. These challenges include inadequacy, low coverage, and non-take-up of minimum income support, possible disincentives to work, in-work poverty, insufficient access to services, and lack of an integrated approach (including inadequate vertical and horizontal coordination, and lack of single access points). Intensified budgetary constraints in the context of the economic crisis and increasing demographic dependency ratios<sup>1</sup> have exacerbated the challenges to the proper implementation of active inclusion strategies.

The above challenges signal the importance for Member States and the Union to move towards a **social investment approach** highlighting — among others — the long-term benefits of active inclusion. Social investment seeks to develop people's human capital, improving their ability to participate in the labour market, while also preventing the greater social and economic costs that can arise from an unskilled workforce and people experiencing social exclusion. The successful implementation of active inclusion strategies will require well-coordinated and intensified efforts at local, national, and European levels, and this document contains concrete policy guidance to assist governments, civil society organisations, and practitioners.

### 1.1. Background

On 3 October 2008, the European Commission adopted a Recommendation on the active inclusion of people excluded from the labour market. This promoted a comprehensive strategy based on integrating three pillars of social policy: adequate income support, inclusive labour markets, and access to quality services.<sup>2</sup> The Council and European Parliament endorsed the strategy.<sup>3 4</sup>

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<sup>1</sup> See SWD on *Evidence on Demographic and Social Trends*, SWD(2013) 38.

<sup>2</sup> See Commission Recommendation of 3.10.2008 *on the active inclusion of people excluded from the labour market* (2008/867/EC published in the OJ L. 307/11 of 18.11.2008).

<sup>3</sup> See Council Conclusions of 17 December 2008 on 'Common active inclusion principles to combat poverty more effectively'.

<sup>4</sup> See European Parliament Resolution of 6.5.2009 on the active inclusion of people excluded from the labour market (2008/2335(INI)).

Active inclusion strategies aim to help integrate those who can work into sustainable, quality employment, and to provide enough resources with which to live in dignity for those who cannot. The three pillars cited above can achieve this by:

- Providing adequate, well-designed **income support** for those who need it, while helping them back into jobs, for example by linking out-of-work and in-work benefits.
- Ensuring **inclusive labour markets** and employment policies that address the needs of those least likely to get a job.
- Providing **quality social services** to support active social participation.

The recommendation also calls for:

- (1) comprehensive policy design (by considering joint impacts, possible synergies and trade-offs),
- (2) integrated implementation,
- (3) policy coordination among various levels of governments, and
- (4) active participation of civil society organisations in the development, implementation and evaluation strategies.

The Commission has stressed the importance of **integrating** active inclusion policies. Piecemeal implementation will not achieve the results that a **concerted effort** on all three fronts can bring about to get people back into jobs, even if they have been among the long-term unemployed.

Active inclusion fits well into the **life-cycle approach** taken by the Social Investment Package, where exposure to the risk of poverty and exclusion is not static. A well-designed active inclusion strategy should enable individuals to quickly return to society, preferably through participation in the labour market. The recommendation emphasises the **importance of investing in human capital**, in line with the **Social Investment Package**. Strengthening inclusive labour markets should be done through ‘inclusive education and training policies’ that adapt to ‘new competence requirements’ and ‘the need for digital skills.’ Quality services also contribute to the development of human capital.

The pillars of **active inclusion are linked to social investment**. The one-stop-shop model promoted by the active inclusion strategy contributes to the efficiency and effectiveness of social protection systems. Activating and enabling policies and adequate livelihoods promote policies of inclusive labour markets and adequate income support. Investing in children and young people reinforces the importance of enabling services. Thus, the active inclusion strategy forms an integral part of the social investment approach.

At the outbreak of the economic crisis, the European Commission engaged in a concerted effort to realign European economies onto the path of smart, inclusive growth. This was reflected in the launch of the Europe 2020 Strategy. Member States endorsed this strategy, and most made explicit commitments towards achieving the targets — including those on poverty.<sup>5</sup>

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<sup>5</sup> European Council Conclusions, 17 June 2010, EUCO 13/10.

Three of the five headline targets of the **Europe 2020 Strategy** are related to the active inclusion policy. Pillar 2 of the active inclusion strategy (inclusive labour markets) which focuses on activating those furthest from the labour market is key for the achievement of the **employment target** (75% of those between the ages of 20 and 64 to be employed). The **education goals** can also be facilitated through active inclusion strategies by focusing on services (such as training, education) for those who are disadvantaged. Effective active inclusion is perhaps most relevant for **reducing poverty** (at least 20 million people fewer in poverty or at risk of it and social exclusion). Those furthest from the labour market are the core target of the active inclusion strategy.

The **European Platform against Poverty and Social Exclusion**,<sup>6</sup> one of Europe 2020's seven flagship initiatives, argues that with the active inclusion strategy, the EU has a common set of principles to fight against poverty.

The adoption of the 2008 recommendation coincided with the start of the global financial crisis, which had a significant impact on the socio-economic environment. The financial crisis, followed by the sovereign debt crisis in Europe forced many governments to reduce public spending drastically, while the number of those unemployed and at risk of poverty rose sharply. Social protection systems have been put under pressure, and a number of Member States have been forced to reduce spending while faced with increased caseloads.

This document reviews the implementation of the recommendation at national level.<sup>7</sup>

**Part 1** (chapters 1 and 2) of the document provides a synthesis of the analysis from Part 2, and gives concrete policy guidance based on the results of the analysis.

**Part 2** (chapters 3 to 6) reviews policy developments at national level since the adoption of the 2008 Recommendation, focusing on the three pillars of the strategy. It looks at the challenges specific to each pillar as well as the issues related to the integrated delivery of the strategy. It also discusses the role of the social open method of coordination as well as the Europe 2020 Strategy in shaping European level social inclusion policies, and looks at relevant European level initiatives and strategies.

## 1.2. A brief synthesis

The summary table on the main policy characteristics (derived from Tables 1-4 of the Annex) suggests that the countries with the best outcomes are those with **policy characteristics comparable to the active inclusion principles**.

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<sup>6</sup> COM/2010/0758 final.

<sup>7</sup> The review is based on several sources. First, the Commission asked Member States (via the Social Protection Committee (SPC) to complete a survey on active inclusion. The SPC also held two thematic surveillances on active inclusion in which selected Member States presented their strategies. A number of PROGRESS-financed activities have contributed materials to this report: reports written by the EU Network of Independent Experts on Social Inclusion, by MISSOC, and by EUROMOD. National Social Reports (2012) and National Reform Programmes (2011, 2012) were also used. The Indicators Sub-group (ISG) of the Social Protection Committee also worked on developing indicators for the strategy. Peer review seminars (under the auspices of the SPC) contributed to a better understanding of specific aspects of active inclusion. Civil society organisations participated in an informal consultation in which they expressed their views on implementation of the strategy. Finally, academic papers, documents prepared in-house by the Commission and reports from other organisations such as the OECD and the World Bank were used in the report. .

These countries (mainly from groups A and B) are characterised by high coverage and medium to high levels of generosity regarding income support (first pillar). They have low labour market segmentation, high activation (second pillar), high use of childcare, and high participation in education and training of those with a low standard of education (third pillar). However, their safety net benefit systems are more likely to create disincentives to work.

Ranked lower down are groups D and E with social protection systems **not in line with active inclusion principles**. Such systems are characterised by low coverage and low-generosity income support<sup>8</sup> for working age people (first pillar), high labour market segmentation, mainly low activation (second pillar), low use of childcare, and low participation in education and training for those with a low standard of education (third pillar). However, their safety net benefit systems tend not to create disincentives to work.

Not surprisingly, there is a **high correlation** between the **situation of people facing poverty** in a given Member State, and **the robustness of that country's social protection system**.

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<sup>8</sup> Notice that these same systems are also often characterised by generous pension systems



**Table 1. Summary of the main policy characteristics<sup>9</sup>**

	<b>First pillar</b>		<b>Second pillar</b>	<b>Third pillar</b>
	<i>Unemployment benefits first level of safety nets</i>	<i>Other benefits second level of safety nets</i>	<i>Inclusive labour markets</i>	<i>Access to services</i>
Group A CZ FR NL AT SI SE (CY)	High coverage ( <del>SI</del> ) Medium to high generosity Long duration ( <del>CY</del> ) High disincentives	High coverage Medium to high generosity High disincentives (especially for second earners)	Low segmentation ( <del>FR</del> ) High activation ( <del>SI</del> , <del>CZ</del> ) No low wage trap	High childcare use ( <del>NL</del> , <del>AT</del> , <del>CZ</del> ) High participation in educ/training ( <del>FR</del> , <del>CY</del> )
Group B BE DK DE FI UK	Very high coverage ( <del>UK</del> ) High generosity High disincentives ( <del>UK</del> ) Long duration ( <del>UK</del> )	High coverage High generosity High disincentives (especially for second earners) <del>UK</del>	High activation ( <del>UK</del> ) Low wage trap	High childcare use ( <del>UK</del> ) Medium participation in educ/training ( <del>BE</del> , <del>UK</del> )
Group C Ireland	Very high generosity High disincentives	Very high generosity High disincentives	High activation	Low child care use Low participation in education and training
Group D BG HU IT MT PL RO	Medium coverage ( <del>BG</del> , <del>PL</del> ) Low generosity Low disincentives	Low coverage ( <del>MT</del> , <del>HU</del> ) Low generosity Low disincentives	High segmentation Low activation Low wage trap especially for 2 <sup>nd</sup> earner ( <del>BG</del> , <del>RO</del> )	Low childcare use Low participation in education and training ( <del>PL</del> )
Group E EE EL ES LV LT PT SK	Low coverage Low generosity Low disincentives ( <del>LT</del> , <del>LV</del> )	Low coverage Low generosity (except LT for lone parents) Low disincentives (except for 2 <sup>nd</sup> earners in LT, LV)	High segmentation Low activation ( <del>ES</del> , <del>PT</del> ) No low wage trap	Medium childcare use ( <del>SK</del> ) Medium/Low participation in educ/training ( <del>PT</del> , <del>EL</del> , <del>ES</del> )

See detailed tables in Annex (Outlier countries are signalled in *strikeout font CC* indicating that the given characteristic does not apply to that country)

The various assessment and evaluation exercises have identified the major challenges active inclusion policies face with respect to the three pillars.

**First pillar:** regarding **adequate income support**, the main challenges identified in the assessment are **adequacy and coverage** (both strongly affected by the recession), **non-take-up, and disincentives to work**. Though most Member States extended social benefits at the start of the crisis, the dropping of temporary stimulus measures and budget

<sup>9</sup> Based on data from: Eurostat EU-SILC, Eurostat LFS, OECD Tax and Benefit model, Eurostat LMP database, and OECD. No data available on coverage for CY, SE, FI, IE, and LT. No data available on adequacy of social assistance and housing support for CY and IT. No data available on unemployment and inactivity trap for CY. No data available on transition from temporary to permanent employment for DK and IE. No data available on poverty transitions for SE, DE, PL, PT, SK, and RO. No data available on low wage trap for CZ and FR. No data available on the use of formal childcare for CZ. No data available on housing overburden cost for DE.

constraints since then have had a negative impact on adequacy and coverage (restricting eligibility) for some.

Non-take-up is a matter of concern and needs to be carefully monitored. Member States have recognised the issue and most have introduced **measures to increase take-up**, including **simpler application procedures** and **better information for potential claimants** about entitlement and application procedures. **‘One-stop shops’** introduced in some Member States have also helped to boost take-up, by informing people applying for one benefit that they may be entitled to others.

**Second pillar: inclusive labour markets.** The main concerns identified in the assessment are **in-work poverty** and **disincentives** that may arise from tax and benefits systems. This continues to be a problem in a number of Member States. Ensuring that tax and benefits systems contribute to make work pay is essential to avoid poverty traps. Member States should make sure that proper incentives are in place, so that people can move smoothly from benefit support to employment.

Helping the most disadvantaged get back into work is crucial, given an ageing population and the on-going economic crisis. Stakeholders must **protect, up-skill and activate** dormant human capital. That is why it is important to understand how effective labour market activation programmes can boost their **earnings potential**,<sup>10</sup> clear evidence for **investment that leads to smart and inclusive growth**.

**Third pillar: access to quality services.** This has been a problem for a number of Member States. Children are disproportionately affected by poverty. Access to services is often difficult for specific disadvantaged groups, such as the Roma, some groups of migrants, and people with disabilities.

High-quality services should be made available to all citizens to achieve the considerable redistributive and poverty-reducing potential of these services. Member States undertaking reforms to improve these services should bear in mind their poverty alleviating effects.

Member States have reported little progress in providing an **integrated comprehensive strategy for active inclusion**. Almost all are planning partial implementation, but have difficulties or challenges with integrated provision of active inclusion. These difficulties are often due to lack of **administrative capacity, or to the vertical and horizontal coordination** of the three pillars.

There are, however, some promising examples (e.g. IE, SI)<sup>11</sup> that can serve as models for others. At local level, the EU Network experts note that the introduction of ‘one-stop-shops’ in some Member States has been a successful way of ensuring effective coordination in delivering assistance under different schemes.

Civil society organisations have reported limited involvement in the design and implementation of active inclusion strategies at national level.

More needs to be done to fully implement active inclusion reforms, especially:

- reorganising frontline services to provide one-stop-shops for vulnerable people;

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<sup>10</sup> In a study looking at 59 labour activation programmes from the US, on average the offices increased the programme group’s **earnings by 18%** compared to the control group. Source: World Bank presentation: Applying best practices from the OECD: Implementation challenges for employment activation programs in MICs, Istanbul, April 2012.

<sup>11</sup> Based on the SPC multilateral thematic surveillance on active inclusion (27 February 2012).

- modernising social protection systems towards greater effectiveness and efficiency;
- linking employment policies with social support.

As a result of the assessment concrete steps are proposed below for both Member States and EU institutions.

## 2. GUIDANCE ON ACTIVE INCLUSION

This guidance identifies steps for sound social investment to implement active inclusion strategies. The Commission recommends improving the efficiency and effectiveness of Member States' income support programmes, especially with regard to adequacy, coverage, take-up and incentives to work, so that they can reach those most disadvantaged and deliver at full capacity.

The guidance promotes a holistic approach to active labour market policies, explaining:

- the optimal sequencing of activation
- the merits of personalised approaches for the most excluded
- how Member States can provide optimal tax and benefit support to encourage employment and reduce in-work poverty.

It also provides guidance on how to ensure access to enabling services, recommending a 'one-stop shop' approach, including better administrative coordination and capacity.

This guidance is also a tool for the Commission to assess Member States' performance in the European Semester and points to the way in which Structural funds can contribute to achieving poverty reduction and social inclusion targets.

The guidance can also be the basis for funding priorities on social innovation and social policy experimentation. It is backed by best practices and evidence presented in this document.

### 2.1. Adequate income support

#### 2.1.1. *What money can buy*

**Adequate livelihoods** (income support) are an essential part of the active inclusion strategy.<sup>12</sup> The debate on the adequacy of minimum income measured in relation to the median income (whether it is 60%, 50%, or 40%)<sup>13</sup> is not conclusive. In a recent paper,<sup>14</sup> researchers from the University of Antwerp argue that only a minimum income

<sup>12</sup> See the chapter (4.1) on the first pillar of active inclusion in this document.

<sup>13</sup> The European Parliament in its *Resolution the Role of minimum income in combating poverty and promoting an inclusive society in Europe* (reference — SP(2011)609) of 6 October 2010 states that 'adequate minimum income schemes must set minimum incomes at the level equivalent to at least 60% of median income in the Member State concerned.' On the other hand, the European Commission, in its 2008 recommendation on active inclusion does not provide a precise definition of adequate income support.

<sup>14</sup> Frank Vandenbroucke, Bea Cantillon, Natascha Van Mechelen, Tim Goedeme, Anne Van Lancker (2012). *The EU and Minimum Income Protection: Clarifying the Policy Conundrum*, CSB Working Paper, No 12/5. .

level no higher than 40% would eliminate inactivity traps.<sup>15</sup> One way to refocus attention on the importance of adequacy is by looking at **reference budgets**,<sup>16</sup> which give a good indication of differences in consumption patterns and the cost of living across Member States. Reference budgets would be especially useful in those with low adequacy of minimum income (measured in relation to the median income).

- **Developing reference budgets** would enhance understanding of what expenses could be covered through minimum income support. The development and application of reference budgets should have **two phases**: 1. Design of reference budgets (timeline: max. one year);<sup>17</sup> 2. Monitoring and updating of reference budgets (continuous).

### 2.1.2. *Gradual phasing out of income support*

Moving from social assistance (or other forms of income support) to paid employment creates a degree of disincentive. The exact degree depends on the difference between the value of the social assistance and the value of earned income. The closer the two, the bigger the disincentive to return to work. The way social assistance is phased out is also relevant. Immediate withdrawal creates more disincentives, while gradual withdrawal is less likely to deter someone from taking a job.

- **Structuring phase-outs<sup>18</sup> in a way that strengthens incentives to take a job<sup>19</sup> can help to end benefit dependency.** Phasing out should take into consideration the cost of doing so.<sup>20</sup>

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<sup>15</sup> ‘The Europe-wide introduction of social assistance minimums equal to 60% of national median equivalent income would create a financial inactivity trap in no fewer than eleven Member States: in Bulgaria, Estonia, Slovenia and Lithuania, the net income of a single benefit recipient would be between 25% and 30% higher than the equivalent income of a single person working at minimum wage; in Spain and the Czech Republic, the relative advantage of the benefit claimant would amount to between 14% and 16%. Less severe dependency traps would appear in Hungary, Luxembourg, Portugal and the United Kingdom. If the minimum benefits were to be raised to 50% of median equivalent income, then the hypothetical unemployment traps would obviously be smaller, but they would still be substantial in the case of Lithuania, Slovenia, Estonia and Bulgaria (between 5 and 9%). Only if benefits were augmented to 40% of the median would it pay in all countries to switch from social benefits to the minimum wage.’ Pg. 26, Vandenbroucke et al. (2012).

<sup>16</sup> Reference budgets (or budget standards) contain a list of goods and services that a family of a specific size and composition needs to be able to live at a designated level of wellbeing, along with the estimated monthly or annual costs thereof. Source: European Consumer Debt Network (2009). Handbook of reference budgets, pp. 5.

<sup>17</sup> In the framework of the FP7-SSH Research Project ImPRovE (Poverty Reduction in Europe: Social Policy and Innovation — <http://improve-research.eu/>) a common methodology for the construction of cross-nationally comparative reference budgets will be developed and applied to five EU member states. (for details see: [http://improve-research.eu/?page\\_id=174](http://improve-research.eu/?page_id=174)).

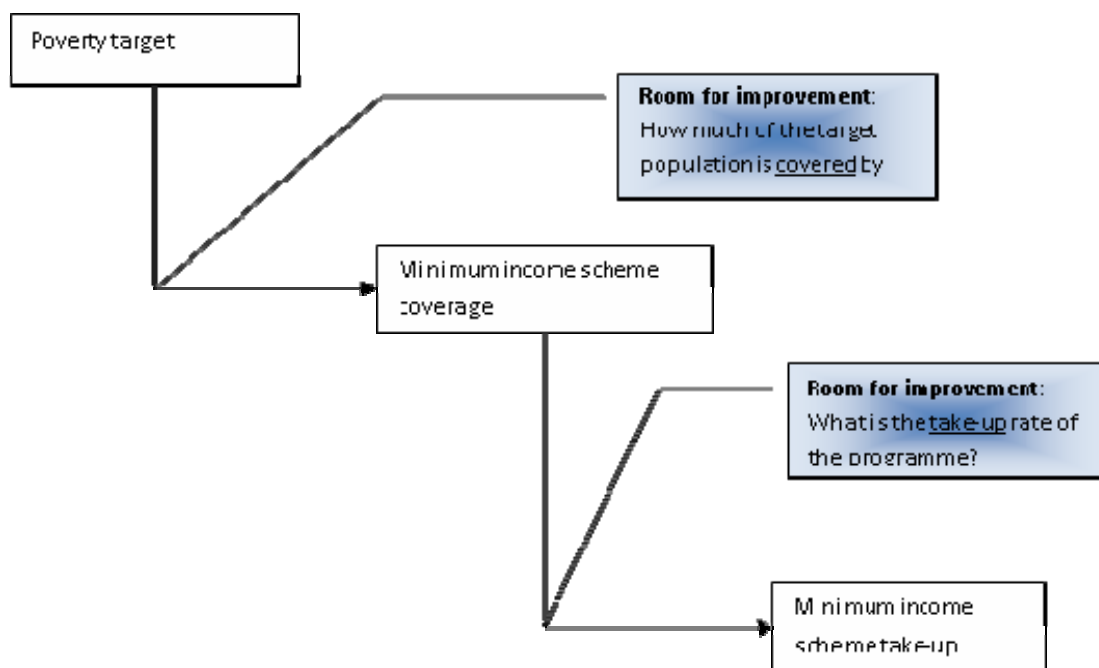
<sup>18</sup> A recent example of gradual phasing out is the French *Revenu de Solidarité Active*.

<sup>19</sup> In Germany income support is not reduced at all for the first couple of hours of work, while phase-outs are quite steep for those working in jobs that could lift them out of poverty. The result is that there are many so-called ‘mini-job’ holders who remain dependent on benefits.

### 2.1.3. Improving efficiency and effectiveness: reaching out to the most disadvantaged

**Low coverage** and **non-take up** directly affect the effectiveness and efficiency of the social assistance schemes. It is not enough just to have programmes. It is also important **to reach those most disadvantaged**, and ensure that policies are **delivering at full capacity**. Boosting the coverage and take-up of minimum income schemes will certainly contribute to reducing poverty.<sup>21</sup>

- **Simpler procedures and better information for potential beneficiaries** would boost take-up rates.
- Minimum income schemes should be **assessed in relation to their contribution** to achieving the national poverty targets.<sup>22</sup>



- Besides horizontal comparisons (poverty target, minimum income coverage, and take-up rate), **cross-country comparison** of coverage and take-up rates should be carried out in the context of European Semesters.

<sup>20</sup> Gradual phasing out may have budgetary implications. If the lower end of the income distribution is quite large (meaning that lot of people would participate in minimum income type programmes) then longer (or gradual) phasing out would result in higher overall spending. See: Marx et al. (2011). 'Combating in-work poverty in Continental Europe: an investigation using the Belgian case', Journal of Social Policy, 41/1, pp. 19-41.

<sup>21</sup> As shown in the graph below, rather than just going ahead and creating new programmes, the coverage and/or take-up of existing programmes should be assessed first. So if, for example, the national poverty target is to reduce in-work poverty, then it is worth checking whether the working poor are eligible for social assistance. If not, eligibility could be extended. If yes, then the take-up rate should be checked. If it is low, then new measures targeting a group could be introduced to help reach the target. These might involve simplifying procedures, campaigns or automatic take-up.

<sup>22</sup> If it is successful, the linking of poverty target could be extended to the other pillars of active inclusion (specifically to the various services).

- Use **social policy experimentation** to examine ways to better reach out to the people furthest from the labour market

## 2.2. Inclusive labour markets

Activation is only successful if there is a **concerted effort on both sides**:

- demand **side**: incentives to businesses, in line with the EU State aid rules (including support for investment in human capital, wage subsidies, tax allowances, etc.), can play an important role,
- supply **side**: Active labour market policies (ALMPs), support for life-long learning, tax credits, in-work support etc. are needed.

ALMPs cannot compensate for structural barriers to job creation, such as excessively strict employment protection legislation, and they cannot be expected to compensate for cyclical labour market downturns.

### 2.2.1. Proper sequencing and targeting of activation

Growing evidence on successful labour market programmes shows:

- short-run impacts: it appears that **job search assistance** programmes have relatively favourable **short-run impacts**,
- medium-term impacts: **formal education and on-the-job training programmes** tend to show better outcomes in the **medium-run**.<sup>23</sup>

It is therefore extremely important to choose the **right** activation measures, taking into consideration the specific circumstances.

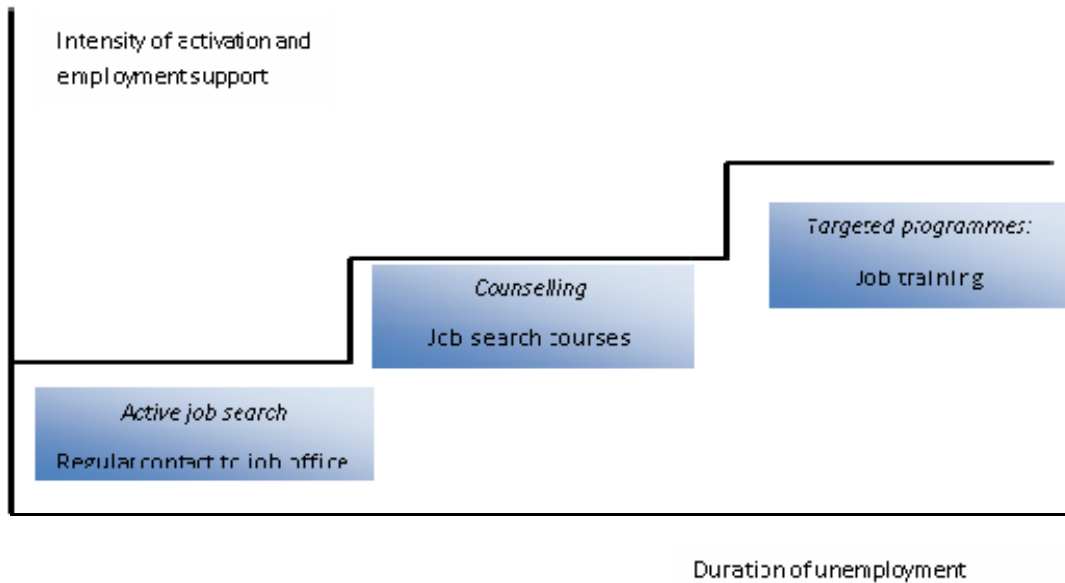
The **longer someone has been unemployed, the likelier they are to find it hard to get back into work**. The **duration** of unemployment is thus an important indicator, so programmes can be tailored to that criterion. **Young people who have dropped out of school** could be another example of a group requiring a specific programme.

- **Effective ALMPs** should be sequenced based on the duration of unemployment and the intensity of activation and employment support: from active job search, through counselling to targeted programmes.<sup>24</sup>

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<sup>23</sup> David Card, Jochen Kluve, and Andrea Weber (2009). Active labour market policy evaluations: a meta-analysis, IZA Discussion Paper, 4002.

<sup>24</sup> Based on the presentation of T. Andersen: Active labour market policy: Theory and Danish experiences, IZA/World Bank/OECD Conference on activation and employment support policies, April 2012, Istanbul, Turkey. For example: someone who has just lost their job may still have many links with the labour market through contacts with ex-colleagues, friends, etc. Their skills are also likely to be 'up-to-date', and marketable. So the immediate strategy should be an active job search. Only if this fails should job counselling be activated. Counselling should provide broader, individualised support suited to the individual's skills and field of work. If this fails, then it is time for targeted re-training to acquire marketable skills. This may be through job training, but may involve formal education or vocational training.



- **Activation and employment support programmes should be matched to specific client criteria.** For instance, extensive educational programmes could be made available only to young people who are unemployed and do not have formal education. **Investing** in the development of more sophisticated targeting (such as **profiling**) could shorten the time a person needs to find a job, while cutting the cost of activation.<sup>25</sup>
- Proper sequencing of activation should be incorporated in the **individual contract**<sup>26</sup> between the recipient and the service provider.

2.2.2. *Providing optimal tax and benefit support to encourage employment and reduce in-work poverty*

**Back-to-work benefits** (such as gradual phasing out of income support, tax allowances and in-work benefits) and **earnings disregards** (income that is disregarded when it comes to assessing tax liability) complement ALMPs in making it more attractive to take a job. Taxing labour income is a prominent element of every Member State's tax policy. So it is important to understand the underlying relationship between taxation and labour

<sup>25</sup> A more sophisticated way of targeting programmes is through so-called **profiling** when **statistical programmes** are used to select which programme (if any) is expected to have the largest effect in reducing the length of periods of unemployment for a particular individual with given personal characteristics. The advantage of using statistical tools is that experience accumulated from all previous periods of unemployment can be used. See: Frölich, M., 2006, 'Statistical treatment choice: an application to active labour market programmes', IZA Discussion Paper, 2187.

<sup>26</sup> A contract setting out the rights and obligations between service providers and the participant empowers the individual and contributes to human capital development. Together with a benefit resembling a salary (i.e. taxable, dependent upon participation, extra work income from weekend work/evening work does not reduce the payments), it also improves motivation. The approach also sets out clear quality requirements and what the outcome should be. As such, the conditionality imposed goes both ways, increasing legitimacy and solidarity. It also facilitates monitoring of the quality and outcomes of the services rendered. .

supply. Evidence suggests that **secondary earners** are much more responsive to wages (and thus taxes) than primary earners. If the tax burden is too high, **secondary earners might decide they are better off not working, or (more rarely), working fewer hours.**<sup>27</sup> Disincentives can also stem from joint taxation.

Policy responses can only be effective if they take account of the fact that **low-paid work** and **in-work poverty** do not necessarily overlap.<sup>28</sup> Low-paid work is only one of the factors contributing to in-work poverty.<sup>29</sup> Thus, *if the goal is to reduce in-work poverty*, there is limited scope in using tax and benefit support on low-wage earners. Instead, targeting should focus on particular household types, chiefly single-earner households, or households with dependent children.

In-work poverty is strongly associated with single-earners, or with secondary earners who are women that may want to work part time. So supporting the latter through childcare **provisions** for working parents would yield good results.

- **Tax and benefit** incentives should be primarily targeted towards **low-income single-earner households**, to encourage them to take full-time jobs.
- **Offering** tax and benefit allowances to **families with children or dependents** would raise the likelihood of parents taking jobs, reducing child poverty.

### 2.3. Access to enabling services

The term ‘enabling services’ refers to various services essential to active, social, and economic inclusion policies. Social assistance services, employment and training services, housing support and social housing, childcare, long-term care services and health services<sup>30</sup> are all examples of such provision.

There is evidence that publicly<sup>31</sup> provided services in **education, health care, social housing, childcare, and elderly care**, can do much to reduce poverty. They can also help to reduce **inequality**, thus reducing poverty across various groups.

The impact of publicly provided services can be relevant for:

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<sup>27</sup> In the US, for every 10% reduction in after-tax wages, primary earners work about 1% fewer hours, for an elasticity of labour supply with respect to after-tax wages of 0.1. Secondary earners are much more responsive to wages (and thus taxes), with elasticities of labour supply with respect to after-tax wages estimated to range from 0.5 to 1. Source: Gruber (2011) Public finance and public policy, Third edition, Worth Publishers, pp. 628.

<sup>28</sup> Evidence suggests that the overlap is rather low — between 5 to 10 per cent in most industrialised economies Nolan, B. and Marx, I. 1999. ‘Low pay and household poverty’, Luxembourg Income Study, Working Paper, No 216. .

<sup>29</sup> See chapter on in-work poverty of European Commission (2011): Employment and Social Developments in Europe 2011.

<sup>30</sup> See Commission Recommendation of 3.10.2008 *on the active inclusion of people excluded from the labour market* (2008/867/EC published in the OJ L. 307/11 of 18.11.2008). .

<sup>31</sup> The evidence available is on publicly provided services (OECD-European Commission (2011): The impact of publicly provided services on the distribution of resources). This does not exclude the possibility that privately provided services can also have an important role in reducing poverty.



- (1) **children** and **the elderly** because of their higher use of education and health services respectively;
- (2) **single parents** and **couples with children**, because of their higher use of education and childcare;
- (3) the **unemployed**, as they will benefit from employment and training services and
- (4) **households with high work intensity**.

When it comes to service delivery, there is evidence that **universal** service provision faces fewer problems related to **stigmatisation** compared to traditional, **targeted** social assistance benefits.<sup>32</sup>

### 2.3.1. Investment in relevant services

- The specific poverty-alleviating effects of various services should always be borne in mind when planning reforms of service-providing systems. Investing in **enabling services**, including through Structural funds, and ensuring their accessibility and affordability and at the same time ensuring efficacy, can improve quality of life for different categories of disadvantaged people.

### 2.3.2. Personalised approach: high quality case handlers

- **Structural funds**, including the European Social Fund,<sup>33</sup> could be used to **support quality training of case handlers** to boost outreach to the most disadvantaged, for whom services can play a crucial support role. The type of support needed often depends on individual circumstances. High-quality case workers<sup>34</sup> can contribute significantly to job seekers successfully finding jobs. The Digital Agenda for Europe acknowledges the key role played by intermediaries and social actors and sets out different mechanisms to help them acquire digital knowledge and competences through the use of ICT.<sup>35</sup>

## 2.4. Cross-cutting policy areas

Integrating the most relevant services with activation and income support would help hard-to-reach clients get access to the services they need. It would also reduce

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<sup>32</sup> Marx, I. (2010). Minimum income protection in post-industrial economies: on getting the balance right between incrementalism and innovation, in *Social protection for a post-industrial world*, ed. Kemp, P. A., International Studies on Social Security, vol. 15.

<sup>33</sup> See European Commission Staff Working Document - *Social Investment through the European Social Fund*, SWD(2013) 44.

<sup>34</sup> In the field of education, there is growing evidence that the quality of the teachers is an important factor in school performance. See at <http://mckinseysociety.com/how-the-worlds-most-improved-school-systems-keep-getting-better/>.

<sup>35</sup> See *Gdansk Road Map for Digital inclusion: a Hub for Social Innovation*, at: [http://ec.europa.eu/information\\_society/activities/einclusion/docs/gdansk\\_roadmap.pdf](http://ec.europa.eu/information_society/activities/einclusion/docs/gdansk_roadmap.pdf).

administrative costs. Integration would be a step towards more effective, efficient social services, a prime example for social investment.

- **Setting up ‘one-stop shops’** would simplify the organisation, delivery and take-up of services. This approach requires:
  - *integration of information systems* to reduce duplication, provide the basis for a holistic, personalised approach to service delivery and help fight fraud;
  - *integration of employment services with social assistance services and enabling services*;
  - *reducing the complexity of accessing services* by simplifying eligibility requirements;
  - *improving coordination* among different levels of government (central, regional or local) to improve overall service delivery. Cohesion funds could be used to improve administrative capacities at various levels of government;
  - *coordinating tax and benefits systems* and looking at the impact of various programmes at the level of the individual.
- **Participation of relevant stakeholders** should be built into the design and evaluation of national active inclusion strategies in line with the 2008 recommendation on active inclusion.

### 3. POVERTY AND SOCIAL EXCLUSION AMONG PEOPLE OF WORKING AGE: MAIN DEVELOPMENTS AND COUNTRY CHARACTERISTICS

#### 3.1. Main trends since the Recommendation’s adoption

Recent data on poverty and social inclusion suggest there were 120 million people **at risk of poverty or social exclusion** in the European Union in 2011, about 24% of the population. The at-risk-of-poverty rate was especially high for children, lone parents and older workers. Nearly two-thirds (77 million) of this group were of working age.

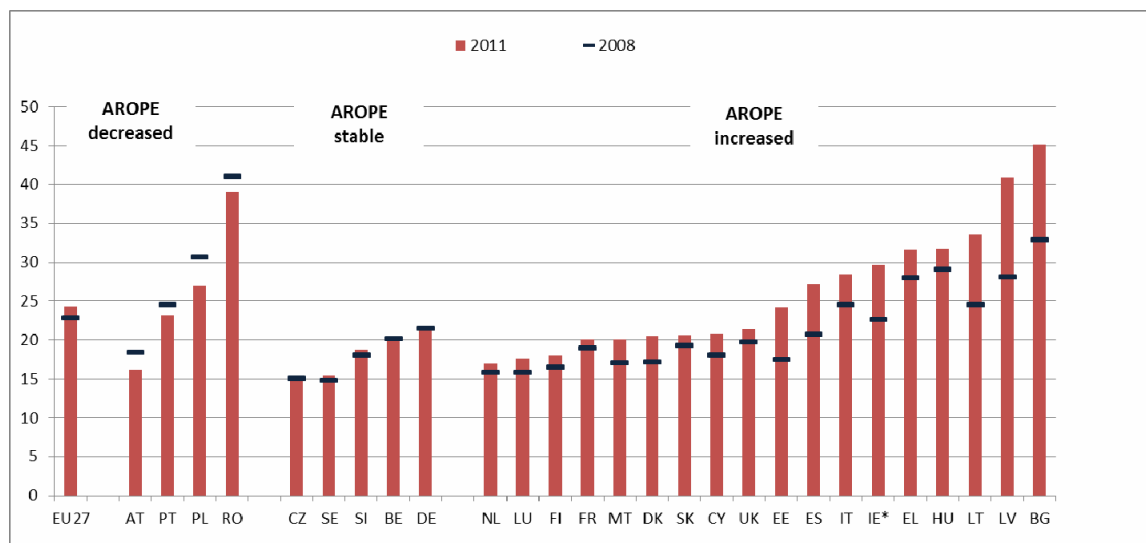
Between 2008 and 2011, **those of working age<sup>36</sup> were most directly affected by the crisis** and its impact on the job market and opportunities. Their risk of poverty and social exclusion rose in nearly two-thirds of EU countries and by 5 percentage points or more in the Baltic States, Spain, Ireland and Bulgaria. The apparent decrease or stability of the rate in countries that were seriously affected by the crisis (Portugal, Greece) is partly due to the counter-intuitive<sup>37</sup> stagnation or decrease in the relative poverty rate (*see section below*).

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<sup>36</sup> Working age is defined as individuals between 18 and 64. .

<sup>37</sup> If the median income decreases, that also lowers the poverty threshold, which is measured as 60% of the median household income.

**Chart 1: Share of working age (18-64) population at risk of poverty and social exclusion<sup>38</sup> (%); 2008-2011**



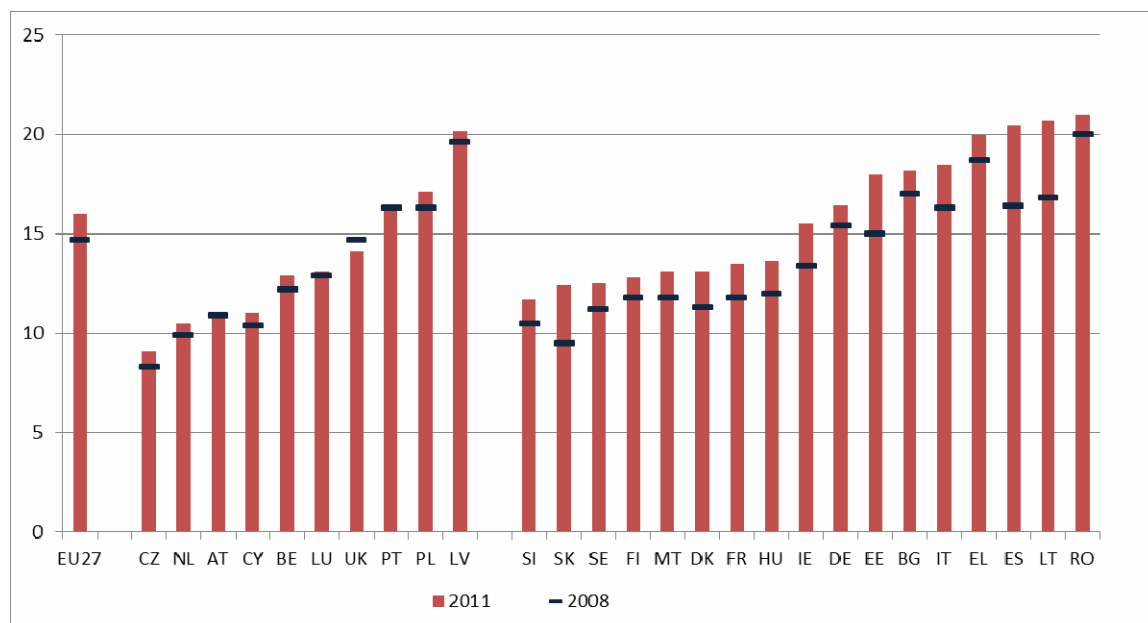
Source: Eurostat; EU-SILC (2011 income year 2010); except for IE (SILC 2010 income year 2010).

Poverty is primarily about living on a low income. The risk of poverty<sup>39</sup> among those of working age remained stable on average at EU level, but rose in nearly two-thirds of EU countries. The rise exceeded 2 percentage points in Estonia, Ireland, Italy, Lithuania, Slovakia, and Spain. However, the data may underestimate the actual deterioration in living standards among the poorest in these countries, as well as in the countries that show smaller changes in the incidence of relative poverty, as explained below.

<sup>38</sup> The indicator sums up the number of persons who are at risk of poverty, severely materially deprived or living in households with very low work intensity. Persons present in several sub-indicators are counted only once. Persons at risk of poverty have an equivalised disposable income below 60% of the national median equivalised disposable income after social transfers. Material deprivation covers indicators relating to economic strain and durables. Persons are considered to be living in households with very low work intensity if they are aged 0-59 and the working age members of the household worked less than 20% of their potential during the past year.

<sup>39</sup> The at-risk-of poverty rate measures the share of people living with less than 60% of the median income in their country. This is the threshold under which resources are considered too low to be able to fully participate in the society.

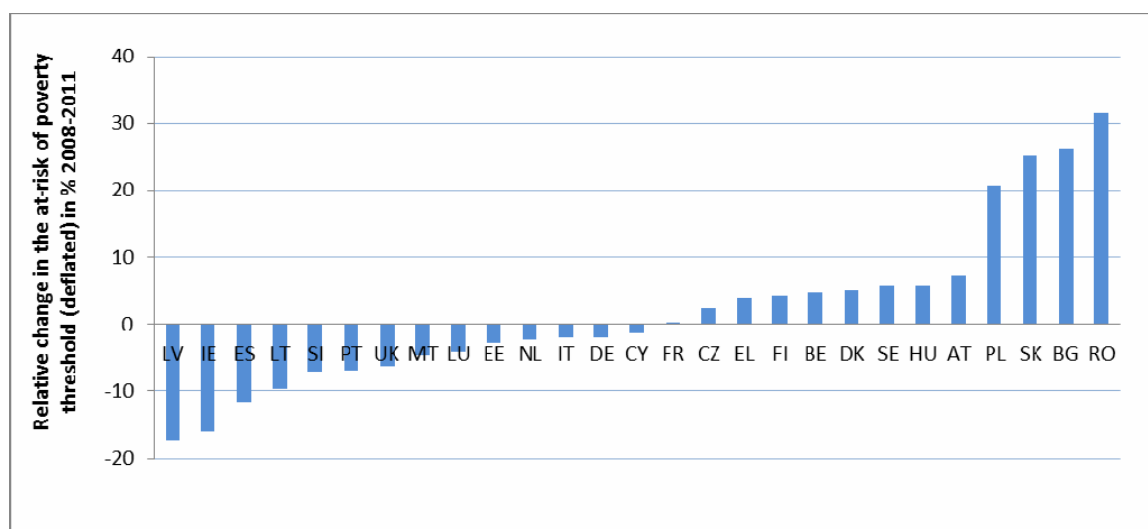
**Chart 2a: Share of working age (18-64) population at risk of poverty (%); 2008-2011**



Source: Eurostat; EU-SILC (2011 income year 2010); except for IE (SILC 2010 income year 2010)

Changes in relative poverty have to be interpreted together with trends in the poverty threshold. During the crisis, the general fall in incomes led to a significant drop, by 5% or more, in the level of the poverty line (that is, the actual income of a person living on the poverty line) in Latvia, Ireland, Spain, Lithuania, Slovenia, Portugal and the UK. This indicates a sharp fall in the living standards of the poorest in these countries, including those in which the incidence of relative poverty remained stable.

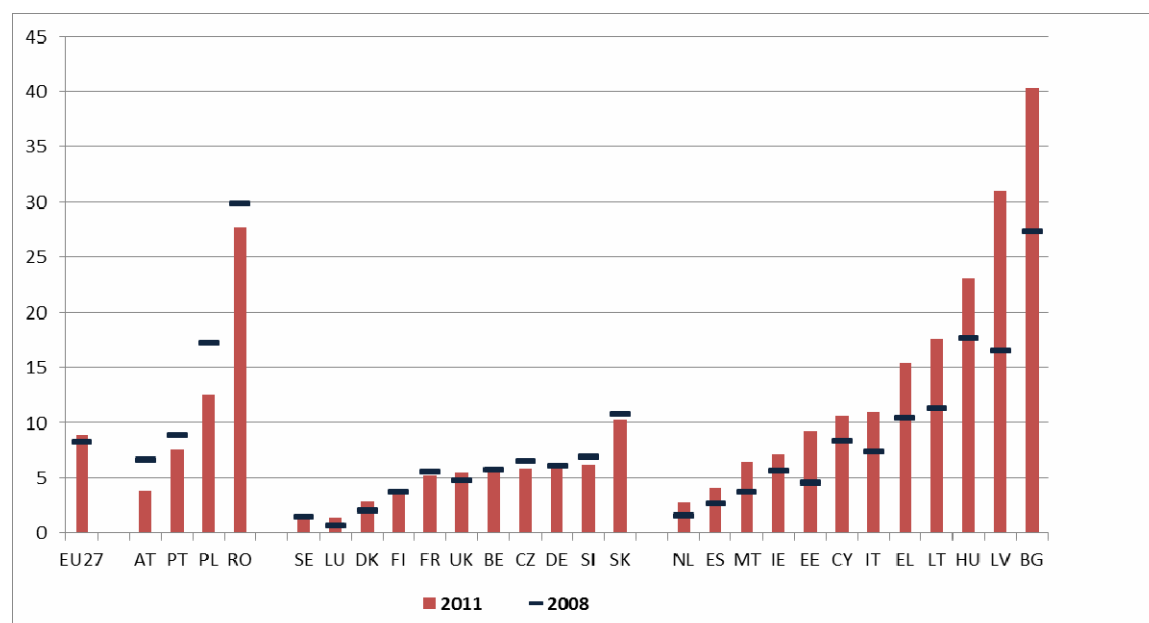
**Chart 2b: Evolution of the at-risk of poverty threshold (% change between 2008 and 2011)**



Source: Eurostat; EU-SILC (2011 income year 2010); except for IE (SILC 2010); at risk of poverty threshold in national currency (in Euro for CY and SK), deflated.

8.8% of the EU-27 working age population suffered from **severe material deprivation**<sup>40</sup> in 2011. As it is based on a single European threshold, this indicator reflects better the stark differences in living standards across the EU. In 2011, the severe material deprivation rate exceeded 30% in Bulgaria and Latvia and exceeded 20% in Hungary and Romania. The chart below shows the deterioration of the situation in the Member States among those most severely hit by the crisis. The deterioration was especially severe in Latvia, Lithuania, Hungary, and Greece (at least 5 percentage points).

**Chart 3 Developments in severe material deprivation across EU Member States among the working age population (18-64), 2008-2011**

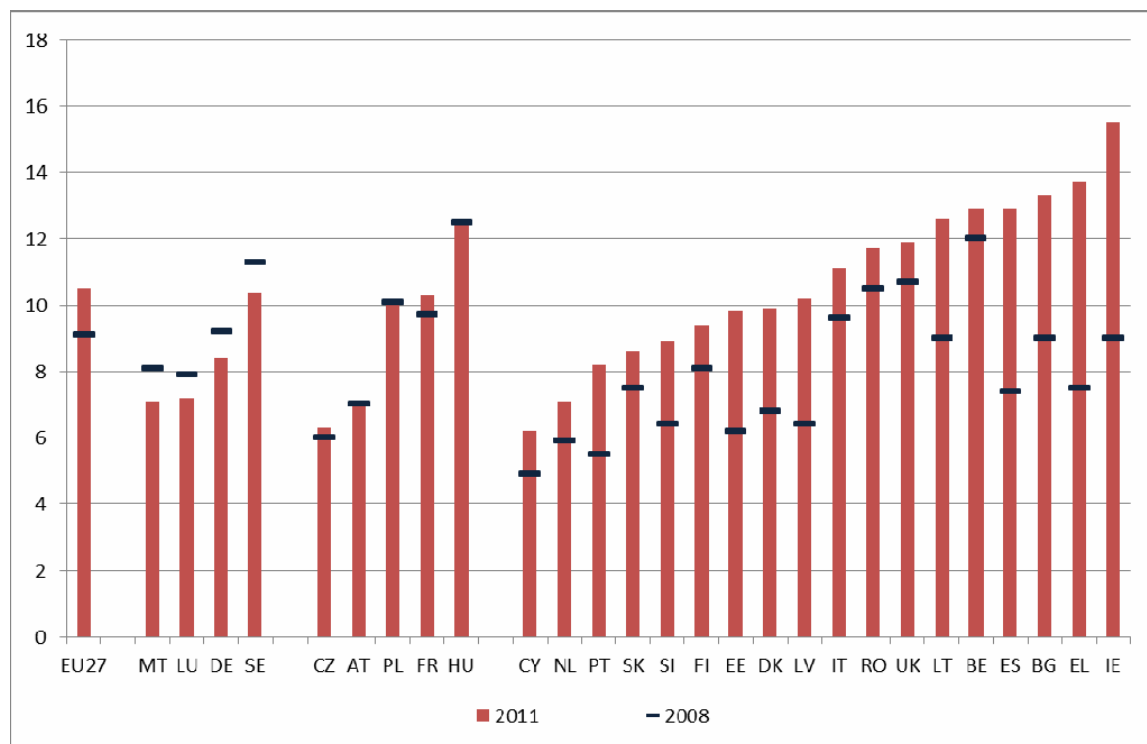


Source: Eurostat; EU-SILC (2011); except for IE (SILC 2010). Unlike income, material deprivation refers to the survey year.

Exclusion from the labour market is another driver of poverty in the EU, especially in households where no-one holds a job. The crisis pushed many households out of the labour market, as shown in the chart below. Most Member States saw sharp rises in the rate of people living in jobless/very low work intensity households. The trends are particularly worrying in Ireland, Greece, Spain, and Bulgaria (over 4 percentage point deterioration between 2008 and 2011).

<sup>40</sup> The severe material deprivation rate represents the proportion of people who cannot afford at least four of the nine following items: 1) (arrears on) mortgage or rent payments, utility bills, hire purchase instalments or other loan payments; 2) one week's annual holiday away from home; 3) a meal with meat, chicken, fish (or vegetarian equivalent) every second day; 4) unexpected financial expenses; 5) a telephone (including mobile phone); 6) a colour TV; 7) a washing machine; 8) a car and 9) heating to keep the home adequately warm.

**Chart 4 Developments in the share of people living in jobless households<sup>41</sup> across EU Member States, 18-59 (not students) 2008-2011**

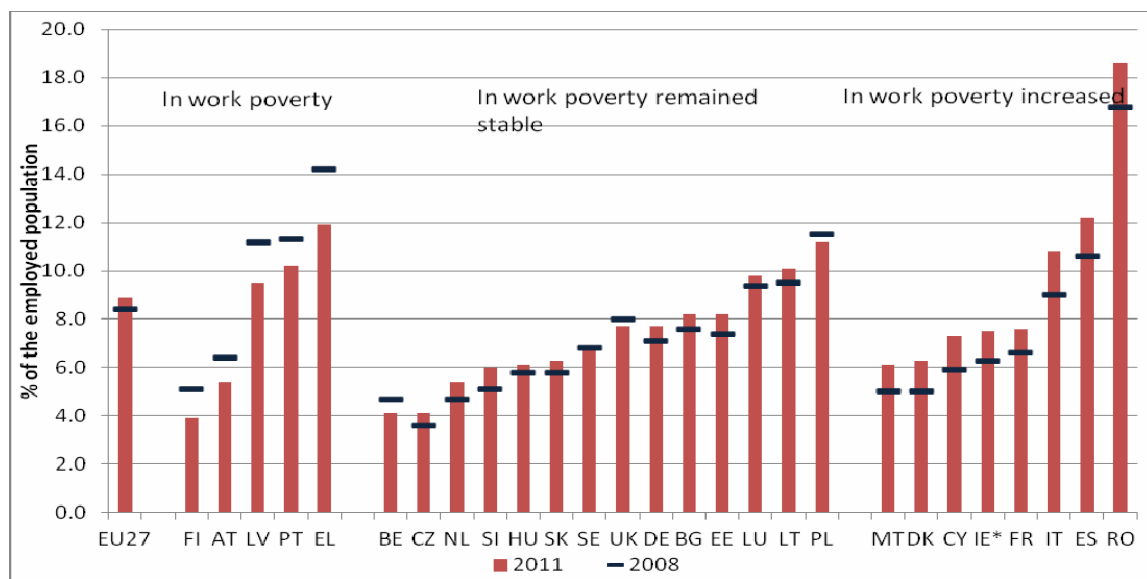


Source: LFS

Holding a job does not always protect a household from the risk of poverty. The **working poor** account for a third of adults of working age who are at risk of poverty. In 2011, almost 9 % of those with jobs were living under the poverty threshold. In-work poverty rose significantly in a third of EU countries (MT, DK, CY, IE, FR, IT, ES, and RO) between 2008 and 2011. In-work poverty applies to situations in which there are not enough adults working in a household, or where they are not working enough hours to earn a living. It is also linked to poor labour market conditions such as low pay, low skills, precarious employment and under-employment. Single-parent households and single households in which the breadwinner is not working full time, as well as single-income families face the highest risks of poverty (often these being women or young people).

<sup>41</sup> Share of people living in a household where no one is working.

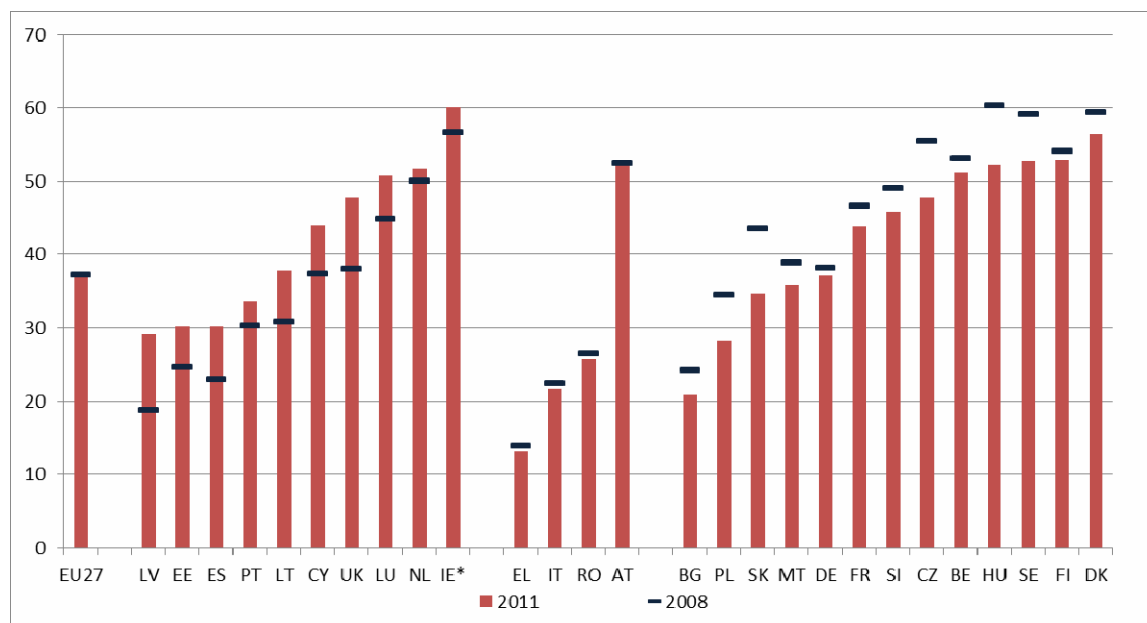
**Chart 5 Developments in the level of in-work poverty across EU Member States among the working age population (18-64), 2008-2011**



Source: Eurostat; EU-SILC (2011); except for IE (SILC 2010).

**Social transfers** play an essential role in providing support to both those that are without jobs, and those that are transitioning into the labour market (and may face low-paying jobs). Their impact in reducing the risk of poverty of those of working age varies greatly across EU countries, from less than 25% of the risk of poverty before social transfers in BG, EL, and IT, to more than 50% in BE, IE, DK, FI, SE, HU, NL, LU, and AT. These variations reflect differences in levels of poverty before social transfers, in levels of spending, and in the design of taxes and benefits systems. During the crisis, the impact of social transfers has increased in nearly half of EU Member States, including some of those worst hit by the crisis.

**Chart 6 Impact of social transfers (not pensions) in reducing the risk of poverty of the working age population, 2008-2011**



Source: Eurostat; EU-SILC (2011); except for IE (SILC 2010), DG EMPL calculation. Impact of social transfers is calculated as the relative change in the at-risk-of-poverty rate before and after social transfers.

### 3.2. Grouping countries according to their main challenges














































Poverty and social exclusion among those of working age are driven by multiple factors, including **exclusion from the labour market, insufficient earnings from work for the employed and his/her family and inadequate income support for those who need it.** Different factors prevail in different countries. A cluster analysis based on five indicators<sup>42</sup> of the main drivers can group countries according to the main challenges they face. It shows that countries that perform well on all drivers have good outcomes and relatively less poverty, while those that show bad performance on one or more drivers have the worst outcomes.

**Table 1. Clustering of MS based on the following drivers: jobless households, long-term unemployment (LTU) rate, impact of social transfers on poverty reduction, activity rate, in-work poverty, and related poverty outcomes**

Drivers	Outcome	Countries
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<sup>42</sup> The five indicators are jobless households, long-term unemployment rate, impact of social transfers on poverty reduction, activity rate, and in-work poverty. These indicators are also those used in the Joint Assessment Framework to assess the policy area ‘active inclusion’.



<p><b>Group A</b></p> <ul style="list-style-type: none"> <li> Low share of <b>jobless households</b></li> <li> Low level of long term unemployment</li> <li> Impact of social transfers is high</li> <li> Relatively high level of activity rate</li> <li> Low level of in-work poverty</li> </ul>	<ul style="list-style-type: none"> <li> Risk of Poverty</li> <li> Poverty gap</li> <li> Persistent poverty</li> </ul>	<p>CZ FR NL AT SI SE (CY)</p>
<p><b>Group B</b></p> <ul style="list-style-type: none"> <li> Relatively high share of <b>jobless households</b></li> <li> Low level of long term unemployment</li> <li> Impact of social transfers is high</li> <li> Relatively high level of activity rate (<del>BE</del>)</li> <li> Low level of in-work poverty</li> </ul>	<ul style="list-style-type: none"> <li> Risk of Poverty</li> <li> Poverty gap</li> <li> Persistent poverty</li> </ul>	<p>BE DK DE FI UK</p>
<p><b>Group C</b></p> <ul style="list-style-type: none"> <li>  Very high share of <b>jobless households</b></li> <li>  Very high level of <b>long term unemployment</b></li> <li> Impact of social transfers is high</li> <li> Low level of <b>activity rate</b></li> <li> Relatively low level of in work poverty</li> </ul>	<ul style="list-style-type: none"> <li> <b>Risk of Poverty</b></li> <li> Poverty gap</li> </ul>	<p>IE</p>
<p><b>Group D</b></p> <ul style="list-style-type: none"> <li> Relatively high share of jobless households</li> <li> Low level of long term unemployment</li> <li>  <b>Impact of social transfers</b> is very low</li> <li>  Very low level of <b>activity rate</b></li> <li> Relatively high level of in-work poverty</li> </ul>	<ul style="list-style-type: none"> <li> <b>Risk of Poverty</b></li> <li> <b>Poverty gap</b></li> <li> <b>Persistent poverty</b></li> </ul>	<p>BG RO HU PL IT MT</p>
<p><b>Group E</b></p> <ul style="list-style-type: none"> <li> Relatively high share of jobless households</li> <li>  Very high level of <b>long term unemployment</b></li> <li> <b>Impact of social transfers</b> is low</li> <li> Relatively high level of activity rate</li> <li> High level of in-work poverty</li> </ul>	<ul style="list-style-type: none"> <li>  <b>Risk of Poverty</b></li> <li> <b>Poverty gap</b></li> <li> <b>Persistent poverty</b></li> </ul>	<p>ES EL PT LV LT EE SK</p>

Source: EU-SILC 2010, and EU LFS 2011, European Commission (DG EMPL) calculation. Groups are obtained by cluster analysis based on five variables for the working age population: share of the population living in zero or very low work intensity households, long-term unemployment rate, impact of social transfers in reducing poverty, activity rate and in work poverty rate. Country scores are calculated with reference to the EU average.

Notes: LU is treated as a ‘shadow country’ not influencing the clustering, since it presents outlier values. Countries in brackets are to be considered as on the edge of the cluster.

**Group A includes CZ, FR, NL, AT, SI, SE, and (CY)** characterised by fewer people excluded from the labour market, low levels of in-work poverty and above-average impact of social transfers. They are among the countries with the least poverty among those of working age.

**Group B includes BE, DK, DE, FI and the UK.** These countries are quite similar to group A, but have more people living in jobless households. They are among countries with the least poverty for those of working age, though rates are slightly higher than for group A.

**Group C singles out Ireland,** characterised by a very high number of people living in jobless households and low activity rates, combined with social transfers that have a high impact on reducing poverty. Ireland combines a relatively high risk of poverty with a low poverty gap.

**Group D includes BG, IT, HU, MT, PL and RO** which combine low activity rates, low impact of social transfers and a medium to high number of people in jobless households and in-work poverty. They are among countries with a medium to high risk of poverty for those of working age.

**Group E includes the Baltic States, ES, PT, EL and SK** which combine high levels of long-term unemployment, average activity rates, social transfers with a low impact and a medium to high number of people in jobless households and in-work poverty. They are among countries with a high incidence and persistence of poverty for those of working age.

This clustering is used throughout this document to assess the performance of Member States, based on indicators relevant for the three pillars of active inclusion.

#### 4. REVIEW OF ACTIVE INCLUSION STRATEGIES AT NATIONAL LEVEL

##### 4.1. Adequate income support<sup>43</sup>

The 1992 Council Recommendation on sufficient resources<sup>44</sup> called on Member States to recognise the individual's right to sufficient resources and to provide adequate income support, based on an evaluation of the resources necessary for a life in dignity. Such support should be combined with an availability to work and the system should avoid creating inactivity traps.

Minimum income schemes are central among the range of measures in place across the EU, given that they are non-contributory safety nets of last resort. This review shows persistent differences among Member States as regards the level of coverage. There are also challenges in reaching those experiencing the worst forms of poverty, for instance, the homeless. The evidence suggests that one of the issues is the number of people who do not take up schemes for which they are eligible. Minimum income schemes *alone* are in any case insufficient to lift beneficiaries out of poverty. They intervene as a last resort and generally interact with other benefits schemes.

**Adequate income support** aims to ensure that those who do not have enough of their own resources to live in a manner compatible with human dignity may do so, whether or not they are fit for work. That is consistent with the 1992 Council Recommendation which called on Member States to recognise such a basic right.

<sup>43</sup> This section is based on the partial reproduction of the *Joint report on social protection and social inclusion 2010*, pages 54-65 (European Commission, 2010).

<sup>44</sup> Council Recommendation of 24 June 1992 on common criteria concerning sufficient resources and social assistance in social protection systems (92/441/EEC).

In assessing **adequate income support**, it is important to distinguish between **two levels of safety net for the working age population**.

**The first level of safety net is mainly<sup>45</sup> represented by the unemployment benefit system.** Most people who lose their jobs usually receive some form of unemployment benefit in the first instance. Well-designed insurance-based unemployment benefit systems with broad coverage should in principle limit the need for last-resort schemes. Spending on unemployment benefits is also quite significant in overall spending on social protection.

The **first level of safety nets** is reviewed regarding the **coverage, adequacy and labour market friendliness** (presence/absence of financial disincentives) of benefits (see Annex, Table 1).

Group A and Group B (as defined in section 2.2) include the countries that do well in terms of coverage, generosity, and duration in the first level of safety nets (with the exception of UK and CY). High generosity, however, comes with higher disincentives to return to the labour market (higher than average unemployment traps<sup>46</sup>).

At the other end of the spectrum, countries belonging to groups D and E (eastern and southern European countries) are characterised by low coverage, low generosity, low duration, and benefit systems with low disincentives. Without a strong first-line safety net system, the bulk of the burden falls on last-resort schemes, such as social assistance.

**The second level of safety nets** complements the first one. It is based on various benefit systems, **mainly minimum income schemes**. They are designed for those who are not eligible for unemployment benefit or other forms of replacement income, though they may have previously been so. These schemes can play an important role at times of prolonged economic downturn, as growing numbers of the unemployed become ineligible to collect unemployment benefits.

Both levels are reviewed in relation to the **coverage, adequacy, and labour market friendliness** (financial disincentives to work) of benefits (see Annex, Table 1). The patterns are similar to those seen for the first level of safety nets: Scandinavian and Benelux countries as well as AT, CZ, FR and DE have more comprehensive safety nets (high coverage, generosity), but also higher disincentives to return to work (higher than average inactivity traps<sup>47</sup>), while, in general, eastern and southern European countries have safety nets characterised by low coverage and generosity, but lower disincentives to work.

Thus, countries in groups D and E do not have adequate safety nets, whether at first or second level. These countries face significant difficulties in addressing the social consequences of a serious economic downturn.

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<sup>45</sup> Disability and sickness benefits are not included here.

<sup>46</sup> The **unemployment trap** — or the implicit tax on returning to work for unemployed persons — measures the part of the additional gross wage that is taxed away in the form of increased taxes and withdrawn benefits such as unemployment benefits, social assistance and housing benefits when a person returns to work from unemployment.

<sup>47</sup> The **inactivity trap** — or the implicit tax on returning to work for inactive persons — measures the part of additional gross wage that is taxed away in the case where an inactive person (not entitled to receive unemployment benefits but eligible for income-tested social assistance) takes up a job. In other words, this indicator measures the financial incentives to move from inactivity and social assistance to employment.

In the remainder of this section, the focus is **primarily on minimum income (MI) schemes for people of working age** given that active inclusion aims at people furthest from the labour market (potentially the main group to benefit from such schemes of last resort).<sup>48</sup> The focus on working age is due to the strong labour market reintegration component of the strategy. Minimum income schemes provide cash benefits to ensure a minimum standard of living for individuals (and their dependants) that have either no other means of financial support, or whose resources fall short of a given level, despite including contributory cash benefits and support from other family members. MI schemes are considered as ‘schemes of last resort.’ They provide a safety net to protect people from destitution if they are not eligible for social insurance benefits, or are no longer entitled to such benefits. **They play an even more important role in a crisis,** when the rise in unemployment has already had an impact on social assistance schemes.<sup>49</sup>

**Almost all EU countries have some form of MI scheme at national level.** Member States that do not have one, such as Italy, have some sort of scheme at regional or local level. These are generally conceived as a short-term form of assistance, though in most Member States, they are not formally time-limited. They are means-tested and funded through the tax system (i.e. non-contributory). They are intended mainly for people out of work, but some Member States (CY, DE, LT, FR, PT, RO, SI, SE and IE) have extended their scope to provide in-work income support.

#### *4.1.1. Institutional features of minimum income schemes in EU countries*

In most Member States, MI schemes are designed at national level, while delivery is delegated to the local authorities.<sup>50</sup> An examination of various national definitions<sup>51</sup> shows that most Member States use a **statutory minimum level of income**, fixed by the (national, regional, local) legislator or government. Further classifications are possible along territorial arrangements, type of benefits (cash vs. in-kind), and existence of top-ups (or income tapers). Minimum income benefits in general are adjusted periodically.<sup>52</sup> In none of the Member States is the minimum income level linked to national minimum wage.

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<sup>48</sup> The analysis presented in this section relies on the work conducted by the EU Network of national independent experts on social inclusion, and particularly on the Synthesis Report drawn from their work (Frazer H. and E. Marlier (2009) ‘Minimum income schemes across EU Member States. Synthesis Report’).

<sup>49</sup> Social assistance (SA) schemes represent the broader category including MI benefits together with other types of benefits such as housing benefits, child benefits and unemployment assistance benefits.

<sup>50</sup> In a few Member States, like Austria and Hungary, responsibility for policy decisions on SA benefit levels and eligibility conditions is partly delegated to regional/local governments.

<sup>51</sup> MISSOC Analysis (2011). *Guaranteed Minimum Resources*, MISSOC Secretariat for the European Commission, Contract nr. VC/2010/1131.

<sup>52</sup> Most Member States do automatic adjustments following changes in the consumer price index (in some countries an increase will only take place if the consumer index is raised by a certain percentage (CZ, LU, BE)). Some Member States will only adjust at irregular intervals after a decision by the government (LT, EE), while in other countries this will depend on the available budgetary resources (BG, LV). However, the periodicity of adjustment varies from every 6 months (SI, NL), to each year (almost all Member States), up to once every 3 years (PL), or at irregular intervals (LT, EE). Source: MISSOC Analysis 2011.

The design of MI schemes varies widely among Member States. In terms of **comprehensiveness** (i.e. the extent to which MI schemes are non-categorical, thus applying to those on low incomes in general, rather than to specific subgroups), four ‘broad’ groups of countries can be distinguished.<sup>53</sup>

- **Group 1 (AT, BE, CY, CZ, DE, DK, FI, NL, PT, RO, SI, SE)** is characterised by relatively simple and comprehensive MI schemes, generally open to those without sufficient means to live in dignity.
- **Group 2 is smaller (EE, HU, LT, LV, PL, SK).** It has simple and non-categorical<sup>54</sup> MI schemes accompanied by more restricted eligibility conditions.
- **Group 3 (ES, FR,<sup>55</sup> IE, MT, UK)** is characterised by a complex set of different and often categorical schemes that sometimes overlap but generally cover most of those with insufficient means.
- Finally, there is a small group of countries with limited, partial or piecemeal arrangements only covering narrow categories of people (BG, IT, EL).

Eligibility conditions (commonly related to age, nationality, residence, lack of financial resources and availability for work) vary significantly. In some Member States, where there are only piecemeal and categorical schemes, there are **people on very low incomes that do not have access to any form of MI scheme.**

Over the past years many Member States have **tightened eligibility conditions.**<sup>56</sup> Conditionality has generally been increased and **availability for work** has usually been more tightly enforced for those are fit to work. There are often sanctions if beneficiaries fail to comply with the requirement that they must be available for work. Sanctions may lead to reductions in benefits, and to the loss of the right to SA benefits in more extreme cases. There is also a trend towards a stronger link between income support through MI schemes and **activation measures** including vocational training, job search assistance, and counselling.

MI schemes are of unlimited duration in all Member States. They are granted for as long as a person is in need of support, and need is monitored by regular checks that beneficiaries do indeed fulfil eligibility conditions. National MI schemes differ as regards the duration for which benefits are available after each application, so the frequency with which a claimant has to reapply varies. For example, in FR the Revenu de solidarité active (RSA) has to be renewed after three months, in BG, SI and LV after six months, while in PT, the period is 12 months.<sup>57</sup>

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<sup>53</sup> Frazer H. and E. Marlier (2009) ‘Minimum income schemes across EU Member States. Synthesis Report’ .

<sup>54</sup> Access to categorical benefits is restricted based on some personal characteristics (single, with children, etc.) non-categorical benefits are benefits with no restriction based on personal characteristics. .

<sup>55</sup> This has improved with the introduction of the Revenu de solidarité active in 2009.

<sup>56</sup> A follow-up survey, conducted in autumn 2011 and spring 2012, on the implementation of the active inclusion strategies at national level (based on pre-filled questionnaires complemented by MS information) found that more countries have implemented stricter eligibility criteria for minimum income (CZ, FR HU, PT, RO, UK) compared to those that relaxed eligibility (MT, LT) in the examined period (2008-2012).

<sup>57</sup> MISSOC database for 2011.

Considering overall income support, it should be noted that in some Member States, MI claimants also receive **additional assistance for specific needs**, such as housing benefits, contributions to fuel costs and means-tested child benefits. Though not formally classified as ‘guaranteed MI benefits’ these do contribute to the level of income that is actually guaranteed to people supported by MI schemes.

4.1.2. *The non-take up of benefits: estimated extent, causes and policy-relevant consequences*

Coverage of MI schemes is defined on the basis of eligibility criteria. The take-up of benefits refers to the share of those entitled to benefits that *actually receive them*. **Coverage and take-up rates do not necessarily match**,<sup>58</sup> and the available evidence<sup>59</sup> shows that the gap between the two is significant, sometimes very large.

Hernanz et al. (2004) report estimates of take-up for social assistance and housing benefits ranging between 40 % and 80 %. A more recently completed EUROMOD project (AIM-AP)<sup>60</sup> has provided additional evidence for some EU countries and different types of benefit. It reports ranges between 33 % and 88 %.<sup>61</sup>

The UK is the only EU Member State which has published official estimates of take-up rates for various benefits, including Income Support, since 1997, but its last estimates refer to 2007-08. Evidence from an evaluation of the French RSA scheme highlights that many beneficiaries do not receive the support and activation to which they are entitled, with a non-take up rate of 35 % for basic benefits (RSA socle) and up to 68 % for the in-work RSA supplement (RSA activité).<sup>62</sup>

Overall, take-up seems to have declined, at least for some of the EU countries for which data are available. **Some groups may be more likely not to take up benefits than others.**<sup>63</sup>

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<sup>58</sup> In an ideal scenario where all people entitled to benefits actually receive them, coverage and take-up rates would be identical. In practice ‘frictions’ of different nature generate incomplete take-up, so that take-up rates end up being smaller than coverage rates.

<sup>59</sup> Evidence on take-up is currently very fragmented and limited in terms of country coverage. It is often out of date, and refers to different schemes for different countries.

<sup>60</sup> The Accurate Income Measurement for the Assessment of Public Policies was a project (started in 2006 and finished in 2009) funded by the European Commission under the Sixth Research Framework Programme. AIM-AP aimed at improving the comparability, scope and applicability of tools, methods and data for the measurement of income and the analysis of the effects of policies on inequality, poverty and social inclusion. It involved 11 universities and research institutes in various EU countries (<http://www.iser.essex.ac.uk/research/euromod/research-and-policy-analysis-using-euromod/aim-ap>). .

<sup>61</sup> Source: Matsaganis M., A. Paulus and H. Sutherland (2008) ‘The take up of social benefits’ SSO Research Note 6(2008).

<sup>62</sup> Commission Staff Working Document, Assessment of the 2012 national reform programme and stability programme for France, SWD(2012) 313 final, Comité National d’Evaluation Rapport Final, December 2011.

<sup>63</sup> EU Network of Independent Experts (Frazer and Marlier, 2009) For instance, in Belgium non-take up is estimated to be greater for women, couples, individuals with educational attainment below the second stage of secondary studies and the 16-24 age cohort. In the UK, people that do not take up Income Support tend to be slightly older than those that take it up (with a larger share of people aged 50-59) and more likely to be owner-occupiers in terms of tenure type, to have other incomes, to share their household with other benefit units and to live in a household below 60% of median income

The **reasons for this vary** widely. Information costs, administrative costs, disincentives (due to low benefit levels and short duration), social and psychological costs, errors in evaluation procedures and discretionary assessment may be among the explanations.<sup>64</sup>

In any case, the evidence clearly shows that a considerable number of people do not take up benefits. The reasons for this require **research efforts and attention from policy-makers, because:**

- **low take-up distorts the intended effects of social benefits** and reduces the chances of programmes achieving their objectives. Non-take-up lowers the capacity of SA to reduce the at-risk-of-poverty rate and widens the poverty gap.<sup>65</sup>
- if a benefit is not claimed because of reasons such as lack of information, this creates **disparities in the way potential claimants are treated** in a welfare programme supposed to treat them equally.<sup>66</sup>

#### *4.1.3. Minimum income schemes: the issue of adequacy*

In most Member States, for most types of household, **minimum income benefits alone are not enough to lift people out of being at risk of poverty**. Chart 6 shows the level of net social assistance as a percentage of the median household income in the EU countries. There are wide differences across Member States: on the one hand, DK, IE, and the NL have social assistance support (including housing) above 70% of the median household income, while on the other, RO, PT, and BG all have social assistance support below 30% of that level.

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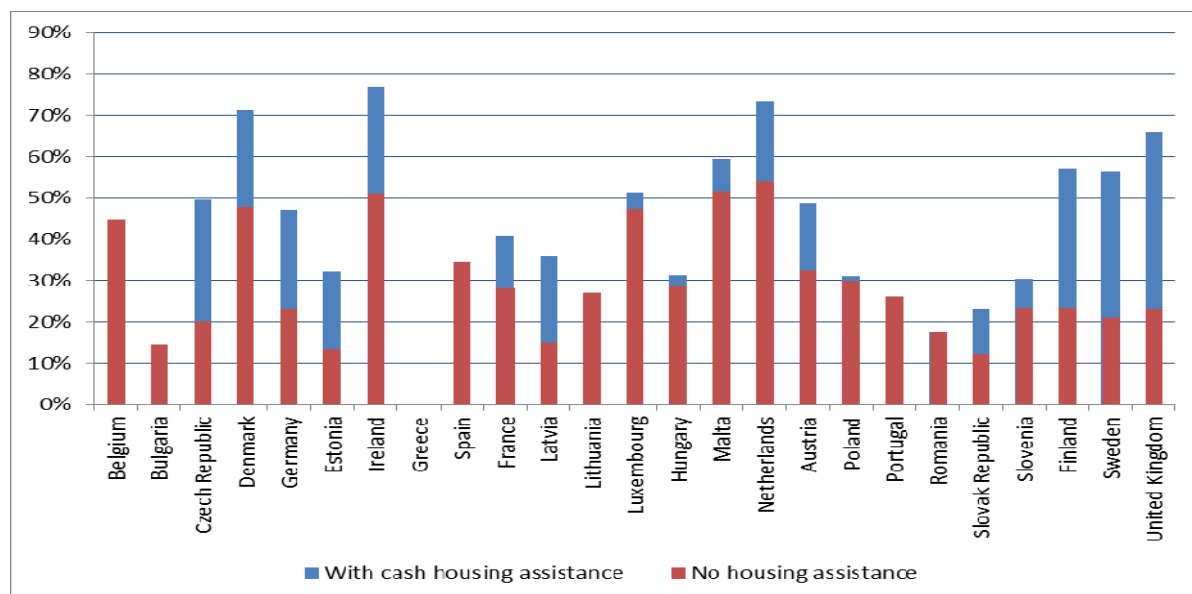
before housing costs (DWP, 2009). Some of the EU Network experts, the Austrian for instance, underline the fact that non-take up can vary significantly by region within a country (Frazer and Marlier, 2009).

<sup>64</sup> Hernanz V., F. Malherbet and M. Pellizzari (2004) 'Take-up of welfare benefits in OECD countries: a review of the evidence' OECD Social, Employment and Migration Working Papers DELSA/ELSA/WD/SEM(2004)2.

<sup>65</sup> Matsaganis et al. (2008) .

<sup>66</sup> (Hernanz et al., 2004).

**Chart 7. The level of net social assistance as a percentage of median household equivalised income in EU-27,<sup>67</sup> Single household, 2010**



Source: Eurostat, OECD.

Mechanisms for raising MI benefits over time are important to ensure they are adequate. There has been a **tendency towards benefits failing to keep pace with general living standards**, and to lose ground relative to wage increases over time.<sup>68</sup> This is often linked to the **lack of clear systems and procedures for regular reviewing of the level of MI.**<sup>69</sup>

Measuring ‘adequacy’ is problematic. Setting the monetary poverty threshold at 60% of median income does not reflect variations in consumption patterns and the cost of living across a given country. As an alternative, the **reference budget** (standard) method defines poverty thresholds with **reference to a basket of goods and services that are considered necessary to reach an acceptable standard of living within a given country or region.** Once agreed, the basket is valued using detailed price data.

Table 2 illustrates reference budget methods in the UK, NL, IE and BE (Flanders), reflecting the sums needed to cover basic necessities, defined as food, clothing, fuel and rent. The methods also estimate an amount for other goods and services considered necessary to lead a decent life (e.g. transport, communication, health care, personal care, education, etc.). In three methods (UK, BE, IE), the total is an amount close to or above 60% of median income threshold. In NL, the method produces a much more parsimonious basket. This shows that **efforts to define the set of goods and services that are absolutely necessary to escape poverty**, even following strict methodological

<sup>67</sup> Italy and Cyprus excluded (no data available).

<sup>68</sup> This reflects the more general downward trend for social assistance benefits standardised for wage increases between 1990 and 2005, Nelson K. (2009) ‘Social assistance and minimum income protection in the EU: vulnerability, adequacy, and convergence’ Luxembourg Income Study Working Paper No 511.

<sup>69</sup> See Frazer and Marlier, 2009, and the country reports produced by the EU Network of independent experts for the country-specific institutional details on this.



guidelines, will always involve significant normative assumptions leading to substantial differences in the amounts estimated.

**Table 2: Reference budget examples for a single person of working age**

	UK Minimum Income Standard 2008	Netherlands NIBUD budget 2008	Ireland Vincentian 2006	Flanders CSB 2008
€ppp per year 2007 prices				
Food	2.499	1.761	2.949	1.604
Clothing	473	522	723	414
Fuel	558	881	327	1.107
Rent	3.240	3.403	2.921	4.169
Total necessities	6.770	6.566	6.921	7.294
<b>Total budget</b>	<b>13.018</b>	<b>8.599</b>	<b>15.039</b>	<b>10.129</b>
€ppp per year 2008				
Relative threshold	<b>11.126</b>	<b>11.485</b>	<b>10.901</b>	<b>10.046</b> (Belgium)

Source: 'The measurement of extreme poverty' — European Commission (2011) and EU-SILC (ilc\_li01)

#### 4.2. Inclusive labour market measures

By inviting Member States to put in place more inclusive labour markets, the Recommendation called on them to support access and return to employment through active labour market policies. These policies include lifelong learning, personalised support and guidance that meet the needs of those furthest from employment, while ensuring quality jobs, promoting job retention and enabling advancement. Providing such support has become increasingly challenging as jobs losses have disproportionately affected jobs offering middle income and lower middle income.

Most Member States have moved towards active welfare policies in which income support is granted, on condition that the recipient is actively involved in looking for work. Yet active labour market measures (such as profiling, job counselling, educational training and re-qualification) still account for only a small proportion of expenditure on the labour market across the EU, especially in eastern Member States. And while many Member States have taken steps to tackle financial disincentives to work (for instance, through back-to-work benefits and disregarding a portion of earnings when setting tax liability), in-work poverty remains a major concern, standing at a rate of 9.4%. Social enterprises and the social economy in general have already proven their capacity to provide innovative responses to the current economic and social challenges by developing sustainable, largely non-exportable jobs, social inclusion, and improvement of local social services.

Assessment of the second pillar of active inclusion (inclusive labour markets) is based on a series of indicators reflecting the **labour market friendliness of tax and benefits systems, the level of labour market segmentation, the level of participation in activation measures, and the design and level of expenditures on ALMPs** (see Annex, Table 2). These indicators also reflect various aspects of the phenomenon of **in-work poverty**.

**Minimum wages** often act as a ceiling for minimum income support. As such, a comparison of minimum wages to the poverty threshold (60% of the national median household income) gives an idea on the adequacy of minimum wages. The data show wide variations. In the UK, NL and IE, the minimum wage is significantly above the

poverty threshold. On the other hand, in EE, SI, HU, and SK, minimum wages are significantly below it. Very low minimum wages also effectively risk creating **inactivity traps**.

**Support for activation** is stronger in groups A (CZ, FR, NL, AT, SE, and CY), B (i.e. BE,<sup>70</sup> DK, DE, FI), and C (IE), than in D (BG, IT, HU, MT, PL, and RO), and E (i.e. the Baltic States, EL, and SK). It appears therefore that countries that, overall, have better performing social protection systems also have more comprehensive ALMPs. **Transition out of poverty** is also higher for northern and western European countries and lower in the east and south.

**Back-to-work benefits** and **earnings disregards** make taking a job more viable. Inadequate coordination of the tax and benefits system may lead to a **low-wage trap**<sup>71</sup> that can create disincentives when a worker is trying to increase productivity. This phenomenon is more severe in group B (BE DK DE FI and the UK) for single-wage households and in group D (IT, HU, MT, and PL) for second-income earners.

#### 4.2.1. *The working poor in the EU*<sup>72</sup>

**In-work poverty** refers to a situation in which having a job does not enable a person and his/her family to escape poverty. Though employment is seen as the best way of doing so, there are those who are working and are still at risk of poverty. Access to employment is not enough to improve their situation.

The main factors behind in-work poverty can be grouped under four categories:

- 1) family/household composition, low work intensity and low wage;
- 2) individual/personal characteristics;
- 3) institutional factors (i.e. duration and type of contract, minimum wage, tax and social protection);
- 4) structure of economy/labour market.

**Low work intensity**<sup>73</sup> and **low wages** contribute most to in-work poverty.<sup>74</sup> In general, countries with high at-risk-of-poverty rates have high in-work poverty rates and vice-

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<sup>70</sup> While BE has high spending and participation on ALMPs, due to improper design, the activation system seems to be ineffective.

<sup>71</sup> The **low-wage trap** is defined as the rate at which taxes are increased and benefits withdrawn as earnings rise due to an increase in work productivity. This kind of trap is most likely to occur at relatively low wage levels due to the fact that the withdrawal of social transfers (mainly social assistance, in-work benefits and housing benefits), which are usually available only to persons with a low income, adds to the marginal rate of income taxes and social security contributions.

<sup>72</sup> Based on European Commission *Employment and Social Developments in Europe 2011(ESDE 2011) and 2012 (ESDE 2012)* and on European Commission Staff Working Document - *Evidence on Demographic and Social Trends*, SWD(2013) 38.

<sup>73</sup> People living in households with very low work intensity are defined as people of all ages (0-59 years) living in households where the adults (those aged 18-59, but excluding students aged 18-24) worked less than 20% of their total combined work-time potential during the previous 12 months (EU SILC definition).

<sup>74</sup> ESDE 2011. Pg. 153.

versa. In-work poverty rates tend to be highest for **single parents with dependent children**. Rates are much higher for those on **temporary contracts** or **working part-time**. The tax rate for low-wage workers has increased in recent years, though with wide variations across Member States. **Lack of access to services**, such as childcare, which forces women to opt for part-time work, can also cause in-work poverty.

The more members of a household there are in work, the lower the risk of poverty. Thus, the one-breadwinner family household, in which work intensity is low to medium, is not protected from the risk of poverty. In fact, across the EU, the risk for such households is between 15% and 50%. For almost half the adult population and most households in the EU, work intensity is high to very high (80%-100%). Next come households with medium work intensity (40%-60%) covering nearly 20% of all adults. This is the type of household involving 25% of adults in southern Member States (ES, IT, MT, ES), where female participation in the labour market is low. By contrast, in DK only 10% of adults live in medium work intensity households.

Single parents and children are particularly exposed to in-work poverty. If there are children in a household, this directly affects the risk of poverty, as total income has to be shared among more people. However, in most Member States, very high work intensity can reduce the risk of poverty affecting children. This is not the case for BG, EE, LT, PL, PT and ES. This may be due to low levels of child benefit and wages. In DE, however, the risk of poverty for families with children is similar to that of the same type of household in DK, despite lower work intensity (usually medium). This highlights the need for good family support at different levels of work intensity. As in DE, most families in ES and IT are medium work intensity households. In ES and IT, however, only high work intensity seems to alleviate the risk of poverty, mainly because of higher wages and largely due to lack of family support.

**Low wages** have an impact on in-work poverty because they affect individual and household income. There is a danger that low-wage temporary employment, especially among young people, may become a persistent feature of working life. Among the self-employed, wages have gone down considerably because of the crisis.

**Women, young people, older workers, migrants and the low-skilled** are more at risk of in-work poverty than other groups. Across the EU, the in-work poverty risk for men is higher than for women. This may be because women tend to be second-income earners (thereby better protected) and have actually gained employment in a medium-to-higher paid wage structure during the recession. Yet, single mothers and single women are particularly at risk of in-work poverty compared to others. There is no strong correlation between age and in-work poverty. Young people tend to be more vulnerable if they live by themselves, or if they hold a student job or 'mini job' (e.g. in DK, SE).

In-work poverty is highest for people **working less than a full year**, followed by those in **temporary contracts** or in **part-time employment**. Apart from IE, MT and UK, all Member States have in-work poverty rates for those on temporary contracts that are almost double those seen in permanent employment. Only in IE, MT, UK and DK does in-work poverty prevail in permanent employment. Young people, migrants and those in low-skilled labour are most likely to be on temporary contracts. For instance, in Poland, those on temporary contracts account for up to 26.8% of total employment, working in jobs with a wage penalty of 27.8% relative to permanent contracts. These factors tend to trap people in poorly-paid jobs and hamper upward mobility. In Spain, the in-work

poverty rate for temporary workers is four times higher than for permanent workers.<sup>75</sup> Those on temporary contracts would usually prefer to be on permanent contracts, so the temporary aspect is involuntary, except in DK and AT. Involuntary part-time work is a growing issue in many countries, such as DE, where wider use of non-standard contracts has increased flexibility on the labour market, but also led to further inequalities among workers.<sup>76</sup>

#### 4.2.2. *Active Labour Market Policies (ALMPs) for the people furthest from the labour market*<sup>77</sup>

Shared characteristics of ALMPs in Member States are profiling, job counselling, educational training and (re-)qualification.<sup>78</sup> Subsidised employment, public work programmes, short-term paid employment, traineeships and voluntary work are among ways of reintegrating people into work. While all Member States have policies for the unemployed and job seekers generally, the degree to which these target those who are furthest from the labour market (e.g. social assistance recipients) varies substantially. However, some Member States (BE, DE, AT, FI, LU, PL, SI) specifically target these recipients by means of separate programmes.

ALMPs<sup>79</sup> account for only a small share of Member States' GDP in the EU-27 (0.85 % of the GDP on average), and these policies are mostly financed through unemployment insurance funds. DK, BE, NL, and SE had the highest share of ALMP spending in 2010. Sometimes ALMPs go hand in hand with passive labour market policies,<sup>80</sup> as in DK, providing an effective tool for both protection and activation, though passive policies have much a more prominent role in ES and BE. Most eastern European countries spend little (see the chart below) on labour market policies, whether active or passive. There has been no significant rise in funding for ALMPs in recent years.

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<sup>75</sup> Commission Staff Working Document, Assessment of the 2012 national reform programme and convergence programme for Poland and Spain, SWD(2012) 323 final, SWD(2012) 310 final.

<sup>76</sup> Commission Staff Working Document, Assessment of the 2012 national reform programme and stability programme for Germany, SWD(2012) 305 final.

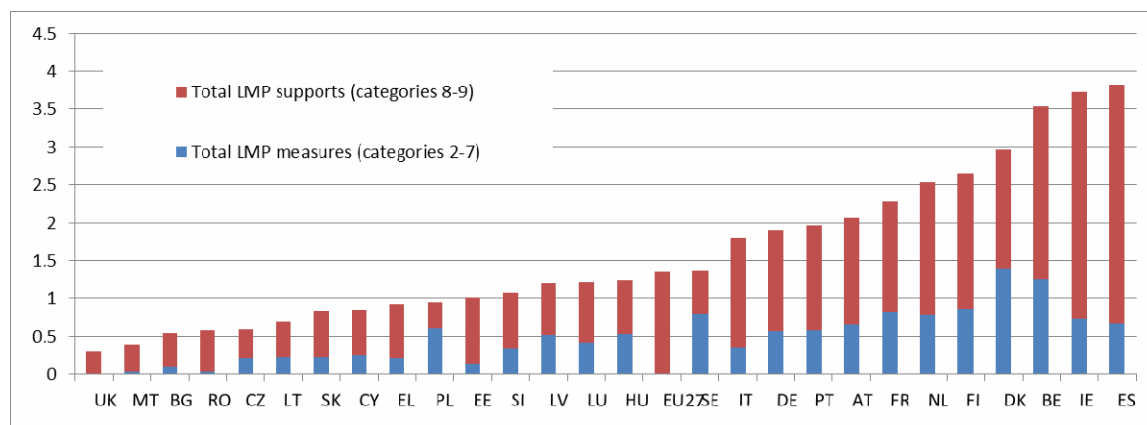
<sup>77</sup> Unless indicated otherwise, based on the Active Inclusion Country Surveys 2008-2011. .

<sup>78</sup> For a classification by type of action see Eurostat (2010). Labour market policy — expenditure and participants.

<sup>79</sup> In EU ALMPs include labour market services, training, job rotation and sharing, employment incentives, supported employment and rehabilitation, direct job creation, and start-up incentives.

<sup>80</sup> Passive labour market policies include various unemployment benefits and early retirement.

**Chart 8: Active and passive labour market policies expenditure in percentage of GDP, 2009**



Source: Eurostat LMP database, 2010

Among the unemployed and recipients of social assistance and activation policies, Member States identify different sub-targets for ALPMs, among which **young and older workers, low-skilled and long-term unemployed, migrants and people with disabilities**. For example, IE targets older workers, while the UK targets young people within the Jobseeker’s Allowance scheme. DK and SE have separate schemes for older workers and young unemployed people. Measures currently in place in DE, SK, SI and ES tend to focus on the long-term unemployed. Few efforts are made to provide special support to integrate migrants into the labour market, although Vienna is a notable exception.

An overwhelming majority of Member States<sup>81</sup> **link the right to income support to the willingness to work and a minimum commitment to seeking a job, vocational or occupational training**. In SK, proving one’s willingness to work and to accept a suitable job is only compulsory when applying for the highest level of income support benefit.<sup>82</sup>

The conditions under which job seekers have to accept a job offer varies across Member States. In CZ and DE, job seekers are required to accept **any** job, even if it is short-term, or a mismatch with their skills. In LV, EE, SK, MT and NL, job seekers are obliged to accept *suitable* work only (subject to the relevant authority’s assessment).

If a job seeker is unable to find work, most Member States offer **vocational or occupational training**. Some also provide various counselling services which can cover advice to manage debt or addiction or psychological support (DE) during drug or alcohol rehabilitation (MT). In SI, job seekers may have to sign a contract with the Social Work Centre to take part in social and/or health programmes (SI). In other countries such as LU, an ‘integration allowance’ is available only if job seekers take part in an ‘integration activity’.

If occupational or vocational training is not successful, some public administrations provide **(mandatory) measures to ensure activation** (NO, RO, BG, NL, LV, HU). This may mean compulsory involvement in public works (e.g. providing social services, cleaning). This dimension should in many cases be complemented by improving job

<sup>81</sup> MISSOC Analysis (2011). *Guaranteed Minimum Resources*, MISSOC Secretariat for the European Commission, Contract nr. VC/2010/1131 .Pg 17.

<sup>82</sup> MISSOC Analysis (2011).

seekers' prospects of finding work, to avoid locking them into such schemes (LV, HU).<sup>83</sup> In NL, a young person who is not in employment or education (NEET) has the right to request a job or an offer of a place in education from the local municipality.<sup>84</sup>

'Reluctant behaviours or attitudes' such as refusing a job offer or refusing to take part in ALMPs are generally penalised by sanctions. These vary, and include withdrawal of benefits and grants (e.g. in EE, SI, LT, CZ, EE), withdrawal of benefits (e.g. BG, CY, HU), suspension of benefits (e.g. LT, DK) or lowering the level of benefits (LV, IE).

#### **Box 1: Recent activation measures in Ireland**

The main types of measures introduced are:

- active case management and profiling services for recipients of benefits of working age (Department of Social Protection);
- reform and consolidation of job-placement services and related provisions for the unemployed in the Department of Social Protection and effective separation between job placement and training provision (the latter has been moved to the Department of Education and Skills);
- scaling up, targeting and further diversifying the training and work experience available. Community Employment is a new scheme that offers places as part of the response to the crisis, and a new job creation programme, the Community Work Placement Initiative (Tús), has been rolled out, both noteworthy developments.

'FAS' employment services and the Community Welfare Service have been integrated into the Department of Social Protection in a restructuring of the way different departments operate, focused solely on labour market activation.

*(Source: Irish expert's report)*<sup>85</sup>

As a response to the economic crisis, most governments recognise the need to step up efforts to develop measures tailored to specific vulnerable groups, notably the young, older unemployed people, and women. The main priorities for ALMPs in NRPs are expanding educational measures (including on-the-job and vocational training) to reduce skills mismatches, expanding and improving job (search) counselling for the unemployed to improve the matching process, and tax reforms that benefit low-wage earners to support labour market participation even during high unemployment, as implemented recently by e.g. AT and LU.

<sup>83</sup> Commission Staff Working Documents, Assessment of the 2012 national reform programme and convergence programme for Hungary and Latvia, SWD(2012) 317 final, SWD(2012) 320 final. .

<sup>84</sup> The recently adopted Youth Employment Package aims to tackle the phenomenon of NEET at Member State level. For more information see: COM(2012) 727 final.

<sup>85</sup> In Frazer, H. and Marlier, E. (2012). Assessment of the implementation of the European Commission recommendation on active inclusion, Synthesis report.

#### 4.2.3. *Income support and work incentives*

For Member States, designing social benefits **without eroding incentives to take up work** is a key concern.<sup>86</sup> Schemes are increasingly designed to **avoid creating unemployment and inactivity traps, as well as low wage traps** for people in work and in receipt of MI benefits. Member States have, for instance, adopted measures to reduce the tax wedge (direct labour taxation plus social security contributions) on lower wages, to raise minimum wages, to offer in-work benefits, and they have reviewed the design of out-of-work benefits, including social assistance.<sup>87</sup>

**Back-to-work benefits** and **earnings disregards** make participation in the labour market more viable. Several countries, CY, DE, LT, FR, PT, RO, SI, SE and IE make use of various forms of back-to-work or tax allowances, with gradual phasing out of SA payments. Similarly, earning disregards are a common practice in CY, DE, AT, BE, LU, MT, NL, SK, CZ, DK and LT. In many cases, around 30% of earnings are disregarded when calculating social benefits. In addition, special allowances, e.g. for single parents and children (MT) and compensation payments for voluntary work (NL) can top up incomes.

**Specific factors** in the design of MI schemes **might result in disincentives to take up work**. These include:<sup>88</sup>

1. **high benefit withdrawal rates**<sup>89</sup> (also with regard to secondary benefits providing access to key services such as health care and childcare);
2. **lack of systematic mechanisms to adjust the value of earnings disregards**<sup>90</sup> over time so as to avoid their erosion;
3. **regulations requiring former beneficiaries to refund benefits.**

#### 4.3. **Access to quality services**

The Recommendation invited Member States to enable access to quality services, essential to support people's inclusion in the labour market and more generally their resilience and participation in society, making sure such services are available across territories, physically accessible and financially affordable. Such services should

<sup>86</sup> The **Employment package** (COM(2012) 173 final), launched in April 2012, is a **set of policy documents** looking into how EU employment policies intersect with a number of other policy areas in support of smart, sustainable and inclusive growth. It identifies the EU's biggest job potential areas and the most effective ways for EU countries to create more jobs. Measures are proposed in the areas of supporting job creation, reforming labour markets, investing in skills, improving EU governance, etc.

<sup>87</sup> See also European Commission (2009) 'Recent reforms of the tax and benefit systems in the framework of flexicurity' European Economy Occasional Papers 43, Feb 2009.

<sup>88</sup> EU Network of Independent Experts, 2009.

<sup>89</sup> As a result of taking up work, benefits are reduced significantly.

<sup>90</sup> Earnings disregards are the part of income that is not taken into account when assessing whether eligibility conditions are met by the applicants.

emphasise solidarity, equal opportunities for users and employees, quality investment in human capital and infrastructures, while being designed and delivered in a comprehensive and coordinated manner.

This review shows that the potential to improve access to services seems to be very considerable, as few Member States report better access to housing or to childcare, and access to social assistance and health services has not improved much either.

**Access to services** is reviewed according to indicators reflecting **access to childcare, housing costs, adult participation in education and training, and social gradient**<sup>91</sup> **in unmet need for health care** (see Table 3 from the Annex). Differences among Member States are most significant on two indicators: access to childcare and participation in education and training for those with a low level of education. Group A and B countries, mostly in northern and western Europe) tend to have high childcare use and high participation in education and training. Group C, D, and E (eastern and southern European countries plus Ireland) tend to have low childcare use and low participation in education and training.

A recent OECD study on publicly provided services has confirmed that better access to specific services such as **healthcare, childcare, housing and care for the elderly** can contribute significantly to reducing inequality in society and thus reduce the level of poverty across various groups.<sup>92</sup> The impact of such services can be particularly relevant for

- (1) **children** and the **elderly** because of their higher use of education and health services respectively;
- (2) **single parents, and couples with children**, because of their higher use of education and childcare services; and
- (3) **households with high work intensity**.

**Reduced rent tenants** and people with a **lower level of skills** may also benefit, albeit less so. Regarding service delivery, there is evidence that **universal** service provision generates fewer problems related to **stigmatisation** or **discrimination** compared to traditional, **targeted** social assistance benefits.<sup>93</sup>

#### 4.3.1. Access to services in the Member States<sup>94</sup>

Most Member States report that the poor now have better access to employment and training, but the potential of other services to lift people out of poverty remains relatively

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<sup>91</sup> Social gradient reflects the position of an individual or population group in society and the variations in their access to and security of resources such as education, employment and housing, as well as different levels of participation in civic society.

<sup>92</sup> OECD-European Commission (2011): The impact of publicly provided services on the distribution of resources.

<sup>93</sup> Marx, I. (2010). Minimum income protection in post-industrial economies: on getting the balance right between incrementalism and innovation, in *Social protection for a post-industrial world*, ed. Kemp, P. A., International Studies on Social Security, vol. 15.

<sup>94</sup> This section is based on Country Surveys on Active Inclusion unless stated otherwise.



underexploited. Several Member States report better access to housing, but few report improvements in access to childcare. Better access to social assistance and health services ranks below the others.

Self-reported improvements in access to **employment and training opportunities** may be linked to Member States' increased use of labour market 'activation' approaches, tougher conditionality on taking up work, compulsory participation in public works programmes and growing sheltered employment.<sup>95</sup>

According to independent EU experts on social inclusion,<sup>96</sup> only a small number of Member States have taken steps to improve services essential to support active social and economic inclusion policies since 2008.

Six have focused on those who can work, AT, BE, EE, DE, LU, MT, and four on those who cannot, BE, EE, LU, MT. Such services include social assistance services, employment and training services, housing support and social housing, childcare, long-term care services and health services.

Reported improvements in access refer to such services being set up for these groups in the first place, rather than specifically addressing the obstacles disadvantaged groups face when trying to access services. There has yet to be more attention to designing services to reach out, through e.g. 'peer' inclusion, developing effective mixtures of targeted and universal services, reducing adverse effects of stigmatisation or removing administrative burdens.

**Table 3. Areas in which Member States have improved access to services for the most disadvantaged**

a. <u>employment and training</u>	AT; BE; BG; CY; CZ; DK; EE; FI; FR; DE; EL; IE; IT; LV; LU; MT; NL; PL; PT; RO; SK; SI; ES; SE; UK
b. <u>social assistance</u>	DK; FI; LT; LU; RO
c. <u>health</u>	LV; LT; RO; SI;
d. <u>transportation</u>	BE; AT
e. <u>housing</u>	AT; BE; BG; DK; FR; LT; LU; RO; SI; ES;
f. <u>childcare</u>	AT; CY; HU; LU; MT; PL;
g. <u>banking</u>	CZ; DK;
h. other _____	EE (in-kind benefits (varies by municipality)); IE (education); IT (social card); PT (in kind benefits/ associated rights (local level in response to the crisis)); UK (school meals for children).

*Source: Country Surveys on Implementation of Active Inclusion Strategies 2008-2011*

<sup>95</sup> Sheltered employment refers to jobs that provide a certain level of supervision and guidance, usually designed for people with disabilities.

<sup>96</sup> Frazer, H. and Marlier, E. 2012. Assessment of the implementation of the European Commission recommendation on active inclusion.

Among countries reporting better **access to housing**, BE has set up a national framework to reimburse housing-related costs, funded by the autonomous Committee for Regulation of Electricity and Gas. Those on social benefits automatically get ‘social’ rates (equalling the lowest rate on the market), and there are ceilings on the maximum rates for gas and electricity. Beneficiaries can also claim fixed-price heating allowances (*stookoliefonds*).

In AT, the new means-tested social assistance scheme (*BMS*) also assesses housing needs and costs. Previously, there was a separate procedure to request a housing allowance. Since 2009, RO has a lower eligibility threshold for heating allowances, which benefits low-income households. For households on social assistance, heating and gas expenses are fully covered by the state. In its NRP, BG allocates funds to expand modern social housing for the most vulnerable. Housing allowances are provided on a very discretionary basis and access depends on the municipality. In 2009, there was a shift from means-tested in-kind heating allowances (e.g. coal blocks) to in-cash heating allowances paid directly to electricity providers.

Six Member States (AT, CY, HU, LU, MT and PL) report better **access to childcare services** for the poor. In 2009, AT introduced compulsory pre-school education (on a half-day basis) at federal level. In 2011, the government decided to create an additional 5000 early childhood education and care institutions between 2012 and 2014. In Vienna, childcare for children up to the age of six is free of charge. Since 2009, LU has run a ‘cheque service’ (child-care service voucher) system, reducing childcare costs, especially for low-income families and SA recipients.

MT, PL and HU report commitments to increasing the number of childcare and toddler institutions (‘Maluch’ Programme in PL). Using the ESF, CY planned a 2011 reform of its care system, providing partial reimbursements of costs associated with care for children, the disabled and older people. However, the reform is intended primarily to further women’s participation in the labour market, rather than to improve the situation of the poor in general.

In a number of countries (PT, SK, SI, UK, LT) not reporting better access to childcare services, there are nevertheless more in-kind services, such as subsidised transportation, school supplies and free school meals for children of SA recipients.

## **Box 2. Client input into service delivery: Belgium — Expert by Experience**

- Involvement of 26 ‘Experts by Experience’ who are experiencing or have experienced poverty, spread over 22 administrations, to improve access to social services for all citizens (including the poor and those most detached from the labour market)
- Problem: legislation and practices are designed by and for middle class — > use of ‘Experts by Experience’ aims to improve accessibility and to make known the views of users, so as to improve tailored services
- Support to experts: training and mentoring system
- Challenges: dissemination of information about the role of EbyE, define/build up profile of EbyE, make sure there is effective communication with colleagues about EbyE, improve support systems for coaches and mentors

*Source: SPC Multilateral surveillance on active inclusion, MS presentation,*

As for **healthcare services**, a number of countries provide full cover for SA recipients (CY, LU, MT, LV, CZ, UK, SI, ES). BE did not report improvements, but grants SA recipients the automatic right to substantial reimbursements of medical costs and a guarantee that health expenses do not exceed a certain threshold. In BG, PL and PT, the coverage of SA recipients' health expenses is heavily discretionary and depends on the municipality.

With regard to **social assistance services**, some governments provide a wide range of services at national level. These comprise psycho-social, alcohol and drug counselling and family assistance (e.g. DE, SE). In the UK, counselling services are delivered by voluntary organisations (Citizens Advice Bureaux). In EE and IT, the availability of such services depends on the municipality. Since reforms in 2008, FI has a thorough social assistance service, linking assessments of the individual's capacity to work with job-seeking assistance and the setting up of employment plans with rehabilitation. The delivery of cash and in-kind social assistance is spread across agencies, social workers and other professionals.

**Banking and transport services** were reported by a few Member States. CZ has introduced financial literacy courses at secondary school level and is planning versions for primary schools, and may be one of the most innovative service providers. Analysis of country surveys shows that banking services (debt, mortgage, counselling and legal assistance) are not confined to reporting countries (CZ and DK), but can also be found in DE, HU, NL, UK, SI, EE, IT, LV. The same applies to free public transport. AT grants free access to public transport to SA recipients, as do CY and LU, as well as FR, at least partially. Subsidised public transport is available to SA recipients in BG and PT.

The EU social inclusion experts<sup>97</sup> provide examples of measures that improve the inclusiveness of **education and training** opportunities. BE is reforming tertiary and secondary education systems to widen access and is improving transitions from education to work through better career guidance and partnerships with enterprises. DK is developing effective lifelong learning strategies and increasing the number of young unemployed people being trained through apprenticeship schemes. It is developing jobs and skills development packages for young people who are academically weak. In the Estonian NRP, a lot of attention is paid to preventing and reducing youth unemployment by providing high-quality education, reducing school drop-out rates and preparing young people more effectively for working life.

In a number of Member States, **food aid** is available in various forms. In EE and IT, 'social cards' make people on low incomes eligible for food aid. In PL and PT, food aid was introduced as an immediate response to the social consequences of the crisis. RO has increased the number of social canteens in urban areas. They provide two hot meals a day for SA recipients and families on low incomes. In SI, NGOs provide free packages of food, vaccination and clothing. In the UK, those on income support or jobseeker allowance can apply for 'healthy start vouchers' to be spent on milk, fresh fruit and vegetables or infant formula.

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<sup>97</sup> Frazer, H. and Marlier, E. 2012. Assessment of the implementation of the European Commission recommendation on active inclusion.

Especially non-EU migrants face difficulties when accessing certain enabling services. In particular, migrants face obstacles when it comes to access to **education** (especially higher education), **employment services** (including information on job vacancies), **financial services**, and **family and child benefits**. These obstacles are often due to problems related to the **transferability of the rights** to access social assistance, unemployment benefits or other related services, the appropriate recognition of qualifications and the **long contribution periods** required to use some of these benefits (unemployment benefits, social assistance).<sup>98</sup>

#### 4.3.1.1. Focus on childcare

The availability and affordability of childcare has a crucial influence on parents' access to the labour market. This holds true particularly for second earners and single parents on low incomes. The availability, quality and affordability of childcare remain an issue in many countries, as highlighted in nine of the country-specific recommendations the European Council adopted in July 2010 (CZ, DE, IT, SK, UK, MT, PL, AT, and HU). The challenge is even greater for households on a low income.

##### *Persisting low access to childcare for households on low income*

The latest information from EU-SILC shows that most Member States are lagging behind EU targets for childcare set in 2002, the so-called Barcelona targets. In 2010, there was provision for 28% of children below the age of three and 83% of children between the ages of three and six. Access appears to be most difficult for households with low incomes. Those on low incomes make far less use of childcare. This is also the case in countries close to achieving the target, with a few exceptions, such as Denmark or Sweden.<sup>99</sup> This gradient shows the additional obstacles that households on low incomes face when they seek childcare, which include:

- employment status — the more hours one or both parents work, the greater their need for childcare;
- eligibility criteria — e.g. places may be reserved for parents that are employed;
- lack of services, particularly in disadvantaged or rural areas;
- lack of affordable services.

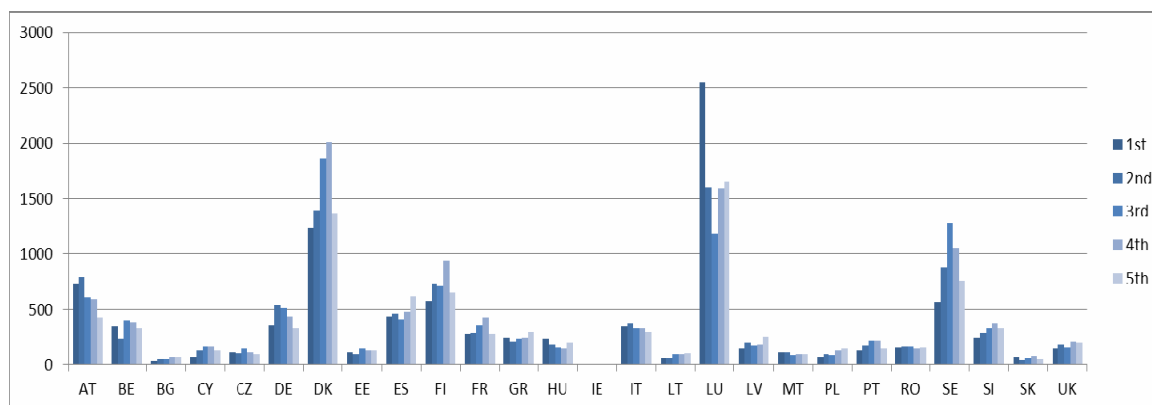
##### *Affordability remains a major challenge*

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<sup>98</sup> Institute for the Study of Labour and the Economic and Social Research Institute (2011). *Study on active inclusion of migrants*,

<sup>99</sup> The unequal benefits of activation: an analysis of the social distribution of family policy among families with young children, Joris Ghysels and Wim Van Lancker, 2011 *Journal of European Social Policy*.

**Chart 9: Public expenditure on early child care and education by income quintile**



Source: M. Vaalavuo

Despite the redistributive effects of government support, the cost of childcare is still an obstacle for families on low incomes, as it can significantly reduce disposable income. Even after deducting government support, out-of-pocket expenses for two preschool children can add up to 20% or more of a family budget.<sup>100</sup> Single parents are least able to afford childcare.

The cost of childcare can be an obstacle to parents wanting to go back to work, especially for single parents and second earners on a low income. These costs appear to create significant inactivity traps in a number of EU countries, by reducing net income gains from employment to such an extent that parents are better off caring for their children themselves<sup>101</sup> at home. The pattern of such disincentives varies in different countries: high childcare costs (IE and MT), low earning prospects (in CZ, SI) or a combination of both (BG, LV).

These barriers could be addressed if government assistance to reduce the cost of childcare targeted low-income families more effectively.

## 5. COMPREHENSIVE POLICY DESIGN, INTEGRATED IMPLEMENTATION, VERTICAL COORDINATION, AND ACTIVE PARTICIPATION OF RELEVANT ACTORS

### 5.1. Integrated Approaches

The 2008 Recommendation advocated an integrated approach to active inclusion which should have yielded a one-stop-shop approach, delivering on all pillars in an integrated manner that could reduce the administrative burden on both customer and provider. An integrated, comprehensive approach should be based on:

- comprehensive policy design,
- integrated implementation,
- vertical coordination,
- participation of relevant stakeholders.

<sup>100</sup> 'Can parents afford to work? Childcare costs, tax-benefit policies and work incentives', OECD Social, Employment and Migration Working Papers, No 31, 2006, available at: <http://www.oecd.org/dataoecd/58/23/35862266.pdf>.

<sup>101</sup> 'Report on childcare costs — Can parents afford to work? An update' OECD, 2011.

Assessment of the effectiveness of active inclusion strategies requires further analysis based on adequate, up-to-date data. Limited evidence available<sup>102</sup> shows that Member States have not yet developed fully-fledged integrated, comprehensive strategies, though several have taken encouraging steps. This may be due to the greater fiscal and administrative burden of implementing such a strategy.

A **fully comprehensive policy** has to define the right mix of the three strands of active inclusion, taking into account their joint impact on the social and economic integration of disadvantaged people and their possible interrelationships, including synergies and trade-offs.

According to the independent experts' analyses,<sup>103</sup> such a strategy is only evident in about a quarter of Member States (DK, FI, FR, MT, NL, PL, SE) for those who can work and in just two Member States (NL, SI) for those who cannot. Only six Member States (BE, DK, FR, MT, SI, SE) have developed **effective systems for integrated implementation of active inclusion policies** for those who can work and only three (LU, MT, SI) for those who cannot.

The extent to which there is **effective policy coordination among local, regional, national (and EU) authorities** in the light of their particular roles, competences and priorities varies significantly across countries. Five (BE, DK, FI, LU, NL) are assessed as having such coordination arrangements for active inclusion measures both for those who can work and for those who cannot. The results of the full analysis are summarised in Table 5 in the Annex.

The assessment of the country surveys on active inclusion shows that most Member States report a fully-integrated strategy. Only six countries report a partially-integrated strategy, and IT and EL report a non-integrated approach. A closer analysis of the active inclusion policies reported<sup>104</sup> reveals what Member States understand by an integrated strategy.

**Table 4. Integrated active inclusion strategy among the Member States**

a.) <u>fully integrated</u> : minimum income scheme is linked to labour activation measures and access to services	AT; BE; CY; DK; FI; DE; HU; LV; LU; MT; NL; PL; PT; SK, SI; SE; UK; CZ; RO
b.) <u>partially integrated</u> : minimum income scheme linked with labour activation measures	BG; FR; IE; LT; ES; EE
e.) <u>not integrated</u>	EL; IT

<sup>102</sup> Based on the informal consultation (carried out in April-May 2012) of civil society organisations and the Country reports on active inclusion.

<sup>103</sup> Frazer, H. and Marlier, E. 2012. Assessment of the implementation of the European Commission recommendation on active inclusion.

<sup>104</sup> Based on cross-analysis of Questions 15 and 16 (Describe the specific programme(s) that integrate (s) any of the three pillars by providing the starting date of the programme). It should be noticed that most Member States did not report any specific programmes under Q16.

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*Source: Country Surveys on Implementation of Active Inclusion Strategies between 2008-2011*

For countries classifying themselves as providers of fully-integrated strategies, e.g. AT, BE, UK, an integrated strategy means minimum income recipients have an ‘automatic right’ (enshrined in law) to services and to participation in ALMPs.

However, as in the case of the UK, policies are often designed to strengthen the link between MI and ALMPs rather than linking MI-ALMPs-Services, and services are often focused mostly on childcare.

Countries report significant obstacles to a full-fledged strategy. These involve problems with implementation at local level, e.g. due to coordination problems between public employment services (PES) and social agencies; policy competences scattered across policy levels; restricted access to services due to lack of funding (e.g. in PT) and lack of political prioritisation.

Countries classifying themselves as providers of partially-integrated strategies report the following obstacles. In FR, RSA recipients registered with the public employment services do not automatically receive support in training and education; access to services depends heavily on the financial situation in a region. In BG, few employment services are specifically targeted to minimum income recipients. In LT, not all recipients of minimum income benefit from their right to a housing allowance. The situation varies substantially by municipality.

**Civil society organisations report a different picture.** There is consensus that fully-fledged integrated and comprehensive strategies have not yet been developed by Member States, and that there has been too much emphasis on the employment pillar. Civil society organisations refer to various reasons for the lack of fully-fledged integrated and comprehensive strategies: lack of political will, coordination problems, competences fragmented across policy levels, the economic crisis and austerity measures.

This is partly echoed by **researchers**<sup>105</sup> on poverty and social exclusion, who note that the European agenda on combating poverty and social exclusion appears to be moving towards a largely employment-focused analysis of poverty. They make a claim for greater clarity on concepts and objectives within a coherent, multidimensional model of social and economic disadvantage.

## **5.2. Participation of relevant actors**

**No involvement or very limited involvement** of all relevant actors<sup>106</sup> in the development, implementation and evaluation of active inclusion strategies is reported by larger social networks (EAPN, Eurodiaconia, and Cities for Active Inclusion - EUROCITIES).

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<sup>105</sup> Working Paper ‘Political Implications of the Current Debate on Poverty, Deprivation and Social Exclusion in Europe’ by Bjørn Hvinden & Rune Halvorsen (NOVA), October 2012. This theoretical paper is the first deliverable of the FP7 Research project COPE: ‘Combating Poverty in Europe: Re-organising Active Inclusion through Participatory and Integrated Modes of Multilevel Governance’ (COPE) — [http://cope-research.eu/wp-content/uploads/2012/04/Paper\\_Political\\_implications.pdf](http://cope-research.eu/wp-content/uploads/2012/04/Paper_Political_implications.pdf).

<sup>106</sup> Including those affected by poverty and social exclusion, civil society organisations, non-governmental organisations and service providers.

Whilst EAPN members can highlight no current examples of participation of stakeholders in the design and delivery of an explicit AI strategy, they highlight active participation in the National Action Plans/Social Reports under the Social OMC (2000-2010) and/or NRPs, often promoting strong proposals on Active Inclusion.. In the first NRPs of Europe 2020, whilst 13 National Networks were invited to participate in the NRP process (AT, BE, BG, DK, EE, FR, DE, IE, LU, NL, PT, ES, SE), the level of meaningful stakeholder participation was scored very low (2.38 of 10), with most scoring very low (AT, BG, CZ, DK, EE, IE, IT, MT, NL, PL, RO, SK, SE, UK), with only Belgium and Spain giving a positive rating (7 and 8). However, even in these countries, it was difficult to get proposals taken on board, and in the case of Spain, to get implementation.

Eurodiaconia confirms that its members in DE, SE, DK were not involved in the development, implementation and evaluation of the strategies, with the exception of CZ which had been consulted via EAPN.

CfAI-EUROCITIES reports that involvement of relevant actors differs between cities. At local level, cities rely largely on involving relevant stakeholders such as NGOs. However, the extent to which cities are consulted at national level is not always satisfactory. As AGE Platform Europe reports, in several (BE, FR, ML, SI) of its member countries, AGE organizations are involved in regular consultation processes on social policy and can comment on draft reports upon request.

### 5.3. Case studies –Recent developments at national level

#### *RSA (revenue de solidarite active) in France*<sup>107</sup>

The Revenu de Solidarité Active (RSA) can be seen as a cornerstone of France’s current antipoverty policy, in combination with the minimum wage and employment subsidies. The declared objectives are to integrate and simplify existing benefit schemes, to combat poverty more efficiently and to foster the transition into work.

The RSA itself integrates several pre-existing schemes:

- Revenu Minimum d’Insertion (RMI — the mainstream guaranteed minimum income);
- Allocation de Parent Isolé (API — single parent benefit); and to some extent;
- Prime Pour l’Emploi (PPE — a large-scale tax credit scheme designed to encourage part-time or low-paid employment and affecting 9 million households).

The RSA encourages the take-up of work by exempting 62% of any earnings in calculating benefit. Experiments have been conducted in 34 ‘départements’; the scheme has been mainstreamed as from June 2009.

The following parameters sketch an overall picture of the scheme:

- The RSA scheme is equivalent to a negative income tax. A basic benefit of € 410 (for a single adult) or € 590 (for a couple with no children) applies to claimants who do not work; for those who work, earnings are topped up by an in-work RSA supplement in such a way that 62% of their net earnings are exempted. The implicit tax rate is set so as to make the benefit expire as the claimant’s earnings approach the poverty threshold (SMIC = approx. € 1 200 gross/ € 950

<sup>107</sup> Ides Nicaise (2011): Building the tools to fight in-work poverty, Synthesis report, France. Available at: [www.peer-review-social-inclusion.eu](http://www.peer-review-social-inclusion.eu) .



net). In comparison with the pre-existing schemes, the RSA focuses more on the lowest income group and, above all, strengthens the work incentive component.

- 0.8 million households are expected to receive just the basic RSA (at zero earnings level) each trimester, while 1.8 million others would receive the RSA in-work supplement. Among the latter, 400 000 households would earn less than the basic benefit and would therefore receive both the basic and the in-work RSA. Overall, 6.9 million persons will be covered.

- As the basic RSA will just replace existing schemes, the additional cost of the RSA will be attributable entirely to the (extra) in-work benefit payments, which will amount to € 1.5 billion per year. Savings on unemployment benefits because of increased employment have not been estimated.

One of the explicit aims of the law is also to strengthen the activation pillar of social assistance. The issue of the access to RSA for citizens of other EU Member States demonstrating a real link with the French labour market is under assessment. Evaluations of the RMI system had revealed that only a minority of beneficiaries held a reintegration contract. An objective of the RSA reform is to assign a personal adviser to each household, to adopt a 'rights and duties' strategy from day one, and to transfer individuals more effectively into work or other activities.

*UK: administrative simplification and stronger work incentives through the universal credit*<sup>108</sup>

To tackle administrative complexity whilst increasing incentives to work, the UK will progressively introduce from 2013 to 2017 a single Universal Credit. Most means-tested benefits and tax credits for working adults (including Income Support, income-related Jobseeker's Allowance and Employment and Support Allowance) will be replaced by a single benefit. Claimants will receive just one monthly payment, paid into a bank account in the same way as a monthly salary. Support with housing costs will also go directly to the claimant as part of their monthly payment.

The principal aim of Universal Credit is to simplify the system, making it easier for people to understand, and easier and cheaper for staff to administer. Claimants in need of various forms of support will spend less time claiming multiple benefits and can receive one single streamlined payment. People can apply through their local authorities or online, and can manage their claim through an online account. By eliminating multiple benefit applications and improving access, this system is expected to improve take-up of benefits by those who are entitled to them.

As the Universal Credit integrates both in- and out-of-work benefits, it seeks to smooth the transitions into and out of work and reduce disincentives to entering the labour market. The reform also aims to increase work incentives through a lower withdrawal rate (65%) and stricter rules on benefit loss if an individual refuses a job offer. From May 2012, lone parents will be required to actively seek work when their youngest child begins full-time education. A cap on the total amount of benefit that can be claimed could boost incentives to work and generate savings, however declining benefit levels could also translate into increased risk of poverty for claimants. High housing costs will also still mean that households in many areas will continue to face high marginal withdrawal rates up to a relatively high point in the income distribution.

Universal Credit has the potential of improving the accessibility of benefits to those entitled to them, though the success of this strategy will depend on its successful administration and proper response to the above challenges. Progress will be monitored on the national and EU level in the framework of the European Semester.

<sup>108</sup> SWD(2012) 309 final, Commission Staff Working Document, Assessment of the 2012 national reform programme and convergence programme for the United Kingdom.

*Iceland: Monitoring the Welfare System*<sup>109</sup>

Early in 2009, the government set up a new body to monitor welfare developments during the crisis, aiming to provide early warning of issues of concern as well as providing guidelines to administrators, government and social organisations in the third sector.

The body is called Welfare Watch (WW — see website: <http://www.velferdarraduneyti.is/velferdarvaktin>). It is based at the Ministry of Social Affairs (later the Ministry of Welfare) and composed of representatives from government (ministries and institutes), municipalities, social organisations and unions. Various subgroups were also formed with the aim of focusing on special areas of concern. It was thus primarily a consultative body with powers to issue guidelines and have influence on detailed policy decisions.

The WW has been quite active. It has commissioned reports and assessments of various policy areas, sent out recommendations to targeted actors and reported regularly to government. The WW has focused mainly on the following:

- Welfare of children
- Problems of young individuals, aged 16-25
- Employment issues and job search
- Rationalisation measures of municipalities (esp. related to provision of welfare to the most needy — concerning the last stop in the welfare system)
- Social services of local communities
- Issues of disabled pensioners (a group traditionally subject to financial hardship and social exclusion)
- Position of the elderly
- Issues concerning immigrants

Welfare Watch has been an important and interesting innovation to emerge during the crisis, directly addressing crisis-related issues. Iceland has a tradition of allowing grassroots voices to be heard and one of WW's valuable roles has been to channel these voices into bigger awareness-raising movements, with pressure to get issues of local importance aired more generally.

*BMS (Bedarfsorientierte Mindestsicherung) in Austria*

The *BMS*, a nationwide means-tested minimum income scheme, replaced former Austrian social assistance programmes on 1 September 2010. Its aim is to prevent social exclusion and poverty, strengthen support for those returning to work and to harmonise to a certain degree the various social assistance programmes of the Länder. Today, the nine Länder define minimum income schemes according to the *BMS*, which may, however, be supplemented by additional regionally defined benefits. The Länder are responsible for the administration and financing of the scheme.

In 2012, the gross social assistance rate (including a basic housing subsidy of 25%) for a couple in Vienna was €1 159.88, a slight increase from 2011 when it was €1 129.42. The *BMS* functions as a social protection scheme of last resort, based on 'help for self-help'. It focuses on getting people back into employment by granting a minimum income, social services and job training. The city of Vienna's *Step2Job* project is a good example of an integrated activation approach. Designed as a case management project, *BMS* recipients receive personalised qualification measures or in-job training alongside psychological, social and indebtedness advisory services. Internships are also available, set up especially for *BMS recipients*, during which job coaching is

<sup>109</sup> Stefan Ollafson (2012). Iceland's way out of the crisis, Social protection, redistribution, stimulus, and austerity, A study of national policies. Available at: [www.peer-review-social-inclusion.eu](http://www.peer-review-social-inclusion.eu).

available. There are German language courses for *BMS* recipients with a migrant background.

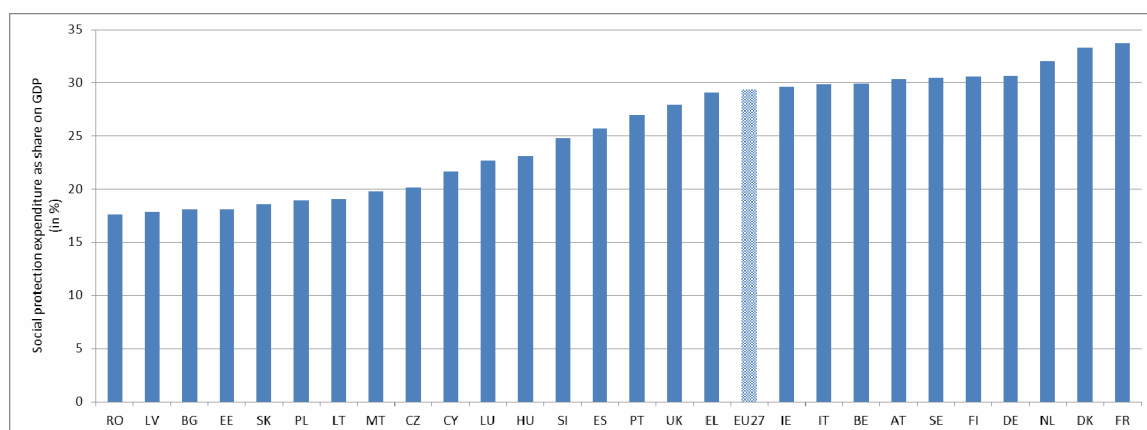
Conditionality is tight. To be eligible for the minimum income, Austrian citizenship or equal status on grounds of EU law is required, or refugee status under the Geneva Convention. There is strict means-testing and recipients are regularly checked for their willingness and ability to work. Employment and social agencies have started sharing data on recipients to make checking faster and more efficient. Recipients are obliged to accept job offers; otherwise, their benefits may be partially or — in exceptional cases — fully withdrawn. Sanctions should prevent long-term dependence on social welfare, which reduces earnings over a lifetime and affects pensions.

#### 5.4. Budgetary effects of active inclusion strategies

There is no specific financial data on active inclusion strategies implemented at Member State level. Spending on social assistance rose in the first years of the crisis as part of a stimulus of the overall economy (including the increase in the number of social assistance recipients). From 2010, with the deepening of the sovereign debt crises and in the framework of the exit strategies from the temporary measures taken since 2008, Member States reduced spending and pursued a more stringent fiscal policy.

Spending on social protection varies across Member States (see Chart 10). It is lowest relative to GDP in Member States such as LV, RO and BG (around 17% in 2010), and highest in DK, FR and NL (above 32% in 2010). At EU level, social protection expenditure reached slightly less than 30% of GDP. All EU-15 countries except for LU spent at least 25% of their GDP on social protection in 2010 (ES slightly more than 25% of GDP, followed by PT, UK and EL). All EU-12 countries spent less than this. The highest spending was recorded in DK, FR, DE and NL.

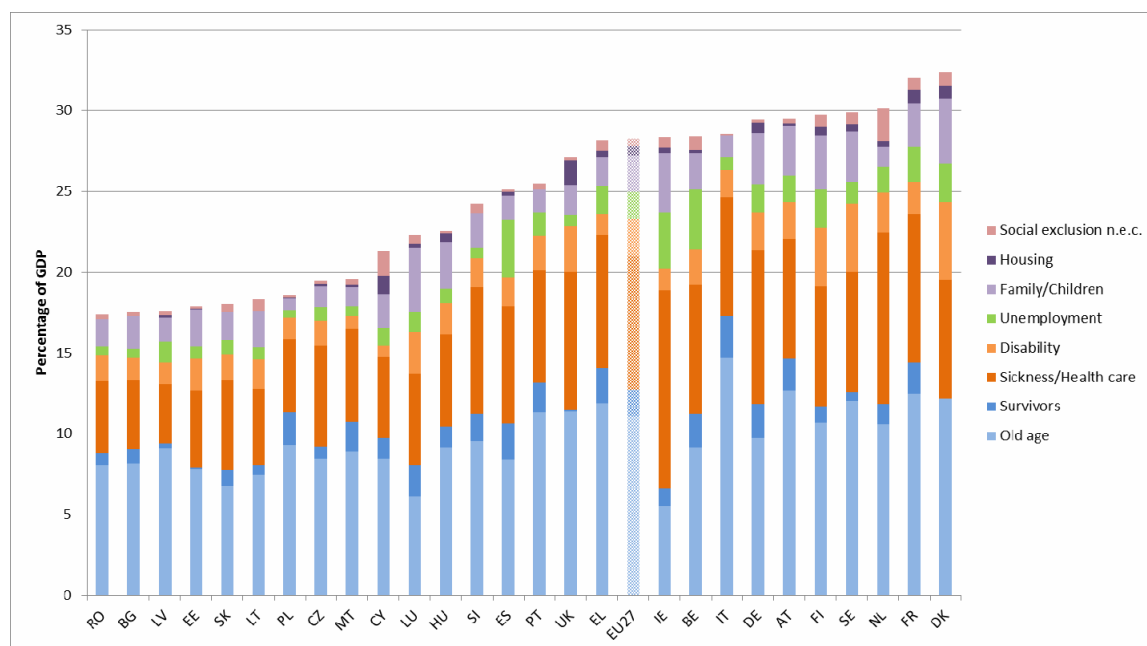
**Chart 10: Social protection expenditure as share of GDP in EU Member States (2010, percentage of GDP)**



Source: ESSPROS

A further examination (see Chart 11) of expenditure by function shows that most spending on social protection is not necessarily linked to active inclusion and goes namely on invalidity allowances, old age and survivors' pensions, and certain parts of sickness/healthcare benefits).

**Chart 11: Social protection expenditure by function (2010, percentage of GDP)**



Source: ESSPROS

**Evidence on the effectiveness of active inclusion strategies** requires further analysis based on adequate, up-to-date data. A recent evaluation of the French **RSA** shows a minor improvement in terms of poverty reduction: 78, 000 households have risen above the threshold of low income (due to the ‘active’ RSA), that is, 145 000 persons or 0.2% of those on low incomes.<sup>110</sup> This seemingly modest impact was achieved against the backdrop of the economic crisis. An examination of the impact of the **Hartz reforms** in Germany on benefit dependency suggests there has been no significant change in ‘structural’ dependence on state support, i.e. that the prospects of recipients did not improve with the reforms.<sup>111</sup>

The results of a recent EUROFOUND report on the active inclusion of young people with disabilities and health problems<sup>112</sup> underline that much needs to be improved to achieve an effective and tailored implementation of active inclusion strategies. It reports an increase in the take-up of disability benefits, debt as a risk factor, the negative impact of increasing work intensity for this specific group, as well as the absence of pathways from education to the labour market and social inclusion.

## 6. COORDINATING EUROPEAN SOCIAL POLICIES: THE ROLE OF THE EUROPEAN UNION IN PROMOTING THE ACTIVE INCLUSION STRATEGY

The European Commission has been working closely with Member States, in the context of the Social Protection Committee and its Indicators Subgroup, on identifying the most appropriate indicators for assessing the country-specific challenges and progress related

<sup>110</sup> Based on the SPC multilateral thematic surveillance on active inclusion (27 February 2012).

<sup>111</sup> Konigs, S. (2012): *The dynamics of social assistance receipt in Germany*, OECD country study for the European Commission.

<sup>112</sup> See at <http://www.eurofound.europa.eu/areas/socialcohesion/illnessdisabilityyoung.htm>.

to the implementation of the active inclusion strategy and its evaluation in the context of the European Semester. As outlined in the analysis above, for some aspects there is a lack of up to date, harmonised and cross-country comparable data. Work is ongoing both in terms of further improving the set of indicators used to monitor the strategy and on data collection to make more data available.

According to the Commission's proposal on instruments<sup>113</sup> for cohesion policy for the next programming period (2014-2020), the European Social Fund would step up its support for social inclusion policies, including active inclusion. In line with the Europe 2020 strategy of reducing poverty by 20 million people by 2020, it proposes that:

- at least **25 per cent** of the cohesion policy envelope be **dedicated to ESF** investments
- at least **20 per cent** of all national ESF allocations be earmarked to support **social inclusion policies**.

Accordingly, in the 2014-2020 financing period, active inclusion will be one of the investment priorities of the ESF with the objective of promoting social inclusion and combating poverty. In order to ensure that the co-financed programmes succeed in promoting active inclusion, funding will be conditional on putting in place national strategies for poverty reduction. Such strategies should aim at the active inclusion of people excluded from the labour market. More specifically, it is required that the national active inclusion strategy is in accordance with the poverty and social exclusion target of the country concerned, involves the relevant stakeholders and provides a sufficient evidence base to monitor developments.

If the fund's interventions are to be successful, they will need to be underpinned by an integrated response, addressing the different needs of the specific target groups facing labour market exclusion. In this respect, it will be necessary to put in place (i) a combination of tailor-made support measures to improve the employability of the individual, (ii) initiatives to help the individual to access different services necessary for re-integration and (iii) better functioning social and unemployment benefit systems and minimum income and pension schemes that provide adequate and incentivising support in a cost-effective manner. The actions of the European Social Fund can be complemented by the European Regional Development Fund with investment in childcare infrastructure, education infrastructure, healthcare infrastructure, long term care services and housing to provide better access to services for the most disadvantaged.<sup>114</sup>

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<sup>113</sup> COM(2011) 615 final: Proposal for a Regulation of the European Parliament and of the Council laying down common provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund, the European Agricultural Fund for Rural Development and the European Maritime and Fisheries Fund covered by the Common Strategic Framework and laying down general provisions on the European Regional Development Fund, the European Social Fund and the Cohesion Fund and repealing Council Regulation (EC) No 1083/2006; and COM(2011) 607: Proposal for a Regulation of the European Parliament and of the Council on the European Social Fund and repealing Council Regulation (EC) No 1081/2006.

<sup>114</sup> See European Commission Staff Working Document - *Social Investment through the European Social Fund*, SWD(2013)44.

## 6.1. On-going monitoring and evaluation through the Europe 2020 Strategy

Member States continue to state their commitment to fighting social exclusion and poverty in their 2012 National Reform Programmes (NRPs). All of them mention policy measures from the active inclusion strategy. However, these are not always identified as such. Compared to 2011,<sup>115</sup> the NRPs, in general, do not reflect the integrated nature of the strategies.

FI, UK, FR, CY, DK, EE, DE, IT, LT, NL, PL, RO, SK, ES, SE, LV and CZ do not explicitly mention the concept of active inclusion in their 2012 NRPs. HU, LU, PT, AT, BE, BG, EL, IE and MT explicitly mention it. However none of the latter set gives a definition of its active inclusion strategy or elaborates on its content.

The nine countries explicitly mentioning the concept of active inclusion can be located on a continuum indicating different degrees of engagement with the strategy.

Some countries mention active inclusion, but there is no evidence of actual policy behind it. BG, for example, only lists ‘active inclusion’ in the Annex of its NRP in relation to a Country Specific Recommendation on labour market reform.

HU describes active inclusion as a policy separate from policies to improve access to services, suggesting incomplete understanding of the strategy, which has not been fully applied. Active inclusion initiatives in EL narrowly focus on providing basic services and creating ‘safety nets’.

At the other end of the continuum are countries that give specific examples of how the concept translates into concrete policy. Examples are the Flemish w<sup>2</sup> work-welfare programme to foster job seekers from vulnerable groups by strengthening coordination between policy domains (social economy, work and welfare), and public employment services (PES) plus social assistance services. AT defines active inclusion as a guiding principle for inclusion policies (there is evidence that the recent reform of the social protection system<sup>116</sup> has many elements of the active inclusion strategy).

LU, on the other hand, focuses on labour market activation approaches. IE is keeping up efforts to develop the one-shop model (‘National Employment and Entitlements Service’) to cut the administrative costs of services for both client and provider.

FR and the UK are among those that do not refer to the concept of active inclusion in their NRPs, despite having reformed their social protection systems and modernised employment policies in accordance with some of the elements in the 2008 Recommendation.

In terms of the National Social Reports (NSRs) twelve Member States (out of the total of twenty one that submitted a report by late 2012)<sup>117</sup> do not mention the concept of active inclusion (AT, DK, EL, FR, HU, LV, NL, PL, RO, SI, SK, UK). Nine Member States mention the concept of active inclusion explicitly in their NSRs (BE, BG, CY, CZ, ES, FI, LU, MT, PT). Countries mentioning active inclusion in their NRPs do not necessarily overlap with countries mentioning it in NSRs (namely CY, FI, CZ).

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<sup>115</sup> EU Network of Independent Experts on Social Inclusion. (2011). Assessment of progress towards the Europe 2020 social inclusion objectives, Synthesis Report. Available at: [www.peer-review-social-inclusion.eu](http://www.peer-review-social-inclusion.eu).

<sup>116</sup> See section 5.3 of this paper.

<sup>117</sup> See: <http://ec.europa.eu/social/main.jsp?catId=758&langId=en>.

Member States mentioning the concept of active inclusion differ in the kinds of active inclusion initiatives they prioritise. The Belgium NSR presents a number of active inclusion-related measures focusing on changes in the tax and child benefit system to counter in-work poverty. For 2013, it is planned to raise the tax-exempted income of low- and middle income persons by € 200. Additionally, the Brussels Capital Region has set up a plan to improve the integration of migrants ('Anti-Discrimination and Diversity Plan') and a Roma Strategy. Belgium is tackling the adequacy of social benefits through **a linking of the social benefits to the development of the general standards of living** ('well-being envelope'). Since 2008, single parent households have been granted higher child allowance and since 2010 they also have practically free healthcare.

LU's comprehensive policy includes higher investment in the quality of the pre-school system, in children and parent pre-school learning. Moreover, it focuses on targeted policies to reduce the number of young NEETs by expanding the capacity of the 'Voluntary Guidance Program' which is to be evaluated through a qualitative study this year. Additionally, information centres for minimum income recipients are planned and since 2011, more funding has been allocated to social aid and a strategy against homelessness and social exclusion has been developed.

The Spanish NSR refers explicitly to the active inclusion recommendation and states that active inclusion is the intellectual framework within which Spain's NRP objectives are defined since the 2011 NRP. The social inclusion measures are structured around the three pillars of active inclusion with a long list of initiatives, including the combination of income support with ALMPs.

FI describes active inclusion as a 'major challenge and future priority' pointing to the importance of enhancing employment and income security, well-being and health issues. However, few concrete active inclusion initiatives can be identified in its NSR.

PT, LU and CZ explicitly refer to the importance of an integrated active inclusion strategy. However, in the PT and particularly in the CZ case, where reforms of the social benefit system have not been aligned with ALMPs targeting the unemployed, there is little evidence that policies are actually interlinked.

Various active inclusion-related measures can be found in the NSRs of those Member States that do not explicitly refer to the concept of active inclusion. NL presents a wide range of original measures across the three pillars. Efforts to promote labour market participation among the most disadvantaged have concentrated on improving coordination between employers, municipalities and sheltered employment organisations, using social return investments and providing support to lone-parents by exempting them from the obligation to work until the child reaches the age of five. Since January 2012, the government has been able to check on whether municipalities comply with the new regulations entailed in the Work and Social Assistance Act (WWB). Since February 2012, municipalities have had a legal obligation to provide debt counselling. Additionally, the 2008 'Municipal Compass' programme addressing homelessness has been expanded to more municipalities. Finally, investments have been increased to enhance the quality of pre-school education through smaller pre-school groups and better-qualified personnel.

The concept of active inclusion is not mentioned in the Austrian NSR, however, the '*Bedarfsorientierte Mindestsicherung(BMS)*' seems quite close to the idea of active inclusion. Since its start, more than 29000 BMS recipients have found a job. A study about the employment careers of BMS recipients reveals also that after 9 months one out of four persons were considered as integrated into the labour market and noted a decrease from 89% to 70% of those recipients which have no income sources other than the BMS.

The French NSR announces efforts to fight in-work poverty, promote the social economy and the 'Work in Station' programme targeting the homeless, a follow up initiative to the 2009 'Hope in Station' programme.

The UK presents its new 'Work Programme' offering a more personalised job coaching system bound to tighter conditionality. Furthermore, the 'Youth Contract' will offer a voluntary work experience place for every unemployed 18-24 year old who wants one to give them real, valuable experience of work. It will also offer 160,000 Wage Incentives for employers who recruit an 18-24 year old from the Work Programme and at least 20,000 extra incentive payments for small employers to take on apprentices aged 16-24.

BG presents policy reforms targeting the employability of the unemployed through expanded training and education programs. It further refers to the 2012 approval by the Council of Ministers of a National Concept for the Social Economy. HU's objectives focus on activating the labour market and boosting the employability of the long-term unemployed through subsidies for employers and public employment programmes.

Active inclusion was a priority in the monitoring of key policies during the **European Semester** within the Europe 2020 Strategy. In June 2012, the European Council adopted Country Specific Recommendations directly relevant to the Recommendation on active inclusion for AT, CZ, DE, HU, IT, SK, UK, MT, PL.

Some CSRs called for **income support** to be made more efficient to protect against poverty (LV, BG).

Many addressed the issue of the **inclusive labour market**, by:

- combating labour market segmentation and in-work poverty (PL),
- tackling work disincentives for workers on low income, including women and the elderly (AT, BE, DE, NL),
- strengthening the activation capacity of public employment services, stepping up efforts related to long term unemployed, jobless households or disadvantaged groups (DE, HU, UK),
- boosting the activating capacity of public work schemes (HU),
- better targeting subsidised employment (DK),
- improving the labour market position of the long term unemployed (FI) and those with a migrant background (DK).

The focus of CSRs related to **services** has been on quality, availability and affordability of childcare (AT, CZ, DE, HU, IT, PL, MT, SK, UK). The UK's CSR specifically mentioned affordable housing.

Other CSRs mention **integrated approaches**, calling for links between social assistance reform and activation measures to be strengthened (LT).

## 6.2. Other relevant initiatives

The European Platform against Poverty and Social Exclusion has called for **social objectives to be mainstreamed into sectoral policies**. The Commission has adopted a Recommendation on rights to **basic bank account**.<sup>118</sup> Furthermore, the Commission is

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<sup>118</sup> See: [http://ec.europa.eu/governance/impact/ia\\_carried\\_out/docs/ia\\_2011/c\\_2011\\_4977\\_en.pdf](http://ec.europa.eu/governance/impact/ia_carried_out/docs/ia_2011/c_2011_4977_en.pdf).



working on a legislative package on bank accounts. This initiative, which is part of the Commission's 2013 Work programme and has also been announced in the Single Market Act II (key action 12), aims to (1) facilitate access for every consumer to payment accounts with basic features in the Union for free or at a reasonable charge, (2) enhance transparency and comparability of bank fees by developing common tools allowing consumers to compare and choose the best product for their needs, and (3) facilitate bank account switching both at national level and at cross-border level.

The new directive on **energy efficiency**<sup>119</sup> also takes into account the specific needs of disadvantaged groups by giving new rights to consumers as regards access to information from metering and billing of individual energy consumption and by encouraging Member States to include socially-oriented requirements in their national schemes, to ensure that vulnerable customers can reap the benefits of higher energy efficiency.

The Commission has also proposed the creation of a Fund for European Aid to the most Deprived,<sup>120</sup> with a total budget of €2.5 billion (October 2012). The Fund would support Member State schemes **providing food** to the most deprived and **clothing and other essential goods** to homeless people and materially-deprived children.

Social entrepreneurship, and more broadly the social economy, is an important element of the **highly competitive social market economy**.<sup>121</sup> Social businesses are demonstrating resilience to the crisis and the capacity to generate sustainable employment for disadvantaged people. Their promotion was one of the levers of the first Single Market Act (SMA)<sup>122</sup> and remains a priority in SMA II.<sup>123</sup> The Commission's 'Social Business Initiative'<sup>124</sup> which followed the SMA, set out a comprehensive strategy to develop a favourable environment for social entrepreneurship including measures to improve access to finance, visibility and awareness-raising, as well as a more appropriate regulatory framework. Given that a **proactive involvement of workers** in their companies has a strong impact on their societal responsibility and productivity, the Commission will also focus its attention on the issue of **cooperatives** and **employee share-ownership**.

Several Member States contribute significantly to supporting the further development of social enterprises and the social economy in general through specific legislation (ES, FIN, PT), national strategies (BG, UK, RO) or statistics (FR, ES, PT).

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<sup>119</sup> Directive 2012/27/EU of the European Parliament and of the Council on energy efficiency, amending Directives 2009/125/EC and 2010/30/EU and repealing Directives 2004/8/EC and 2006/32/EC.

<sup>120</sup> Proposal for a Regulation of the European Parliament and of the Council on the Fund for European Aid to the Most Deprived, COM(2012) 617 final.

<sup>121</sup> See the section on social economy in European Commission Staff Working Document - *Social Investment through the European Social Fund*, SWD(2013) 44..

<sup>122</sup> COM(2011) 206 final 'Single Market Act' See: [http://ec.europa.eu/internal\\_market/smact/index\\_en.htm](http://ec.europa.eu/internal_market/smact/index_en.htm).

<sup>123</sup> COM(2012) 573 final 'Single Market Act II'.

<sup>124</sup> COM(2011) 682 final 'Creating a favourable climate for social enterprises, key stakeholders in the social economy and innovation'.

## 7. FOLLOW-UP

### 7.1.1. Follow-up at national level

- **Safeguard the integrated approach, building on all three pillars of the active inclusion strategy**, without unduly prioritising any of them. In a context of strict austerity, Member States might be tempted to focus on measures such as activation (less costly) over providing an adequate livelihood (more costly). However, the fight against poverty and providing long-term, sustainable, stable employment opportunities and growth can only be effective if all three pillars are taken into consideration. An integrated active inclusion strategy can also **prevent** people from losing their accumulated human capital.
- **Mainstream the active inclusion strategy in the monitoring and evaluation of National Reform Programmes in the area of social inclusion.** Active inclusion contains the mix of policy interventions needed to fight poverty successfully. To improve monitoring and evaluation, Member States could report on the way they have implemented the strategies in their NSRs.
- **Roll out local active inclusion pilot projects at national level.** There is evidence of successful active inclusion strategies at local level. Moreover, **social experimentation**<sup>125</sup> can help test policies at local level, and if successful, these can be rolled out nationally. Bottom-up implementation would be of benefit and guarantee effectiveness.
- **Focus on household characteristics as potential drivers of effective social policy.** The period since the adoption of the recommendation on active inclusion has been instrumental in identifying the major challenges facing active inclusion. Now it is time to move towards understanding the deeper causes of the problems. A better understanding of **the institutional environment** that shapes labour market and social policies for disadvantaged groups can help in designing appropriate policies. **Tailored support** for the disadvantaged through more childcare for families, especially single parents, better access to services, with due consideration for the specific needs of the low skilled, long-term unemployed, **disabled, migrants, the homeless, the elderly, and the Roma community**, can help active inclusion strategies to succeed.
- **Engage relevant actors more vigorously in the development, implementation, and assessment of policies.** Active inclusion is a joint responsibility in European societies. Efforts to engage the relevant actors need a boost. The actors include those affected by poverty and social exclusion, civil society organisations, non-governmental organisations, local administrations and the private sector. They should get involved in designing strategies that help those furthest from the labour market to get jobs, thus bringing valuable human capital to national economies.

### 7.1.2. Follow-up at European level

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<sup>125</sup> The Commission has recently endorsed and decided to support projects that use social experimentation to implement innovative policies through the PROGRESS programme. See: Call for Proposals for Social Policy Experimentations (VP/2012/007).

- Provide **explicit, policy-oriented, evidence-based monitoring<sup>126</sup> and guidance<sup>127</sup> to Member States** to ensure better implementation of the active inclusion strategy at national level. The 2008 Commission recommendation has been interpreted in a variety of ways, and this has led to **piecemeal implementation of the strategy, reducing its potential to make a difference.**
- **Further develop active inclusion indicators** in the Social Protection Committee, Indicators Sub-Group. The **work on indicators for access to quality services** should be further developed. The most relevant indicators, those on **healthcare, child care, and access to quality housing** can be fine-tuned in collaboration with other policy initiatives in subfields such as the child poverty recommendation, development of a strategy on homelessness (2013 onwards), etc. Work should also focus on coverage of benefits and services.
- **Mainstream the active inclusion strategy in the monitoring and evaluation of Europe 2020 headline targets in the area of social inclusion.** Active inclusion contains the mix of policy interventions needed to fight poverty successfully. Progress towards achieving the targets can be better achieved through active inclusion. In this context, support for active inclusion in the next multiannual financial framework is essential.
- **Strengthen administrative capacity and policy coordination of the three pillars through targeted support (e.g. with ESF funds).** The report suggests that many countries face challenges when it comes to implementing integrated active inclusion strategies. These difficulties often arise from a lack of administrative capacity, or a lack of vertical and horizontal coordination of the three pillars.

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<sup>126</sup> Social Protection Performance Monitor, Council of the European Union, 13723/12.

<sup>127</sup> The Commission plans to develop an analysis for each individual country that would map the policy areas most in need of help if they are to deliver effective integrated active inclusion. These analyses could be used to justify ESF support on specific aspects of administrative capacity building or to highlight the need for streamlining to provide one-stop shops. .

## 8. ANNEX

**Table 1. 1st pillar: first level of safety nets. Main characteristics of the unemployment benefit systems**

		Coverage rate in % (1)				Net replacement rates in % (2)	Max duration of UB in months (3)	Unemployment trap (2)		At-risk poverty rate - unempl. In % (4)
		3 months	4-6 months	7-12 months	Total			Single	Second earner	
	EJ27	65.5	61.7	50.2	53.5	na	na	na	na	45.0
Group A	AT	88.5	85.7	62.3	71.3	63.4	12.0	0.67	0.83	41.2
	CY	na	na	na	na	na	5.0			39.7
	CZ	63.7	64.2	37.3	47.1	56.2	12.0	0.80	0.77	40.6
	FR	68.6	69.8	67.3	68.0	58.4	36.0	0.77	0.73	33.5
	NL	82.2	78.7	29.3	42.1	72.2	60.0	0.84	0.85	31.8
	SE					64.9	20.0	0.75	0.88	36.3
	SI	74.3	27.2	23.0	28.5	64.7	24.0	0.83	0.82	44.1
Group B	BE	75.0	73.1	93.7	89.0	66.2	na	0.93	0.79	30.4
	DE	89.5	86.5	84.1	84.8	61.5	18.0	0.75	0.78	70.3
	DK	u	88.3	91.8	91.4	71.4	48.0	0.89	0.94	36.3
	FI					69.4	17.0	0.72	0.93	45.3
	UK	21.0	35.0	40.8	38.6	61.1	6.0	0.50	0.52	47.4
Group C	IE	na	na	na	na	82.5	13.0	0.78	0.92	26.8
Group D	HU	68.4	65.8	55.5	59.4	37.7	9.0	0.82	0.82	44.8
	BG	31.2	26.5	15.9	18.9	42.1	12.0	0.81	0.81	48.4
	IT	75.7	66.5	25.9	33.9	9.1	10.0	0.78	0.73	43.6
	MT	32.1	60.7	39.6	41.7	56.6	5.0	0.59	0.66	40.1
	PL	36.7	31.7	18.4	23.3	46.5	12.0	0.82	0.72	45.4
	RO		60.5	22.8	29.1	28.2	12.0	0.71	0.67	45.4
Group E	EE	61.7	50.0	44.8	47.5	41.4	12.0	0.63	0.57	46.7
	EL	56.2	50.8	19.4	31.2	24.7	12.0	0.61	0.75	38.5
	ES	64.8	69.5	51.4	55.5	47.7	24.0	0.83	0.77	38.7
	LT	na	na	na	na	62.6	9.0	0.70	0.97	55.6
	LV	53.3	53.6	36.8	40.7	43.3	9.0	0.90	0.90	47.9
	PT	48.2	36.1	43.8	42.6	58.8	30.0	0.79	0.78	36.4
	SK	49.6	40.6	25.6	29.5	40.1	6.0	0.68	0.58	41.1
	LU	63.9	56.1	48.4	52.7	72.0	12.0	0.86	1.00	43.3

(1) EU-SILC Social Situation Observatory calculation for DG EMPL

(2) OECD Tax benefit Model

(3) MISSOC Database

(4) Eurostat, EU SILC

(5) Eurostat, LMP database

**Table 2: 1<sup>st</sup> pillar: second level of safety nets: Main characteristics of other safety nets available to people on low income (social assistance, housing benefits, etc.)**

		COVERAGE % of people receiving any benefit including unemployment benefits (1)				ADEQUACY Net income of people living on social assistance relative to the median equivalised income (incl. cash housing assistance) (2)			Financial DISINCENTIVE Inactivity trap (2)	
		3 months	4-6 months	7-12 months	Total	single person	lone parent with 2 children	Second earner	Single	One earner couple with 2 children
Group A	AT	90.7	88.2	70.6	77.4	49	50	46	0.65	0.83
	CY									
	CZ	72.9	69.2	56.0	61.2	50	45	42	0.62	0.77
	FR	77.5	81.0	84.9	83.4	41	42	36	0.61	0.68
	NL					74	64	52	0.82	0.82
	SE					56	48	43	0.70	0.88
	SI	86.8	62.0	69.6	68.7	30	53	44	0.60	0.82
Group B	BE	76.5	76.2	95.4	90.9	45	55	39	0.67	0.67
	DE	89.5	87.4	89.8	89.4	47	60	53	0.66	0.78
	DK		90.3	94.3	93.5	71	73	71	0.87	0.96
	FI					57	56	50	0.69	0.93
	UK	37.2	48.6	70.1	63.8	66	76	65	0.50	0.52
Group C	IE					77	71	70	0.79	0.92
Group D	HU	73.7	76.7	66.4	69.8	31	39	29	0.50	0.48
	BG	43.0	34.5	35.9	36.1	14	26	22	0.38	0.58
	IT	79.0	69.3	33.6	40.6				0.24	0.00
	MT	72.8	83.6	70.2	72.3	59	54	44	0.59	0.67
	PL	45.5	40.9	30.2	34.2	31	41	33	0.51	0.57
	RO	71.1	71.0	54.2	57.2	17	27	26	0.37	0.43
Group E	EE	67.8	59.0	48.6	52.9	32	34	31	0.46	0.57
	EL	58.7	60.3	42.9	49.1	0	9	2	0.06	0.04
	ES	67.1	72.3	56.5	60.0	35	33	25	0.45	0.48
	LT					27	77	56	0.44	0.92
	LV	63.0	62.9	47.9	51.3	36	50	46	0.59	0.90
	PT	49.4	38.4	54.0	50.7	26	42	43	0.36	0.71
	SK	63.0	51.3	55.6	55.1	23	33	30	0.40	0.58
	LU	81.7	63.4	73.0	71.7	51	54	51	0.70	0.86
	EU27	71.3	68.7	63.3	64.9					

(1) EU-SILC Social Situation Observatory calculation for DG EMPL; Benefits include: sickness, disability and social exclusion benefits and education allowances

(2) OECD Tax benefit Model

**Table 3: 2nd pillar: Main characteristics linked to the inclusiveness of the labour market**

	Net income of full time minimum wage earner	Involuntary part-time employment as percentage of the total part-time employment (1)	Transitions from temporary to permanent employment (2)	Transitions in/out of poverty (2)		Low-wage trap		Activation-Support (LMP participants per 100 persons wanting to work) 2010 ex UK (5)	Expenditure on ALMP (services and 2-7) as % of GDP (5)	
				into poverty (%)	out of poverty (%)	Single	Second earner			
	EU27	26.1	25.9			0.44	0.44	:	:	
Group A	CZ	91.0	18.5	37	2.8	40.5			9.9	0.2
	FR	107.5	30.8	10.6	5.6	45.6			45.1	0.8
	CY		49.4	22.1	4.3	43.0	0.32	0.53	19	0.2
	NL	131.3	7.2	20	2.3	36.2	0.33	0.33	45.4	0.8
	AT		10.1	40.5	5.3	49.9	0.23	0.34	28	0.7
	SI	77.0	8	31.8	2.8	31.1	0.30	0.38	15.9	0.3
	SE		27.5	43.9			0.30	0.13	26.9	0.8
Group B	BE	108.3	10.4	36.1	4.4	38.8	0.54919226	0.476741272	95.5	1.3
	DK		16.1		3.4	38.9	0.52	0.29	50.7	1.4
	DE		17	41			0.47	0.73	30	0.6
	FI		28.8	48.7	3.8	38.1	0.35	0.22	26.7	0.9
	UK	128.9	18.9	72.1	7.4	51.8	0.31	0.90	1.5	0
	IE	125.0	37.7		5.8	40.2	0.23	0.23	25.7	0.8
Group D	BG		57.6	36.7	7.4	36.6	0.20890136	0.208901359	4.1	0.1
	IT		54.5	25	6.2	33.6	0.42	0.95	21.4	0.4
	HU	84.5	39.4	39.2	5.3	40.9	0.27	0.93	20.3	0.5
	MT		16.1	10	8.1	32.1	0.32	1.07	6.9	0
	PL	88.8	24.8	22.4			0.52	0.85	20.1	0.6
	RO		53	61			0.35	0.11	3.2	0
Group E	EE	69.1	22	17.2	6.5	33.1	0.41	0.99	3.8	0.1
	EL	102.8	60.5	18	7.9	31.6	0.16	0.16	12.4	0.2
	ES	91.7	55.5	16.4	8.8	43.6	0.29	0.06	47.6	0.7
	LV		42.1	35.3	8.7	32.5	0.39	0.39	8.5	0.5
	LT		37.4	46.3	7.0	33.6	0.26	0.62	4.7	0.2
	PT	105.4	45.8	29.6			0.30	0.33	28.7	0.6
	SK	83.0	24.4	39.9			0.29	0.61	21.2	0.2
	LU	87.0	9.9	26	3.5	29.0	0.39	0.54	62.4	0.4

(1) Eurostat LFS Survey

(2) Eurostat EU SILC Survey DG EMPL calculation

(3) OECD Tax benefit Model

(4) OECD Tax benefit Model — Median net household incomes are before housing costs (or other forms of ‘committed’ expenditure). Results are shown on an equivalised basis and account for all relevant cash benefits (social assistance, family benefits, housing-related cash support as indicated). Income levels are net of any income taxes and social contributions and account for all cash benefit entitlements of a family with a working-age head employed full-time at the minimum wage. Annual minimum wages as reported on OECD.stat. Calculations for families with children assume two children aged 4 and 6 and neither childcare benefits nor childcare costs are considered. Poverty threshold set at 60% of the national median income.

(5) LMP database

**Table 4: 3rd pillar: indicators of access to services**

		Use of formal childcare more than 30 hrs/week, children less than 3 (1)	Housing cost overburden rate among AROP population(2)	Unmeet need for care (3)	Participation in education and training for low educated in % (4)
	EU27	14	40.4	4.3	11
<b>Group A</b>	CZ	0	44.9	1	24.8
	FR	26	25	5.9	7.1
	CY	13	11.2	7.8	3.8
	NL	6	51.3	0.8	19.4
	AT	3	31.4	2	16.3
	SI	33	25.8	0.2	15.9
	SE	33	47.4	4.1	28.2
<b>Group B</b>	BE	19	43	2.3	8.1
	DK	68	79.8	3.7	36.4
	DE	13		4	22
	FI	20	20.3	3.4	23.5
	UK	4	60.9	1.8	9.6
<b>Group C</b>	IE	8	28.5	2.3	6.9
<b>Group D</b>	HU	8	43.7	2.8	11.6
	BG	6	18.5	22.7	9.3
	IT	16	31.1	7.2	5.7
	MT	4	12.6	1.5	5.4
	PL	2	37.6	7.5	22.4
	RO	3	23.4	7.5	6.6
<b>Group E</b>	EE	19	34.1	6.3	24.5
	EL	5	72.4	5.6	2.6
	ES	18	46	0.4	7.8
	LV	15	41.4	23.7	18.4
	LT	11	38.2	1.4	28.2
	PT	32	30.7	3.7	10.1
	SK	3	37.4	2	22.6
	LU	19	27.2	1.7	18.7

(1) Source EU SILC

(2) EU SILC 18-64 population

(3) EU SILC 18-44 population

(4) Source LFS

**Table 5. Individual experts' assessments of the extent to which an integrated comprehensive active inclusion strategy has been developed in their Member State (for those who can/ cannot work)**

	Comprehensive policy design			Integrated implementation			Vertical policy coordination			Active participation of relevant actors		
	Yes	Some-what	No	Yes	Some-what	No	Yes	Some-what	No	Yes	Some-what	No
<b>For those who can work</b>	DK, FI, FR, MT, NL, PL, SE	AT, BE, BG, CY, CZ, DE, ES, HU, IE, LU, PT, RO, SI, SK, UK	EE, EL, IT, LT, LV	BE, DK, FR, MT, SI, SE	AT, BG, CY, CZ, DE, FI, HU, IE, LU, NL, PT, RO, UK	EE, EL, ES, IT, LV, LT, PL, SK	BE, DK, FI, LU, NL	AT, ES, CY, CZ, DE, IE, IT, LV, MT, PL, RO, SI, SK, SE, UK	EE, EL, FR, HU, LT, PT	BE, BG, DK, ES, FI, LU, NL, SI, SE	AT, CY, CZ, DE, FR, IT, LV, MT, PL, PT, RO, SK, UK	EE, EL, HU, IE, LT
<b>For those who cannot work</b>	NL, SI	AT, BG, CY, CZ, DK, ES, FI, FR, HU, LU, MT, PT, RO, SK, UK	BE, DE, EE, EL, IE, IT, LT, LV, PL, SE	LU, MT, SI	AT, BE, CY, CZ, DK, FI, FR, HU, IT, NL, PT, RO, UK	BG, DE, EE, EL, ES, LV, LT, PL, SK, SE	BE, DK, FI, LU, NL	AT, CY, CZ, ES, IT, LV, MT, RO, SE, SI, SK, UK	DE, EE, EL, FR, HU, IE, LT, PL, PT	BE, CY, DK, FI, NL, SI	AT, BG, CZ, ES, FR, IT, LU, LV, MT, PL, PT, RO, SE, SK, UK	DE, EE, EL, HU, IE, LT

*Source: EU Network of Independent Experts on Social Inclusion (Frazer, H. and Marlier, E. 2012). Assessment of the implementation of the European Commission recommendation on active inclusion.*