

Final Report by Metis GmbH in cooperation with wiiw

Evaluation of the reaction of the ESF to the economic and financial crisis

Herta Tödtling-Schönhofer (Project Leader, metis)
Christine Hamza (Project manager, metis)
Alice Radzyner (metis)
Marlene Hahn (metis)
Rober Stehrer (wiiw)
Hermine Vidovic (wiiw)
John Morley (metis expert)
Haris Martinos (metis expert)
Benno Savioli (metis expert)

Metis GmbH
A-1220 Vienna, Donau-City-Straße 6
Tel.: +43 1 997 15 70, Fax: +43 1 997 15 70 66
E-mail: office@metis-vienna.eu
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Geographical Experts

Agnieszka Siekiera (PL)

Alfred Vanags (LV)

Alice Radzyner (AT)

Benno Savioli (DE)

Catalin Ghinararu (RO)

Edina Ocsko (HU)

Eileen Humphreys (IE)

Hélène Genin (FR)

Ingrid Vanhoren (BE, NL, LU)

Kaia Philips (EE)

Marco Marinuzzi (IT)

Marie Kaufmann (CZ)

Marili Parissaki (GR; ES; CY)

Martin Obuch (SK)

Paulo Santos (PT)

Pobeda Loukanova (BG)

Rimantas Dumcius (LT)

Robert Arnkil (FI; SE; DK)

Tanja Bozinac-Mohorcic (SI)



Foreword

This study has been commissioned by the European Commission, DG Employment, Social Affairs and Inclusion (Unit for Impact Assessment and Evaluation). The desk officers in charge were Sigried Caspar and Anna-Maria Galazka. Regular meetings with the steering group composed of members of DG Employment and other Commission services helped to achieve the results presented here.

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Abbreviations

ALMP	Active labour market policy
CAV	Community Added Value
CTP	Contrat de Transition Professionnelle (Occupational transition contracts)
CVT	Continuous Vocational Training
DG EMPL	DG Employment, Social Affairs and Equal Opportunities
EC	European Commission
EERP	European Economic Recovery Package
EES	European Employment Strategy
EGF	European Globalisation Adjustment Fund
ESF	European Social Fund
EU	European Union
EUR	Euro
GDP	Gross Domestic Product
GE	Geographical Expert
IB	Implementing Bodies
ICT	Information and Communication Technologies
IMF	International Monetary Fund
IVT	Initial Vocational Training
LFS	Labour Force Survey
LMP	Labour market policy
ISCED	International Standard Classification of Education
LTU	Long-Term Unemployed
MA	Managing Authorities
MS	Member States
MTE	Mid-term evaluation
NAP	National Action Plan
NEET	Not in Education, Employment, or Training
NGO	Non-governmental Organisation
OECD	Organisation for Economic Cooperation and Development
OP	Operational programme
PES	Public Employment Service
PLMP	Passive labour market policy
pp	Percentage points
R&D	Research and Development
ROP	Regional Operational Programme
SF	Structural Funds
SME	Small and medium-sized enterprises
STWA	Short-time Working Arrangements

Executive Summary

This Final Report on the 'Evaluation of the reaction of the ESF to the economic and financial crisis' provides an **assessment of the part that the ESF has played in helping the EU and Member States respond to the challenges posed by the recent recession.**

It is a significant, but far from straightforward, evaluation given that the impact of the ESF depends on a variety of factors:

- the way the crisis has affected the labour markets of different Member States
- the labour market policy support already in place in the Member States
- the specific new measures adopted by Member State governments and social partners
- the way that ESF support has been adapted to meet the needs of the different Member States.

Labour market developments

The labour market impact of the crisis has varied significantly between Member States. The most striking features are:

- The speed at which the crisis unfolded, which was primarily a consequence of an inter-related group of financial failures that spread rapidly throughout much of the global economy.
- The EU as a whole was badly hit but individual Member States were affected differently depending on their domestic financial positions (indebtedness of governments, banks, companies and the public) and their degree of exposure to others.
- Initially some of the strongest EU economies were hit hardest, especially investment sectors such as engineering and construction. Export-oriented parts of these sectors are now recovering rather well however.
- Young people and marginalised groups were as badly affected as ever but, unusually, women and older workers were less badly affected, at least at the beginning of the crisis.
- Elasticity of labour market responses to the initial effects of the economic crisis varied enormously across Member States, reflecting the way the crisis affected different sectors as well as the economic and labour market policy responses.
- Over 5 million jobs were lost in EU-27 between the 3rd quarters of 2008 and 2009, but the impact was unevenly spread across Member States.
- In the subsequent period, developments in Member States have continued to diverge, with some experiencing positive economic growth while other have faced further decline.

The implications of the crisis and its aftermath for traditionally disadvantaged groups on the labour market depends on a variety of factors: the speed of the economic recovery; the extent to which structural economic changes affect the demand for different skills; and the extent to which governments address the skill needs of disadvantaged groups together with the factors behind growing labour market segmentation (atypical, precarious, temporary, flexible employment relationships).

An important part of the initial policy response concerned those, mainly men, working in mainstream manufacturing activities. As the crisis progressed, a more traditional pattern has emerged affecting:

- Young people, whose chances for labour market entry have deteriorated substantially
- Women, who are now experiencing the negative effects of the slow or absent recovery
- Vulnerable groups, like people with disabilities, migrants, long-term unemployed and persons with very low incomes
- Those working part-time because of a lack of full-time work prospects, and who are at risk of poverty

For the future, an irregular pattern of both growth and decline seems in store. As GDP levels have dropped much faster than employment in the recession, the full extent of labour market restructuring is still to come. Moreover, labour markets face a long-term polarisation, with job growth among the highest and lowest paid, and a consequent 'hollowing out' of the middle.

This evidence suggests that those employees initially hit by the crisis will not necessarily be as badly affected over the longer term.

National policy responses

When the crisis unfolded the European Commission, together with the Member States, announced a European Economic Recovery Plan that included recommendations for labour market policy measures, which served as guidelines for the Member States.

A majority of Member States quickly introduced recovery packages to counter the effects of the crisis. The form of the policy response depended on:

- The actual impact of the crisis
- The fiscal situation of the Member State, and
- The capacity of the Member State to manage appropriate economic and labour market policy responses.

Across the 27 Member States public expenditure on labour market policy was increased from €201bn to €256bn (i.e. by 28%), with 80% of the increase devoted to income support.

In terms of active labour market policy, a range of measures were introduced such as short-time working arrangements, temporary wage subsidies, reduction in non-wage costs, public sector employment, upgrading skills and promoting mobility. Of the increased ALMP budget expenditure, a third was spent on upgrading skills, a quarter on employment initiatives, and smaller amounts on supporting employment, direct job creation and start-ups.

Recommendations on ESF and the national labour market policy measures

The ESF serves as a structural instrument supporting ALMP at national and regional level in the Member States and one of the main interventions supported by the ESF throughout the crisis was training, including supplementing STWA with the upgrading of skills. The ESF also supported measures aimed at creating or maintaining

employment included: the co-funding of apprenticeship schemes; recruitment incentives; employment maintenance programmes and rehabilitation activities.

Overall the reactions of the ESF, in terms of supporting crisis related ALMP, seem to have been rational given the immediate needs of the crisis. However, it still retained its traditional focus on skill development indicating that activities related to upgrading skills and increasing access to employment are both coherent and rational for long-term labour market strategies.

A number of **general recommendations** for the ESF concerning the immediate future of labour markets are to:

- Support crisis-relevant activities of national policies in a timely way
- Extend the approach of accompanying STWA with training
- Develop the ability to react quickly
- Phase out crisis-related measures that risk impeding longer term ALMP investments in fighting high and long lasting unemployment
- Support 'anticipative' measures in order to better avoid and combat future crises, backed by tried and tested ALMP measures
- Strengthen the ESF focus on structural measures and vulnerable groups
- Support reforms in national ALMP so as to improve, upgrade and anticipate future skill demands.
- Support pilot projects aimed at finding more flexible forms of working and responding to challenges relating to skills, qualifications and experience.

Adaptations and modifications of ESF programmes

ESF co-funded programmes showed distinct and clear results in mitigating the crisis, including detailed operational actions to allow the available resources to be used more efficiently.

A large number of such changes related to adaptations between or within priority axes, with resources shifted between interventions or new instruments introduced in response to the crisis.

Some interventions specifically focused on sectors that were badly affected by the economic crisis (such as manufacturing, construction and textiles). These 'smart' changes have been implemented without using major additional funds and without substantial changes in the OPs..

The scale and scope of ESF support in response to the crisis was rapid, but varied according to the initial role of the ESF in national labour market policies.

- Member States with a (relatively) small share of the ESF budget, in relation to national ALMP, either did not change the ESF OPs or used the ESF as a supplementary instrument to focus on immediate concerns.
- Member States with Convergence regions and a significant ESF budget often used the opportunity to adapt the ESF, although less experienced Member States had difficulties in adopting simplifications or coping with the effects of austerity measures.

In general, flexible programmes were able to respond rapidly and in a comprehensive way, whereas rigid and inflexible OP proved less suited. Rigid programmes, where

legislative changes are needed for even small adjustments are definitely not suitable when reacting to a crisis. On the other hand, very flexible programmes, where support is given to 'whatever need occurs' are not appropriate either.

Using smart changes to react to temporary crises is a strategy that should be used in similar situations, if they occur in future. There is no blueprint regarding flexibility and the recommendation is to not make them so rigid that any change needs legislative changes, nor to make them so flexible that the strategic focus is lost. One option regarding flexibility would be to devote a small part of the OP to a crisis-related mechanism that can be activated for unforeseen events. Another possibility is to foresee a mechanism for adapting existing instruments for a limited time period in response to a crisis. Part of this flexibility could be pilot projects implemented to respond to a crisis in a temporary way, and linked to peer reviews.

Evaluation studies should investigate the short and longer term impact of crisis related measures, to establish a more comprehensive understanding of the effectiveness of specific types of measures.

As recovery takes place the ESF should return to 'business as usual' and support those interventions that relate to employability and social inclusion. In this respect the ESF should also focus more on anticipating change, in line with the EES, in relation to:

- Making improvements in the design of lifelong learning concepts and ALMP measures.
- Investing in appropriate methods of anticipation and forecasting at national and regional level, notably with respect to future skill, qualifications and competence needs.
- The kinds of innovative forms of work organisation that are evolving and which could be supported by the ESF in emergency situations

Changes in target groups

The crisis has raised awareness and concerns about the effects of a severe economic downturn on employment in major sectors of the economy. At the same time the most vulnerable groups in the labour market and, more generally, society are also being increasingly affected, highlighting the extent to which employment and social concerns and policies are inter-related¹

This study has also highlighted the diverse pattern of ESF use throughout the Member States, and which need to be taken into account when considering the future use and direction of the ESF.

Therefore the ESF should remain an instrument targeted at improving the structural dimensions of labour markets, and at addressing the needs of those facing the greatest difficulties.

- The groups of employed initially hit by the crisis will not necessarily be equally affected in the longer term. Hence there is a need to maintain a focus on vulnerable groups, on measures to improve their employability, and on measures to help young people enter the labour market.

¹ As reflected also in the European Commission's decision to merge its annual Employment in Europe report and its Social Situation report

- Immediate crisis related measures such as short term working schemes should be phased out in order to focus on the inevitable post-crisis labour reallocation.
- ESF interventions should be aligned with long-term European ALMP strategies with particular support in those countries where ALMP expenditures are very low.
- Targeting young people is one of the main future challenges of the EU where a European approach and active support is much needed.
- In the recovery period the ESF should renew its emphasis on social inclusion, gender equality and the prevention of poverty.
- As targeted in the new ESF regulations, which have been proposed for 2014-2020, those aims should be supported more directly via explicit interventions. In order to ensure that the targeted 20% of ESF will be directly linked to social inclusion and combating poverty, a set of specific eligibility criteria and more importantly result indicators have to be developed.

Innovative actions

During the crisis the Member States mainly relied on proven measures, but more focus should be given on assessing the innovative approaches that were introduced in some of them, together with the results of close cooperation between and with regional and national social partners.

Social innovation has already been included in the proposal for the new programming period 2014 – 2020 as a focus for ESF and the following **recommendations** can be drawn: Innovation in ALMP should be emphasised in countries where ALMP is embedded in national systems. Member States with very low levels of ALMP should focus on establishing the appropriate institutional and financial background for ALMP.

Financial reallocation and management

Member States only partly responded to the changes in financial management offered by the EC. The extension of the disbursement period for 2000-2006 was considered to be particularly important, which partly explains why absorption rates of the current funding period are still very low in some Member States. For other measures related to accelerated spending most Member States were reluctant to use them as they simply would push the problem of national co-financing needs to future years.

The EC has proposed a number of simplified methods of cost calculation including flat rates, standard unit costs and lump sums for smaller projects. But only those Member States that had the capacity and know how to implement them, were able to take advantage of the changes.

Measures proposed by the EC have been appreciated by those who implemented them, but the experience has highlighted the difficulty of introducing new measures quickly, especially where Member States do not have the administrative capacity and know-how to implement them, and where some EU12 countries faced significant difficulties in absorbing available funding.

Simplified cost calculations are still in the inception phase, or early stages of implementation, but the experiences of the MAs and the examples examined by this study suggest that Member States have incorporated such simplifications.

The following **recommendations** can be drawn:

- In crisis situations it would be useful to allocate additional funds (e.g. from previous periods) to support crisis related measures.
- Simplification measures need time and capacity to be implemented and take effect, and a crisis is probably not the easiest time to try to do it. However, efforts must be pursued since it is one of the most important measures for making the ESF more efficient and effective.
- The example of the standard unit costs has shown that the ability to implement varies greatly between Member States. As it is difficult to introduce all reforms at the beginning of a programming period, it is more appropriate that the EC launches pilot reforms to test the implementation in a few MAs or MSs, before rolling it out across the EU27.
- The new proposals for 2014-2020 introduce changes in ESF payment regulations and clearance procedure. These changes will require time for implementation and in-depth training of less experienced public authorities. Supervised pilot projects could test these changes before roll-out.

Governance of ESF

The simplification of EC rules and procedures overlap with the simplification efforts of Member States, several of whom have reviewed their implementation systems and management processes in order to speed up the generation and implementation of projects.

The crisis seems to have accelerated these efforts but it has become clear that such simplifications and reduced national administrative burdens need to be implemented in the wider context of general public administration, covering both legislation and administrative practice.

This gives some indication of a fundamental problem related to programme implementation: complicated, time consuming programme and project implementation procedures are often the result of mismatches between European, national and, sometimes, regional regulations, as well as overly bureaucratic procedures.

Nevertheless comprehensive packages of changes were put into effect, mainly by national authorities from EU-12, who did not have the opportunity to gain enough experience in the previous period.

While the majority of Member States used the ESF as part of their policy responses to the crisis, in only a third of the OPs were changes to administrative or financial arrangements necessary. Highly prescribed programmes were only able to respond to policy changes after lengthy decision making processes.

The experience of the crisis leads to a number of **recommendations** on governance:

- Improving the governance of OP is one of the most relevant issues for implementing programmes effectively and efficiently.
- Crisis related changes should remain within the objectives of ESF programmes and funds should not be diverted from structural to cyclical measures, except in very exceptional and limited circumstances.

- Such changes are only useful if performed without legislative changes or specific approval procedures. Thus an OP should indicate in what way interventions might be targeted towards combating a future crisis situation.
- A governance model that allows for flexibility is a prerequisite for tackling unexpected events and crises.
- Simplification is the most widely and unanimously requested feature of any reform. Experience with the recent EC proposals suggests that any simplification needs to take into account the entire delivery chain of the ESF intervention.
- In times of crisis, it has been particularly important to involve the social partners and relevant regional and local actors

Documentation, evaluation of crisis related measures, exchange of experience and mutual learning

The EC and the Member States exchanged a wide range of information on the crisis, and the measures that were taken. However, little systematic information is available on what use was actually made of the ESF and the structure and figures required for the Annual Implementation Reports (AIR) do not allow for specific conclusions about crisis related measures.

A large number of changes have been adopted, most of which are small scale and difficult to separate in impact from the planned interventions, and a number of new instruments introduced. However evaluations are not yet available on who actually benefited from the measures and their employment impact.

It is important to enrich the information exchange started on the crisis-related measures through the exchange of experiences with the result and impacts of crisis related measures.

Some relevant questions could include whether:

- the supplementary training was based on a needs assessment, had some appropriate quality measure, and helped to improve employment and income prospects and job quality in the medium term
- the measures intended to combat youth unemployment improved the employability of the recipients
- the measures targeted at vulnerable groups through the crisis helped to improve their employment situation.

The following **recommendations** can be drawn:

- Changes related to operational programmes should be described in the annual implementation report, with a certain level of quality control system on reporting.
- Extraordinary shifts within operational programmes should be reported as well as formal shifts between operational programmes. In both cases the reason for changes should be described exhaustively.

Specific conclusions and recommendations for groups of Member States

The importance of the ESF in fighting the crisis depended on the role of the ESF within the national LMP. For newer Member States badly hit by the crisis, but with the capacity to respond, the ESF has been the main support for active labour market policies.

The ESF has, in effect, been the instrument to introduce or strengthen active labour market policies in the Member States that were facing budgetary restrictions, and where, historically, there had been a tendency to support the labour market through mainly passive measures. In these countries, changes in the OPs were directly linked to changes in labour market policies.

Nevertheless, subsequent negative, and often divergent, developments in European labour markets appear to underline the need to better integrate anti-cyclical and structural policy measures in a multi-period (short, medium and long) perspective, and to ensure that the ESF is able to adapt and respond effectively to changing time horizons.

The way Member States used the ESF in dealing with the crisis depended on a range of factors specific to the individual Member States: the strength of their economies; the impact of the crisis on their economy and labour market; changes to labour market policy; the scale and use of ESF support; governance arrangements.

In this light, the following **groups of Member States** were identified:

Group A (Member States with a strong economy where the crisis has had an average impact and no significant labour market actions were taken): BE, LU, DK and NL represent very strong economies and the crisis had a relatively moderate impact compared to other Member States. All the countries concerned had extensive experience in using the ESF and adapting its use.

Group B (Member States where the crisis has had an average impact and reactions were largely taken by national labour market policies): This group covers the following Member States: AT, FR, DE, SE, FI, UK and in addition the North of IT². The ESF budget of these Member States was consequently small in relation to GDP.

Group C (Member States where the crisis had a high impact on labour market and the use of the ESF was considerable): This group includes PT, ES, IE and the south of IT. The southern EU Member States and regions cover mostly Convergence regions, whilst IE stands apart based on its previously strong economy. The ALMP has a medium share of the GDP but the ESF serves as a major contribution to it. All four Member States have long experience with the ESF.

Group D (Member States with Convergence regions that were affected by the crisis and had the capacity to use the ESF as the main active labour market instrument): This group includes PL and the three Baltic States LT, LV and EE. The Baltic States were hit by the crisis very hard with the highest GDP and employment losses of EU27.

Group E (Member States that were severely hit by the crisis and faced various difficulties in implementing the ESF): This group includes RO, BG and GR - countries whose economies were somewhat fragile and, in some cases, in an economic development phase (albeit some of them experienced relatively strong growth in the period preceding the crisis) which left them very vulnerable when the crisis hit.

Group F (Member States with a growing economy before the crisis, but which were hit by the crisis and faced various difficulties in implementing the ESF): SI, HU, CZ and SK had experienced positive economic growth in recent years but were hit by the crisis

² In the case of IT we decided to deviate from a strict grouping by MS due to the strong structural differences between North and South Italy whereby the North was specifically hit by the crisis. Moreover, this separation is programmatically supported by the regionalisation of ESF implementation via regional OPs.

to varying degrees. All four countries gathered some experience in managing ESF during the previous - albeit shortened - period (2004 – 2006).

A number of **recommendations** for the different **Groups** of Member States are made in the report depending particularly on their economic and administrative circumstances. The main recommendations are that:

- In **Group A and B** Member States (those with comprehensive ALMP policies already in place) the focus should be on anticipation and prevention. Those Member States do have the capacity and strength to implement more innovative new labour market instruments. Their focus should be on developing such actions in the new ESF programming period.
- In **Group C** Member States, where significant amounts of funds are allocated, the major recommendation is that the focus should be on enhancing the capacity and responsiveness of the ESF to react to changing labour market needs in the future.
- In **Group D** Member States, which have taken the opportunities offered by the ESF and implemented them in a coherent way, the programme implementation during the next funding period should be based on MS evaluations of the current programming period.
- In **Group E** the future implementation of ESF OPs needs to be accompanied by intensive capacity improvement at national and regional level related to the adjustment of EU and national regulations and the effectiveness of public authorities.
- **Group F** Member States have gained experience in managing ESF funds, but face difficulties due to bureaucratic management structures, and the focus should be on making administrative adjustments in time for the next programming period.

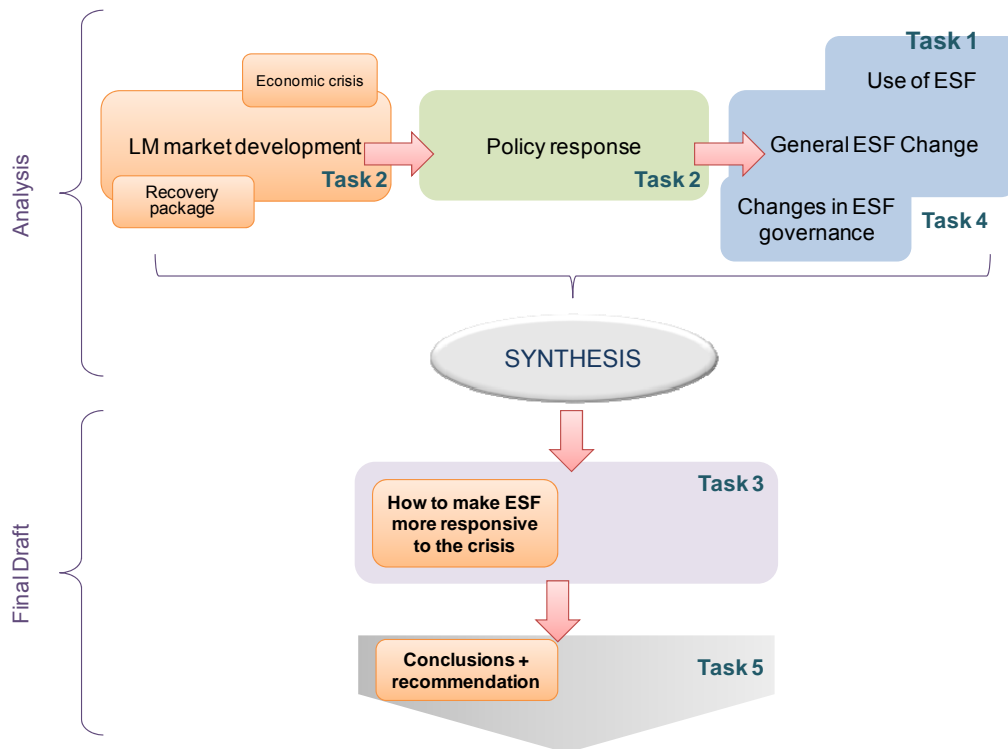
1 Introduction

1.1 Purpose and content of the study

This is the Final Report of the contract VT/2010/050 for the ‘Evaluation of the reaction of the ESF to the economic and financial crisis’ carried out on behalf of the European Commission, by Metis GmbH in cooperation with WiiW. The main questions addressed are (see also Figure 1):

- How did the ESF react to the economic and financial crisis? (Task 1³)
- Did the ESF play a role in mitigating its effects? (Task 2)
- In what way did governance issues play a role? (Task 4)
- How could the ESF be made more responsive to the needs of the post-crisis recovery? (Task 3)
- What conclusions and recommendations can be drawn that will be useful for the post-2013 period? (Task 5).

Figure 1: Overview of the tasks



The study involved:

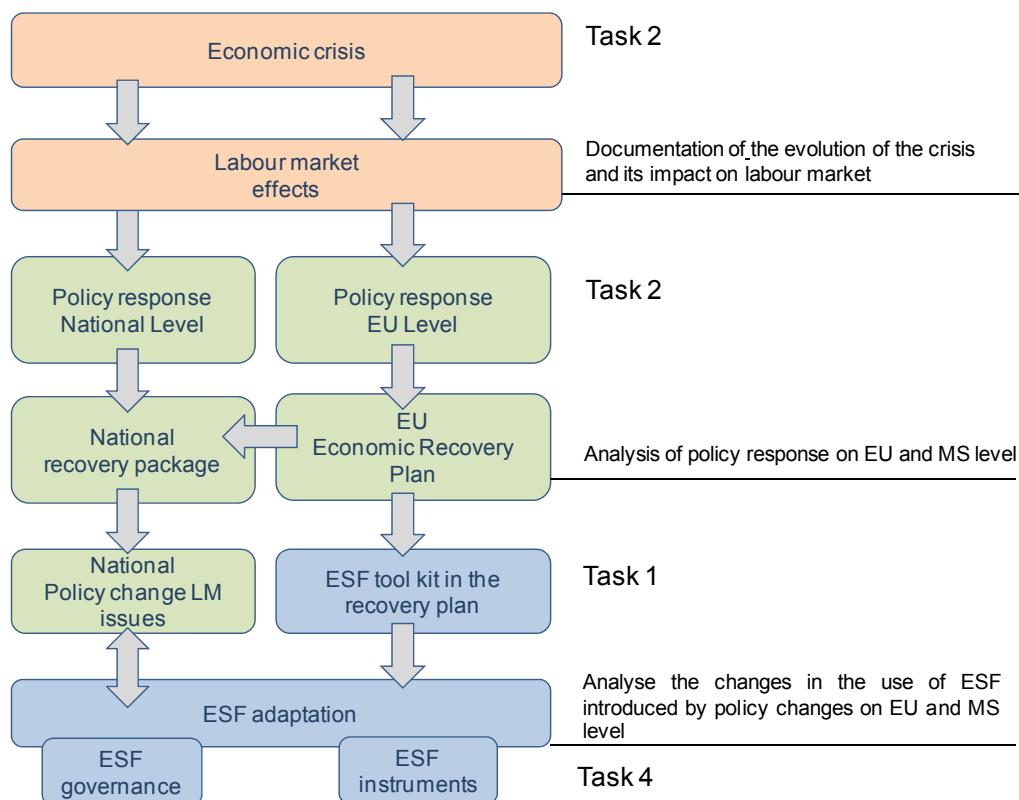
- Assembling factual information as well qualitative and quantitative data, i.e. changes in financial allocations and indicators of the ESF
- Investigating changes of labour market intervention instruments in detail, including the national/regional legal and institutional frameworks and the collaboration between national and ESF co-financed policies

³ All tasks refer to the Terms of Reference. The chapters in this report follow a different sequence.

- Understanding how changes were triggered, and how they were related to LM policy responses at national/regional level

This work has enabled us to compare the rationale of the ESF approach to the national/regional LM policy approaches to the crisis, as well as to economic and labour market theories and policies, and to identify lessons that can be learnt from the reaction to the crisis (see Figure 2).

Figure 2: Study outline



The study has been structured in three phases: 1) the inception phase, which consisted of a detailed elaboration of the methodology and which was concluded with the Inception Report; 2) the analytical phase which culminated in the Interim Report; and 3) the Final Report including a revision and completion of the analytical phase and conclusions and recommendations.

This report has been prepared on the basis of:

- The methodology outlined in the Inception Report
- An analysis of labour market developments across the 27 Member States based on comparative LFS data
- A survey of reactions on national labour market policies across 27 MSs based on a literature survey of comparative and national literature and interviews with national experts
- A first screening of the reaction of the 27 MSs related to ESF based on an analysis of the AIR

- Interviews with DG EMPL's ESF country officers responsible for the 27 Member States
- A screening of all ESF operational programmes for identifying various types of reaction of ESF to the financial crisis (based on the screening of the AIR 2008 and 2009)
- An in-depth analysis of a sample of 27 operational programmes (based on interviews with MAs)

1.2 A summary of the information on OPs, as well as a list of the case studies can be found in the Annexes. Methodological approach

The study is intended to assess the extent to which the ESF contributed to the mitigation of the economic and financial crisis, including paying attention to important issues of governance. It captures the extent, the scale and the scope of support provided to complement Member States' labour market reactions to the crisis – encouraged and enabled through the European Economy Recovery Plan.

It is not an evaluation in the 'classic' sense, as neither the entire programme, nor parts of it, are evaluated against set targets within the policy cycle. When the ESF objectives, the regulation and the programmes were drawn up, the financial and economic crisis was not even a shadow on the horizon and, of course, no provisions had been foreseen to tackle such a global, comprehensive and forceful crisis.

The report seeks rather to understand the changes in ESF implementation as a response to the crisis. So the benchmarks of the assessment are the measures set out by the EC and the Member States, against the background of the labour market problems that emerged and the national policy responses that were taken.

Based on a thorough analysis of the findings on the use of the ESF, the evaluation focuses on the coherence and rationality related to national labour market responses during and since the crisis, and on exploring how the ESF could best be used in post-crisis situations.

These issues of 'coherence' and 'rationality' are central to the methodology of this project, while recognising that the contribution of the ESF can neither be measured only in terms of changes in its usage⁴ nor can these changes be quantified. Changes in the use of ESF have taken various forms, from clear shift of funds to much more subtle widening up of target groups, adapting selection criteria or speeding up and simplifying implementation.

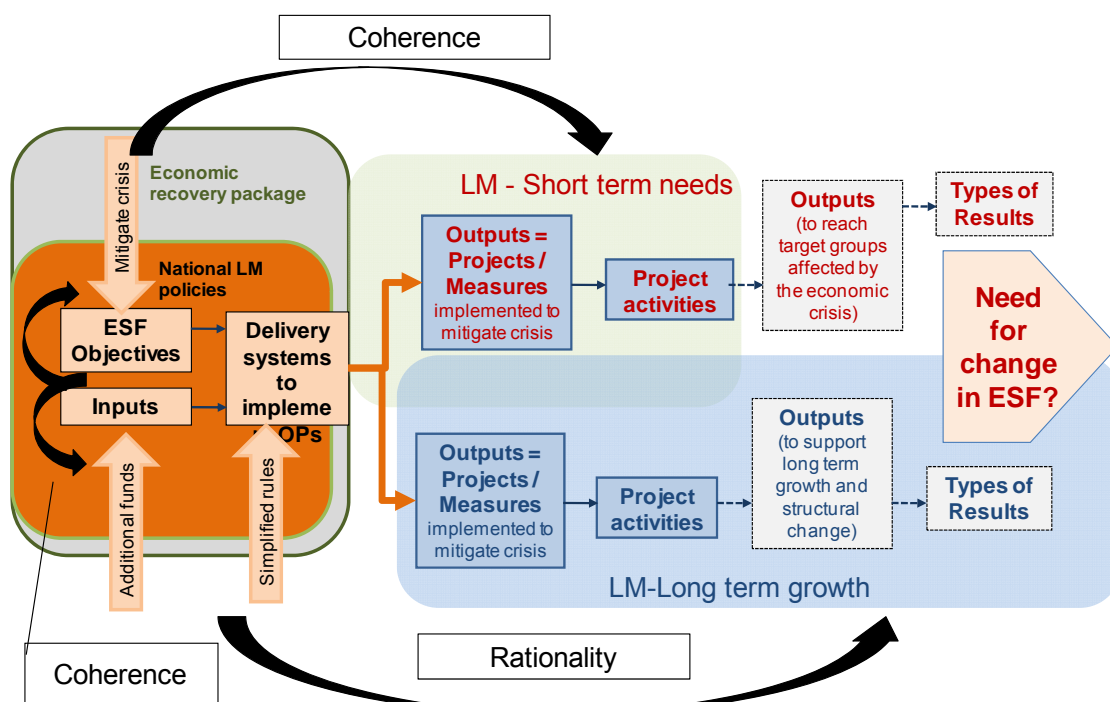
Coherence refers to the question of whether the use of ESF was coherent with the short term needs of the labour markets in the Member States. **Rationality** refers to a longer-term perspective of moving towards post-crisis recovery: were the reactions of ESF throughout the crisis **rational** in the sense that ESF interventions contributed to addressing the longer-term needs of EU labour markets in line with the European Employment Strategy and Europe 2020. Thus we interpret rational as being consistent with longer term European strategies.

This assessment is based on established **labour market and social policy principles**. We interpret 'rationality' as "contributing to the economic growth potential

⁴ Some Member States, for example, have not taken direct advantage of new ESF possibilities, but instead have used ESF funds to compensate for, or replace, national funds that were diverted from addressing long-term structural goals to dealing with short-term problems

of the EU". This can be achieved in particular through 'active' labour market policies (ALMPs) that improve the efficiency of the matching processes or - given the massive macroeconomic disequilibrium - through a combination of active and passive measures (with, in a number of Member States, a specific response being developed during the crisis, with the agreement of the social partners, in which workers are maintained in employment with the help of income assistance and training).

Figure 3: Evaluation approach: coherence and rationality



1.3 Information sources

For this study we have used different information sources: A number of European⁵ and national⁶ level sources of information for desk research have been used, as set out in detail in the literature list (see Annex).

The study covers the current programme period 2007 to 2013. Changes at the level of operational programmes were taken into account if filed by the EC by 31.12.2010. The cut off point for information used in this report was 30.11.2011.

Fieldwork was undertaken by geographical experts after the sources of national information and AIR 2008 and 2009 had been screened. It covered the sample of OPs

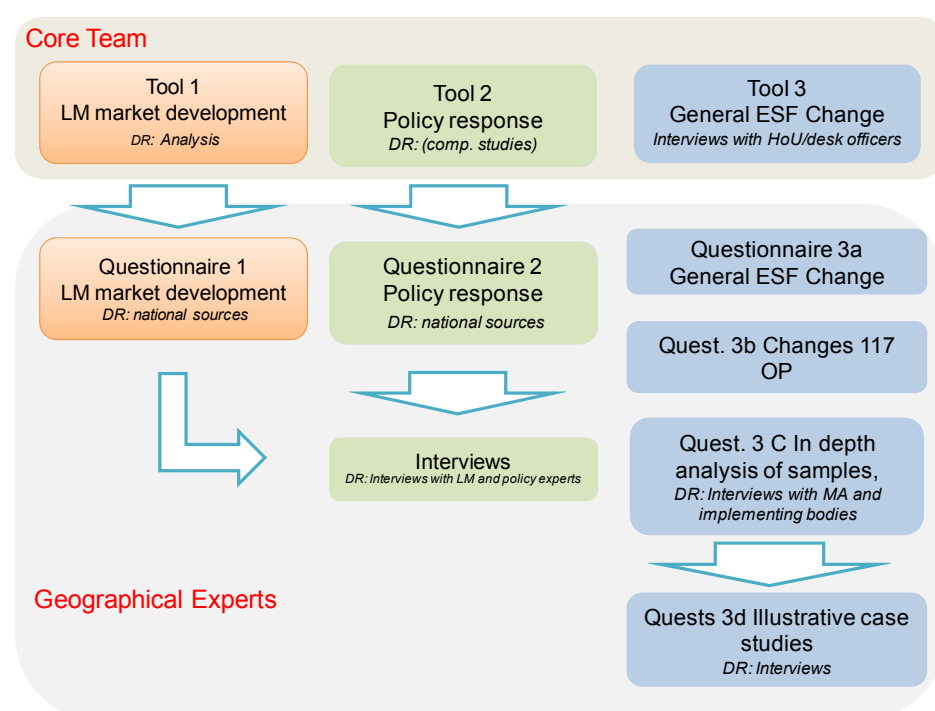
⁵ Especially, the "Employment in Europe Report 2010", chapter 2 of which includes some evidence and analyses concerning Member State measures; the 2009 Employment Outlook Report of the OECD; the "European Employment Observatory Spring 2009 Review" (completed in December 2009) which contains national chapters on innovative policies and practices in the context of the crisis –(the 2008 report was entirely focused on structural measures); OECD Economic Outlook 2009, 2010; Recovering from the Crisis (European Commission and Council, 2009)

⁶ European Economic Forecast Spring 2010; European Economic Recovery Plan; National Strategic Reports, National Recovery Plans, Annual Implementation Reports of 2008 and 2009, and additional literature specifically related to the crisis (analysed by geographical experts)

and other OPs if major questions required further investigation or clarification (e.g. unclear information in the AIR etc). For sample OPs the geographical experts interviewed ESF coordinators and Managing Authorities of operational programmes, and, for case studies, implementing bodies of specific measures.

The fieldwork was guided by a set of detailed questionnaires which were reviewed with the geographical experts in a briefing meeting prior to the fieldwork. The questionnaires cover labour market development (Q1)⁷, labour market policy response (Q2)⁸, overall change of ESF at Member State level (Q3a), changes within all 117 OPs related to the crisis (Q3b)⁹, a detailed analysis of changes at the level of sample OP (Q3c)¹⁰ and case studies on detailed changes in measures or governance (Q3d).

Figure 4: Overview of tools and questionnaires for field work



Source: Metis 2011

⁷ **Questionnaire 1** covers the labour market changes during the crisis and focuses mainly on analysing the main reports available on European level. The outcomes of the labour market survey in each country were based on a literature review prepared by the core team. Geographical experts were asked to complement this information through national sources (literature and, if necessary, interviews).

⁸ **Questionnaire 2** highlights the policy response as a national reaction to the crisis. Again the core team has prepared the existing content along the questionnaire and the experts have been asked to include results from desk research and interviews, as necessary.

⁹ **Questionnaire 3a and 3b** seeks an analysis of the AIR 2008 and 2009 regarding the changes relating to volume, type of measures, target groups, implementation.

¹⁰ **Questionnaire 3c** covers sample OPs to obtain a more in-depth analysis of the changes undertaken related to the crisis. To the extent possible they include quantitative information (about the changes in volume and target groups) and qualitative information on the nature of instruments adapted or newly introduced in response to the crisis. The analysis of the sample OPs complements the information from the AIR 2008 and 2009 to cover the changes introduced in 2010. In this case interviews were held by phone or face-to-face.

1.4 Assessment of the quality of the information received

The AIR 2008 and 2009 gave a comprehensive picture of the changes related to the crisis. At that level we have defined all changes as “crisis related”, whenever the AIR referred to them as such. The consultations with EC country officers provided an overview of the ESF changes across Member States. However, when looking into more detail, the interviews with the Managing Authorities gave a more diverse picture. “In the field” it is often difficult to distinguish between measures directly responding to the crisis and those that occur through adaptations that become necessary in the course of the programme period. MAs and other respondents distinguish *de facto* between “crisis relevant” changes of use of the ESF rather than only “crisis triggered or induced” changes, where “crisis relevant” is the narrower concept.

The material from the geographical experts was compiled in late April and May 2011. The richness of information (through desk research and field research) resulted in qualitative and quantitative findings of considerable substance. Due to the significant variations in quality and amount of material for each Member State we refrained from providing too many statistical outcomes at EU level. A particular difficulty for statistical analysis is the high variation in numbers of OPs and the differences in their foci throughout the Member States. This is especially true for Italy as its 24 OPs highly weighted the statistical outcomes. A lot of material could be put together on MS level, rather than on OP level, in order to draw conclusions on the ESF development. Case studies have been used in an incidental way in order to illustrate the different ways in which the ESF has been used in tackling the crisis across Member States.

Financial data other than the changes described in the AIR have not been used in a comparative way, as the close link of the OPs with the institutional context in the Member State or region does not allow concluding on crisis-relevant changes. Nevertheless financial changes for those Ops, where developments have been analysed in detail, have been described.

The material at hand gives a coherent picture about the different role of ESF in Member States and provides a foundation on which conclusions and recommendations can be developed.

1.5 Definitions used

For the purpose of the study, the definitions of Eurostat's labour market policy categorisation and the definitions used in the European Economic Recovery Plan (EERP) have been aligned with ESF terminology. In order to analyse the changes in ESF policy priorities, the policy changes have been related to those categories used with respect to national labour market policy responses, namely “Maintaining employment and creating jobs”, “Upgrading skills”, “Supporting household incomes” and “Increasing access to employment and mobility”.

Implementation refers to the rules and procedures used for the realisation of an OP and its priorities and measures.

Governance refers to the wider set of rules, procedures and interactions that set up the interaction between the programme stakeholders and policy actors in the national and regional context.

2 Labour market developments in EU-27

This chapter considers labour market developments since the onset of the crisis, and then goes on to address possible future labour market challenges based both on recent experience, and more broadly-based knowledge about how labour markets develop in different economic conditions. The period which has been assessed in this report covers 2008 till 2010. The data included in the first part of the report are based on LFS analysis while the second part provides a more general less statistical view on what was happening when the crisis unfolded.

2.1 Developments in the labour markets of EU Member States as the crisis unfolded

2.1.1 Definition of the crisis period

This section presents an outline of the main labour market outcomes since the onset of the crisis, in EU-27 as a whole and in individual countries. Particular attention is paid to the impact on different groups in the labour market, both during the crisis and afterwards, who can be identified in available data. This section also addresses the issue of whether the longer term impact of the crisis on different groups is likely to be different from the immediate impact.

In presenting these labour market outcomes, three periods are distinguished: the period before the crisis (until-2008q3), the period 2008q3-2009q3, and the period 2009q3-2010q3, as indicated by GDP growth rates in EU-27. However, the question of how exactly to define “the crisis period” with respect to employment for different countries is not easy to resolve. With respect to employment, three main issues arise:

First, changes in employment normally lag behind changes in GDP so that a decline, and eventual recovery, in GDP growth rates is generally reflected in the employment figures only after some delay - due to labour hoarding by employers in the downturn, and more cautious recruitment and employment strategies in the recovery – although the length and timing of such lags are difficult to predict.

Second, in some countries there is a strong seasonal pattern in employment which makes the analysis more complicated, but which has been largely overcome by analysing the same quarters for the three phases of the crisis. This technique has been applied to both the calculation of relative changes or growth rates, as well as comparisons based on absolute numbers.

Third, some countries have still not fully recovered and few, if any, have been able to return to anything like pre-crisis GDP growth rates, and even less so in terms of employment growth.

In this way the analysis is able to reveal to what extent the various EU economies are, or are not, recovering from the crisis, and to what extent employment growth or employment levels have still to return to pre-crisis figures.

2.1.2 Economic and employment developments

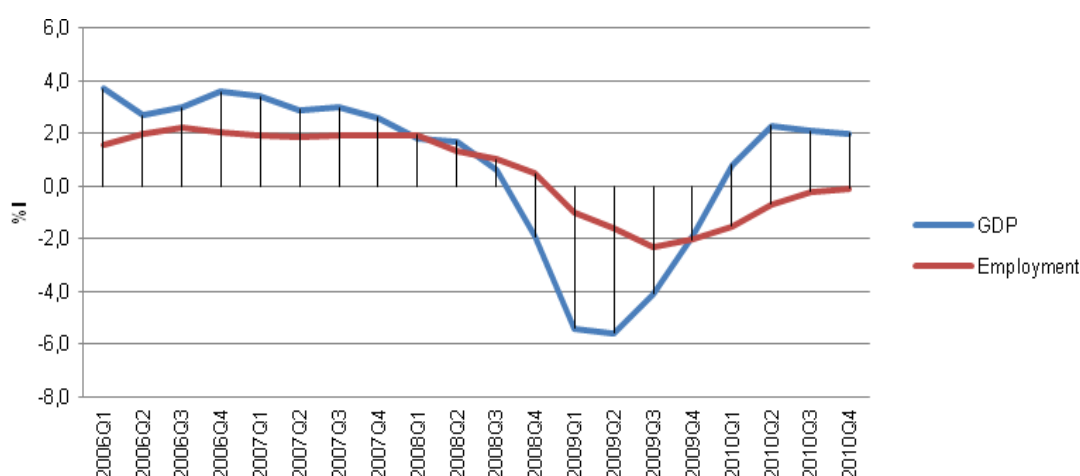
Overall development

Following robust economic growth in EU-27 in 2006 and 2007, economic activity lost momentum from the beginning of 2008, and turned negative in the fourth quarter of 2008 (see Figure 5). The recession reached its peak in the first, and particularly the second, quarter of 2009 when GDP fell 5.6%, year on year, although it eased

somewhat in the following two quarters. Finally, a modest resumption of GDP growth occurred in the first quarter of 2010 and gained momentum in the following months.

Taking into account the depth of the recession, the employment response was comparatively mild overall, but it differed substantially across countries. As expected, employment changes lagged behind GDP with employment growth weakening throughout 2008 and turning negative in the first quarter of 2009. Though the employment contraction was much less pronounced than the fall in GDP, the period of decline was longer, continuing up to the fourth quarter of 2010 – the latest period covered by this report.

Figure 5: GDP and employment growth in EU27



Change towards the same quarter of the previous year, in %

Source: Eurostat

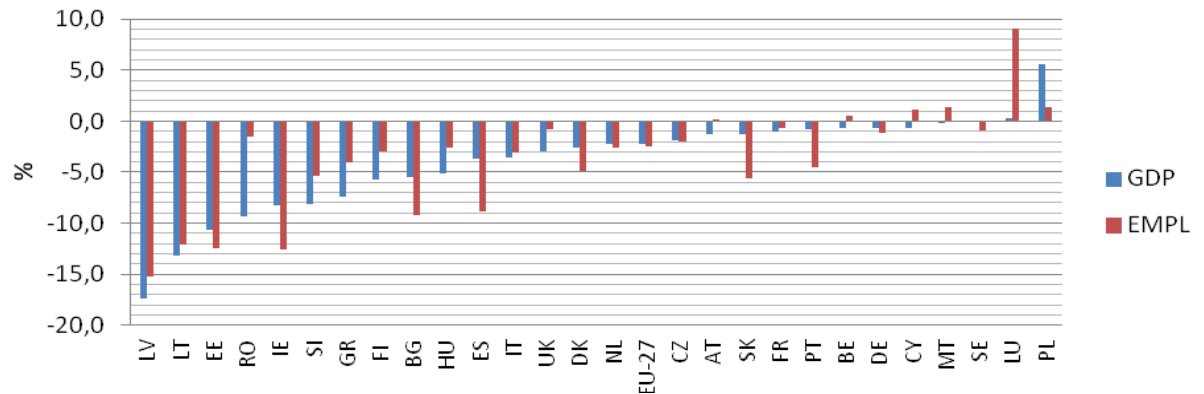
The impact of the crisis on employment differed substantially across countries 'reflecting different policy responses to the crisis, varying levels of employment contraction, and the different structures of the economies'¹¹. As shown in Figure 6, the EU-27 experienced a slightly stronger contraction of employment than GDP during the period 2008q3-2010q3 - based on quarterly changes of the GDP compared on previous year. The Baltic countries, IE, BG and ES had to face the highest loss in employment. In RO, GR, HU, FI, LV and LT job losses were less pronounced than the fall in output. Conversely, a much higher drop in employment than in economic activity was seen in IE, BG, ES, DK and PT. In PL and LU both GDP and employment rose in the period under consideration.¹² It would go however beyond the scope of this chapter to outline the various reasons of the decline in GDP and employment in the individual Member States (for details see Employment in Europe 2010).

¹¹ European Commission (2010) Employment in Europe 2010, Directorate-General for Employment, Social Affairs and Equal Opportunities, Unit D.1, Brussels, p. 25

¹² In the case of Poland it is apparent that GDP growth must pass a certain threshold to create positive employment growth.

A more detailed picture of the employment response in different countries to the GDP contraction is indicated by data on the elasticity of 'peak-to-trough' employment to output reductions¹³.

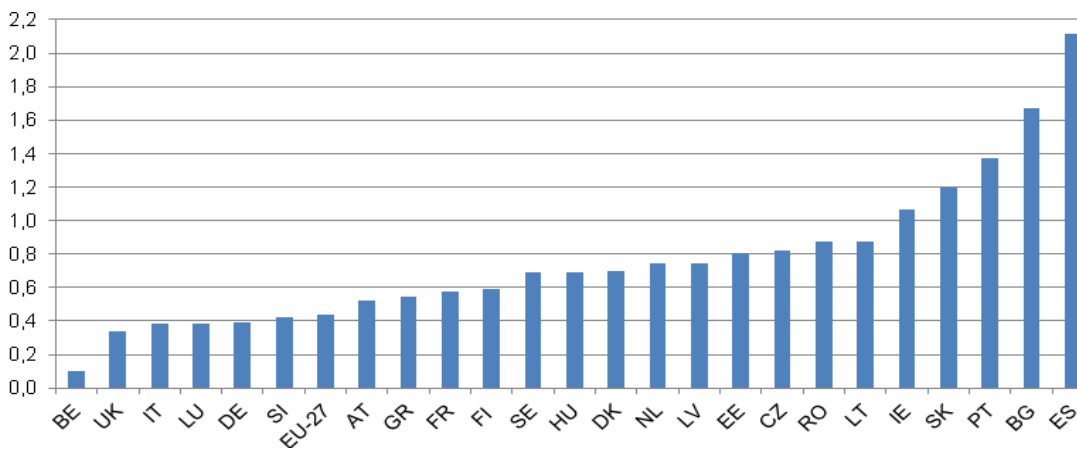
Figure 6: Employment change to change in GDP in EU Member States



Employment change (red bar) to change in GDP (blue bar) 3rd quarter 2010 / 3rd quarter 2008, in %

Source: Eurostat.

Figure 7: Elasticity of peak-to-trough employment contraction to peak-to-trough GDP decline in EU Member States¹⁴



Source: Eurostat¹⁵

¹³ As this provides a causal relationship and compares the situation in only two points of time, it would be preferable for this analysis to use a country specific definition of the crisis since there are quite substantial differences across countries with respect to the duration of the recession. The majority of the Member States entered recession in the last quarter of 2008, while the recession in EE and IE had already started in the first quarter of 2008, followed by IT and LV in the second quarter. AT, BG, RO and SI entered recession in the first quarter and CY in the second quarter of 2009. In about half of the Member States, recession ended in the last quarter of 2009, while Ireland was in recession through the whole 2008-2010 period and GR and RO were still in recession at the end of 2010. EE returned to growth in the first quarter and LV in the second quarter of 2010. However, the macroeconomic situation remained generally difficult with forecasters signalling the risk of a double-dip recession in the second half of 2011 or in 2012. Further, Member States face rather heterogeneous developments since then. Some countries like GR, ES, IE, RO and LV still showed negative growth rates in 2010 and for some countries (e.g. GR, PT) forecasts are rather bleak for 2011 and 2012.

¹⁴ scale indicates ratio of employment to GDP changes

Differences in this **elasticity** reflect many factors, not least the sectoral structure of the economies and hence the specific sectoral impacts of the crisis, as well as the extent to which policy measures such as short-term working schemes have been adopted.

As Figure 7 shows, the elasticity of employment to GDP decline in the EU-27 was only 0.4 implying that a drop of one percentage point in GDP triggered only a 0.4 percentage point decline in employment. Particularly strong employment reactions to the GDP decline were experienced in ES, BG, PT, SK and IE.

ES, for its part, responded to the output decline almost entirely by layoffs and to a lesser extent by a reduction of working hours and salaries. The strong employment reduction in ES, but also in IE, reflects the high dependency on the construction industry as an employer, which was one of the sectors most affected by the crisis. The reduction of employment in this sector triggered layoffs also in other sectors (especially those with links to construction) and a general uncertainty that dominated the labour market and exacerbated the attitude of employers towards a very conservative recruitment approach.

By contrast, in countries like BE, UK, IT, LU, DE and SI, the elasticity of employment relative to the drop in output has been less dramatic. In all of these countries the employment impact was below the EU-27 average and the adjustment was primarily achieved through part time (like in the UK) and short time working schemes (and a reduction of productivity per hour).

The bulk of the **employment losses** occurred between the third quarter of 2008 and the third quarter of 2009, but in some countries labour shedding had started already a year earlier. This was particularly the case in ES and to a lesser extent in IE, HU and LT, affecting almost entirely men at the early stage of the crisis.

Out of the 5.1 million jobs lost in EU27 between the third quarter of 2008 and the third quarter of 2009, ES was hit worst, with a decline of 1.5 million jobs (or 28% of the total decrease in EU-27), followed by DE (690.000), UK (540.000), IT (460.000), FR (276 000), IE (200.000) and PT (170.000).

Young people were hit hardest in some countries, with youth unemployment rising from 18 % (2008Q3) to more than 40 % (2010Q3) in ES for instance.

At the beginning of the crisis job losses affected exclusively (AT, CY, GR, NL) or to a large extent, **males**. For example in FR males accounted for about 85% of the employment reduction, in DE, ES and LT for roughly 80% - reflecting that the crisis has hit male oriented sectors in particular (construction, automotive industry). In other Member States including BG, ES, the CZ, SK and SE the male proportion was less pronounced, accounting for 55-60% of the total employment reduction during the peak of the crisis.

As for the period 2009q3-2010q3, employment growth resumed in about half of all Member States, particularly in DE and UK, while larger job reductions continued in ES, IT, NL, BG and GR.

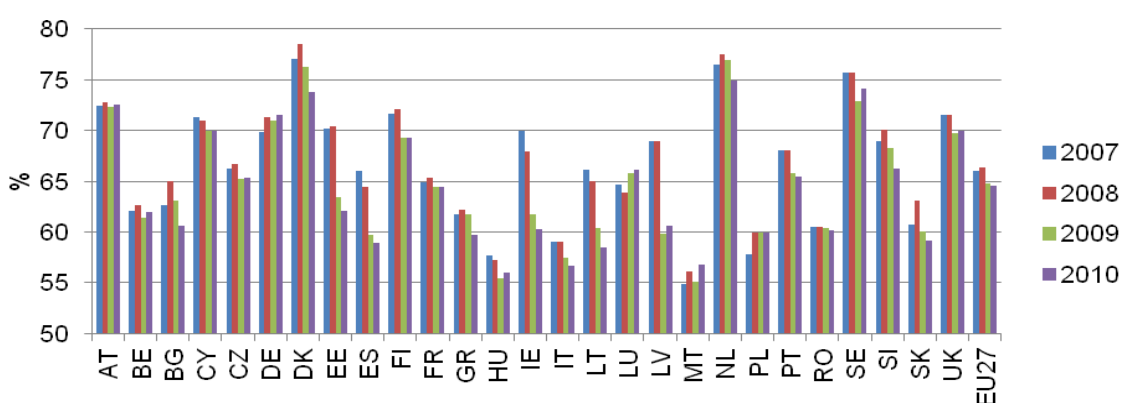
¹⁵ Employment data refer to quarterly LFS. MT, CY did not provide reliable date, in PL has been no decline in employment

2.1.3 Employment rates

For total employment the average rate slightly increased before the crisis, thus making progress achieving the Lisbon targets - but dropped during the crisis (-1.6pp) and, to a lesser extent, in the post-crisis period. Data on employment rates (total and for various groups of persons) are shown in Annex 1 (table A1).

Developments in employment rates over the crisis varied considerably across countries. Data for the first period (2007 to 2008) period show a slight increase of the employment rates in almost all Member States, with the most important exceptions being IE, ES and LT during the pre-crisis period.

Figure 8: Development of employment rates in EU Member States



Employment rates in % from 2007q3 to 2010q3

Source: Eurostat

As illustrated in Figure 8 this picture has changed significantly during the 2008q3-2009q3 period, affecting all Member States, but LU; employment rates fell most dramatically in LV (-9.2pp), IE (-6.2pp), ES (-4.8pp), and LT (-4.2pp), but also in the Scandinavian countries the declines in employment rates were above the EU-average.

In the 2009q3-2010q3 period, the decrease in employment rates eased off, although the rate of recovery differed across countries. While employment rates remained unchanged or increased in some countries (e.g. BE, HU, DE, SE and MT), they fell at a higher rate than during the crisis period in BG, DK, GR and the NL. In EE and LT employment rates fell in all three periods under consideration, but the rates of decline slowed markedly in the period between the third quarter of 2009 and the third quarter of 2010.

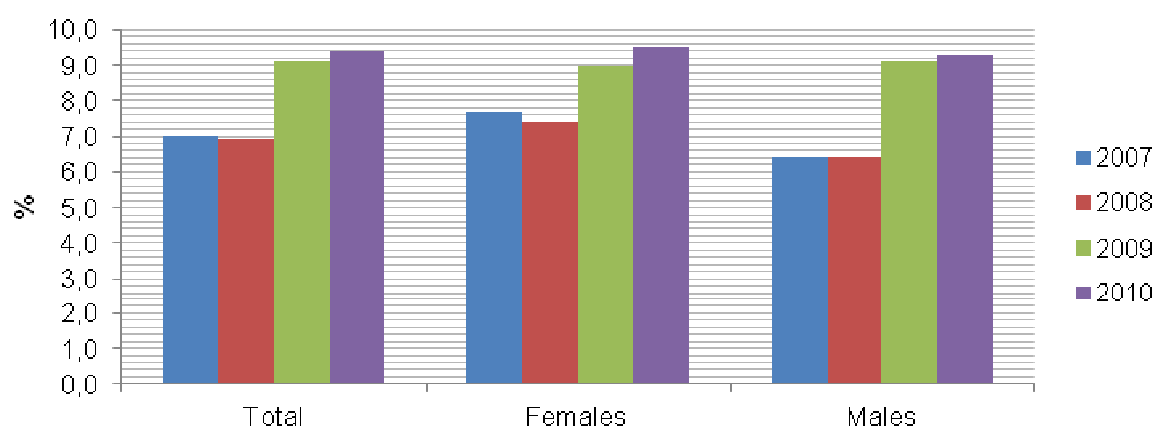
2.1.4 Unemployment in EU-27

Rising unemployment resulted from the huge job losses accumulated during the crisis. Between the third quarter of 2007 and the third quarter of 2010, the overall unemployment rate in EU-27 rose by 2.7 percentage points, with large cross country differences. As shown in Figure 9, the increase was mainly driven by a rise in male unemployment, which used to be traditionally (much) lower than female unemployment. As a consequence the unemployment rate of both sexes became almost equal in the third quarter of 2010.

With regard to age, unemployment grew most significantly among the youngest age group (15-24 years), increasing by 5.1 percentage points, reflecting the sensitivity of their employment to the stages of the economic cycle – even though, if jobs are not available, young people tend to stay longer in education or training rather than register as unemployed¹⁶. The rise in unemployment of the prime age and older age working groups was much less pronounced, up by 2.2 and 1.5 percentage points respectively.

In terms of education, unemployment increased most for the low educated skill group, which was already worse off than the others before the crisis. Between the third quarter of 2007 and the third quarter of 2010, the unemployment rate of the low skilled increased by 5 percentage points to almost 16%. At the same time medium and high skilled were less affected by rising unemployment, with the rates up 2 and 1.5 percentage points. From a gender perspective, young men having the lowest level of education suffered most from rising unemployment – the unemployment rate went up by almost 6 percentage points, while that of young low-skilled women rose by 3.6 percentage points.

Figure 9: Unemployment rates in EU-27



Note: Data refer to the third quarter of each year.

Source: Eurostat.

To summarise, at an aggregate EU-27 level, both employment and output declined during the crisis. However, young low educated men have borne the brunt of the cutback of employment, with the low educated being heavily affected by job losses and rising unemployment during the whole period i.e. before, during, and also after the crisis. In terms of age, it is notable that the number of older workers continues to rise during the recession, given that in previous recessions the employment of older workers had fallen.

¹⁶ European Commission (2011), *Mobility in Europe 2010*, European Job Mobility Partnership, Brussels.

2.1.5 Crisis effects on specific labour market groups

Changes in employment development had different effects on men and women¹⁷, on age groups (15-24, 25-54, 55-64), and on those with different levels of educational attainment (high, medium, low ISCED¹⁸ categories). It also had a significant effect on the balance of full-time and part-time jobs. Results are presented below in terms of employment levels¹⁹ (for detailed employment rates by gender, age and educational attainment see table A1 in Annex A1), as well as in terms of growth rates, since both aspects are important in assessing the short and medium term consequences of the crisis on labour markets and employment patterns.

These data allow us to show the specific impact of the crisis on certain groups. This is also clear from the approach chosen for this analysis, which refers to changes and not the question of whether a certain group is in absolute terms well placed in the labour market. In no ways does this imply that long-term structural challenges in the labour market, like gender equality or keeping older workers in the labour market lose importance.

2.1.5.1 Gender

Whereas in the pre-crisis period, male and female employment had nearly equal growth rates (though on different levels), there have been significant differences in the beginning of the crisis period, with males being hit harder by the crisis than females (also in relative terms). In the period 2009q4-2010q3, however, the growth rates for both groups are more or less in line with the overall growth rate again. Figure 10 presents the average quarterly growth rates (change against previous quarter) for total employment in the EU-27 and broken down by gender.

In terms of employment rates, the male employment rate was almost stagnant in the pre-crisis period, while the female rate rose in line with the average rate. In the crisis period, employment rates of males fell much faster than those of females, whereas after 2009 the decline of male and female employment rates was similar (i.e. both were close to the EU average (see Figure 11).

Member States have been affected differently. With the exception of PL and LU male employment rates fell in (nearly) all Member States a crisis period, with the biggest decline in LV (-12 percentage points), IE (-9pp), LT (-9.3pp), EE (-8.5pp). In ES the male employment rate fell by 7.2 percentage points compared with the third quarter of 2007. Figure 11 presents the changes in the number of people employed by gender between 2007Q3 and 2010Q3 in relative terms.

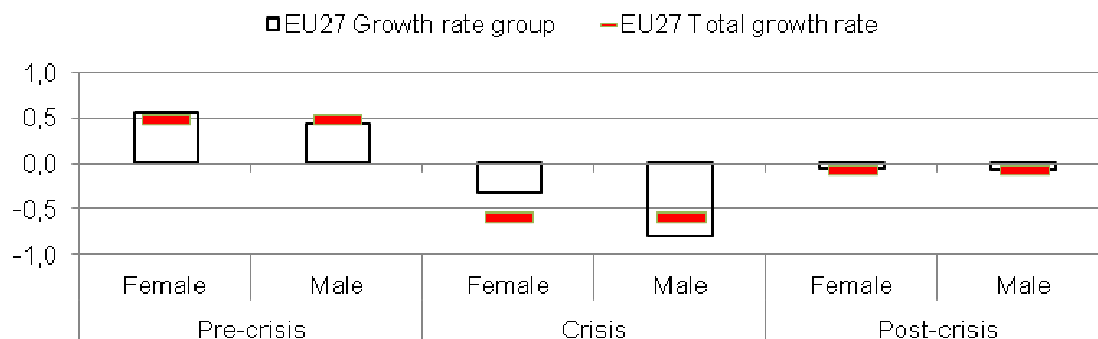
¹⁷ In the UK, female claimant of incapacity benefits have increased disproportionately compared to men during the crisis. And according to UK labour market statistics (ONS data from December 2010 to October 2011) the trend has also been inverted in terms of employment and unemployment rates and numbers of unemployed increased more for women than for men. Likewise, a similar trend was observed for the claimant count: the number of male claimants has fallen for 14 consecutive months but has increased for nine consecutive months for female.

Female underperformance in the England & Gibraltar OP (the MA suggested one year ago to revise OP female targets, 51% overall OP participation, which were supposedly not reflecting the reality of the UK labour market) constitutes a good example of the risks that a partial analysis in a short period of time could entail.

¹⁸ International Standard Classification of Education

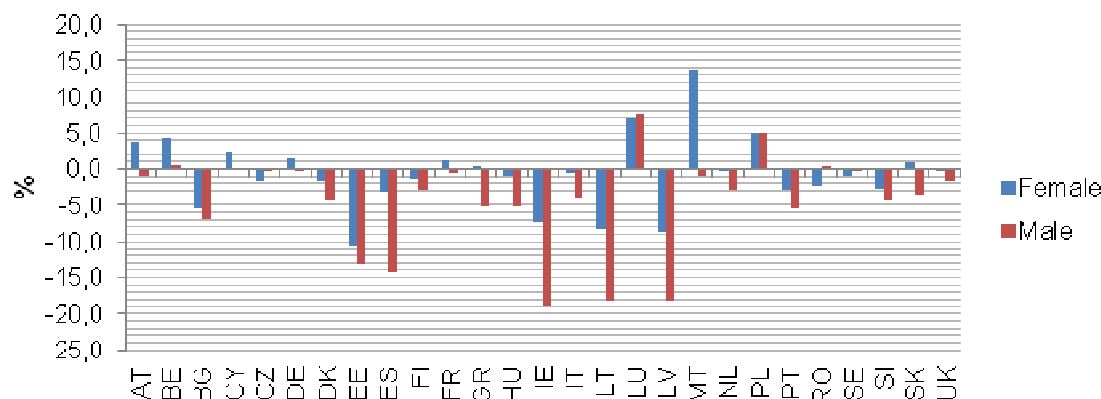
¹⁹ For this purpose employment rates are compared for the third quarters of each year starting from 2007. The third quarters were chosen in order to eliminate seasonal effects that are most evident in the agriculture and construction sectors.

Figure 10: Average quarterly employment growth rates by gender for EU-27²⁰



Note: Pre-crisis period: 2004Q3-2008Q3 Source: Eurostat.

Figure 11: Gender: changes in employment rates by EU Member States



From 2007q3 and 2010q3 in %

Source: EUROSTAT; own calculations

In general, the contraction in female employment rates was much less pronounced than that of males during the crisis. Some countries like LV, LT, IE, BG and EE witnessed a fall in female rates of between 5 and 10% while others, like AT, BE, LU, PL and MT (starting from the lowest level amongst EU countries) reported an increase during that period.

Between 2009q3 and 2010q3 the decline in employment rates, both for males and females, slowed markedly in most Member States (Figure 11). Female employment rates, however, continued to decline more strongly in SI, DK, UK and LT.

Thus there is evidence that the fact that the crisis hit males more than females was mostly due to the differences in the sectors that were immediately affected by the crisis (e.g. construction) with the possibility that, as recovery from this particularly severe crisis continues, the balance of impact between men and women may progressively

²⁰ The red bars in this and the subsequent figures indicate the overall employment growth rates whereas the black rectangles show the employment growth rates for each subgroup.

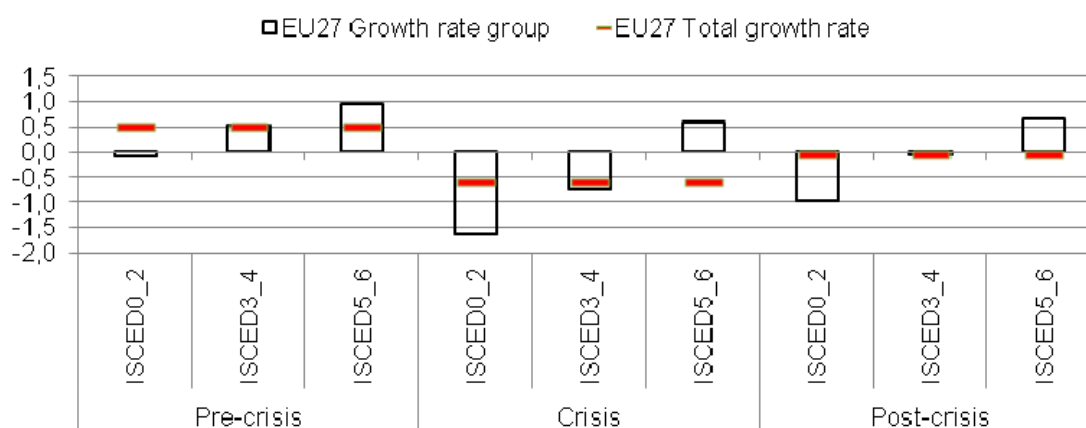
revert to the traditional pattern, with women being more adversely affected by cyclical fluctuations than men.

2.1.5.2 Educational attainment

Employment growth rates for the low educated (ISCED0_2) were already slightly negative before the crisis and therefore well below the average, whereas those for high educated were above by about 0.5 percentage points.

This pattern was enforced during the crisis: the growth rate for the low educated has been about one percentage point lower than the overall (negative) growth rate, whereas the one for the high educated has been about one percentage point above the overall rate (-0.6%) and has been positive even in the crisis period. The growth rate for the medium educated (which accounts for the largest share) is more or less in line with the overall growth rates. In the post-2009q3 period the growth rates for the low educated are still much below the overall one, and proportionally more so than before the crisis. Figure 12 shows the average quarterly growth rates (change against previous quarter) for total employment in the EU-27 and broken down by educational attainment for the EU-27.

Figure 12: Average quarterly growth rates by educational attainment for EU-27²¹



Source: Eurostat

Employment rates fell most among low educated persons in all three periods under consideration, much of it being a consequence of the steep decline in employment in the construction sector which is one of the most low-skill intensive sector amongst those hit hardest by the crisis across the European Union. Though this might allow for some increased participation in training during the crisis period, it is more likely to point towards lower employment.²² In all countries (with the exception of RO) low educated persons suffered much more than the medium educated, not only in relative but also in absolute terms. Employment changes in the same period were positive for high educated workers, however.

²¹ Notes: ISCED0_2: Low educated; ISCED3_4: Medium educated; ISCED5_6: High educated.

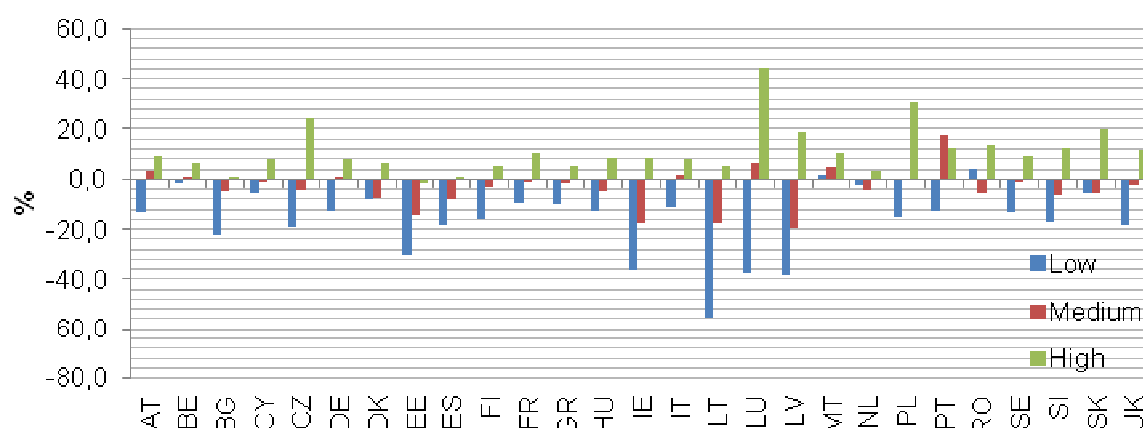
²² e.g. Employment in Europe, 2010, Chapter 1 on the shares of youth neither in education nor in employment or training (NEET)

The low skilled workers had experienced falls in employment rates already in the pre-crisis period, with declines being greatest in LT, IE, UK, SI and SK. During the crisis all countries except SI and CY reported declines in the low skilled employment rates, which were particularly strong in IE, ES, LV, EE, and in the Scandinavian countries.

While the fall of employment rates of the low skilled eased off or even showed some positive growth after the crisis in some countries (BG, DE, HU, MT and SI), the situation continued to worsen in others like DK, LT, SI, NL and SE.

Overall, in eleven countries the employment rates of the low skilled showed a negative growth during all three periods under consideration, which is also reflected in a steady fall of the employment rate of this segment at EU level. As for the medium skilled which in most countries account for the largest shares in employment (up to 80%), employment rates went down strongly in LV, EE, IE and ES during the crisis period, but also in other countries. In the period 2009q3–2010q3 only four countries have seen rising employment rates for the medium skilled, while IE, ES and LT experienced negative rates throughout the whole period under consideration.

Figure 13: Education: employment changes for EU Member States



From 2007q3 and 2010q3 in %

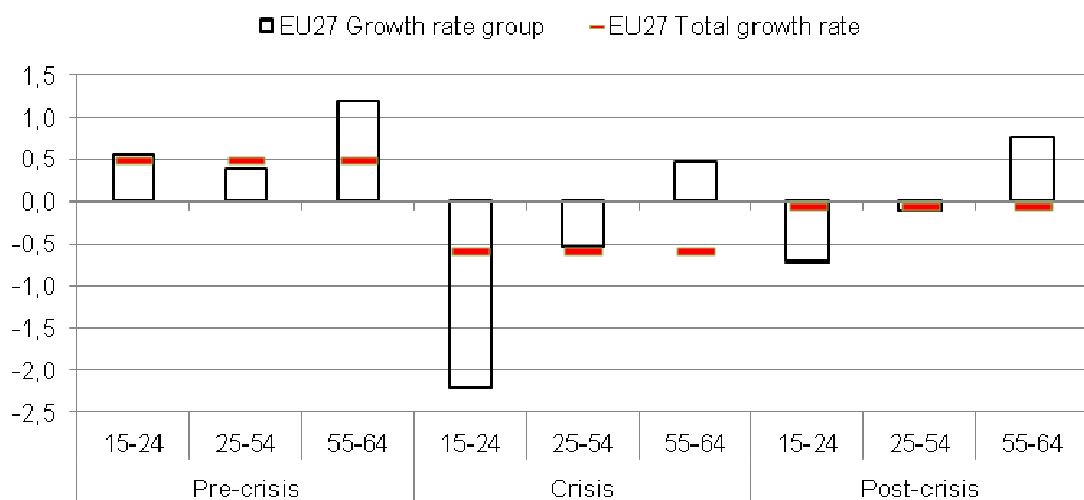
Source: EUROSTAT; own calculations

The high skilled were, in general, least affected by the crisis. However, some countries (LV, EE, IE and UK) had seen a fall in employment rates of the high skilled workers of between 1 and 2 pp in the pre-crisis period. During the crisis almost all Member States (except AT and SI) suffered from declining employment rates of the high skilled, which was most pronounced in LV, EE, IE and SK, but at a somewhat lesser degree than in the other two educational groups. Though the decline slowed in some countries in the period 2009q3 – 2010q3, the situation of the high skilled has deteriorated in BG, GR, RO and SI.

2.1.5.3 Age groups

The crisis hit young workers (15-24) much more than other groups - a result in line with other studies²³ - with the growth rates for this group after 2009q3 still negative, and much below the overall growth rate (see Figure 14). Young workers in particular were heavily affected during the first wave of the crisis, not only by relatively strong declining employment levels but also by reduced possibilities in entering the labour market in this period. This might constitute a serious problem for already highly qualified persons facing a humbling start of their employment career. However, it might also provide an opportunity for the less educated by encouraging them to seek a more complete training in order to have better long-term labour market prospects.

Figure 14: Average quarterly growth rates by age group for EU-27



Source: Eurostat

The employment rate of young people had stagnated before the crisis and fell more than proportionately during the crisis, reflecting the high share of temporary employment among young people and the recruitment stops. From a longer-term perspective this would not be too problematic if this leads to a higher participation in education and training. However, in the short run it poses the risk of young workers becoming detached from the labour market (see e.g. Employment in Europe, 2010, chapter 1).

During the crisis these tendencies worsened dramatically in those countries (with IE hit hardest, with -12.3 pp), but also in DK, the three Baltic states and SK where young people have been disproportionately hit by the crisis with employment rates falling between 6 and 10.5 pp between 2008q3 and 2009q3. None of the Member States registered growth in youth employment rates during that period.

²³ E.g. European Commission (2010) Employment in Europe 2010, Directorate-General for Employment, Social Affairs and Equal Opportunities, Unit D.1, Brussels, ILO (2011), The global crisis. Causes, responses and challenges, International Labour Office, Geneva. Organisation for Economic Co-operation and Development (2009), OECD Economic Outlook, Volume 2009/2, No. 86, Paris, OECD (2010a), From crisis to recovery. The Causes, Course and Consequences of the Great Recession, OECD Insights, OECD, Paris.

Figure 15: Age groups: employment changes for EU Member States



From 2007q3 and 2010q3 in %

Source: Eurostat; own calculations

In the 2009q3-2010q3 period, the decline in youth employment rates continued in the majority of Member States. Some countries (DK, GR, LU, NL, PT and SI) revealed deterioration as compared to the crisis period. In most countries the decline slowed down and in BE, FI, MT, PL and the UK, youth employment increased in the 2009q3-2010q3 period.

With respect to the prime age working group (25-54 years) comprising about two thirds of the workforce, employment rates fell already in the pre-crisis period in the Baltic States, ES and IE, but increased strongly in PL. During the crisis (2008q3-2009q3), employment rates of this age group dropped in almost all Member States (except LU, MT and PL) with the downturn most dramatic in EE and LV (-8.4pp in each). Other countries like ES, IE and LT witnessed drops in employment rates of between 4 and 5.5 percentage points.

In the 2009q3-2010q3 period, changes in employment rates turned positive in almost half of all Member States, including the larger countries such as DE and FR. In three countries (BG, NL, GR), however, the decline in employment rates of prime age workers was even worse than during the crisis period. In LV, the employment rate of the prime age workers started to increase in this period even though the country had been the hardest hit both before and during the crisis.

Older workers (55-64 years) were less affected by the crisis than the other two age groups, showing an increase of the employment rate in all three periods under consideration. In LV and LT, however, this age group suffered from the dramatic overall employment contraction during the crisis with the employment rate dropping by around 10pp also for this group.

Furthermore, employment rates of the older age group grew in all periods under consideration, most of it due to rising female employment in this age group. One reason for rising employment rates of older workers could be that, in contrast to earlier recessions, governments no longer support (costly) early retirement schemes, but focus more on European policy targets calling for increased employment rates of older workers and later retirement²⁴.

²⁴ European Commission (2010), Employment in Europe 2010, Social Europe, p. 54

2.1.6 Regional dimension of the crisis

A further dimension concerns the regional impact of the crisis in the individual Member States, which are likely to be affected by the sectoral structure of the regions, and the responses of the national and regional governments²⁵. In the absence of comparative EU data for this period, Box 1 summarises the assessment of the geographical experts based on national sources and data.

Box 1: Regional impact of the crisis

Austria: Over the period of the crisis, some regions were particularly affected: Upper Austria, Styria and Carinthia (the more industrialised Länder) as well as the tourism regions exhibited relatively high employment losses, especially after March 2009.

Belgium: Traditionally unemployment is much higher in Wallonia than in Flanders, and even higher in the capital region of Brussels. During the crisis unemployment in Brussels decreased while it increased in Flanders and Wallonia. Unemployment was three times higher in Brussels than in Flanders in 2009, compared to the figures in 2007, where unemployment was four times higher in the Brussels Capital region.

Denmark: The crisis affected all regions in more or less the same way with any differences appearing more at the local level.

Estonia: In Estonia the North-East part of the country where the highest share of persons (about 45%) is employed in industry (especially the Ida-Viru County where the share of non-Estonians is very high at around 80%) was most affected by the crisis. Traditionally, the unemployment rates are higher in Southern regions - Põlva and Valga counties.

Finland: Already before the crisis there was an ongoing restructuring of the country's paper industry, seen as one of the backbones of the Finnish economy, and of the ITC-industry. The crisis served to aggravate these problems in South-Eastern and Northern regions and part of the Southern region. The Global Adjustment Fund and a special measure called Change Security (covering a set of measures involving the cooperation of stakeholders in redundancy situations) were used already before the crisis.

Germany: In Germany the regions most affected by the crisis were those with a high concentration of export-oriented manufacturing enterprises. Accordingly, unemployment rose in the Southern and Western parts of Germany, while Eastern Germany was less affected. However, labour market problems in Eastern Germany remained more severe than in the other parts of the country.

Hungary: The crisis first hit the developed regions more severely (e.g. the West Transdanubia Region with its strong manufacturing sector, including the car industry) although problems then spread to less developed regions. Thus, while the crisis led to a distinctive regional convergence, this was not caused by an improvement in the less developed regions, but by a steeper decline in the employment rates of relatively developed regions. Notwithstanding these changes, the overall geographical structure of unemployment was not significantly altered by the crisis.

Ireland: The crisis has affected all regions. The scale of the unemployment problem varies by region, depending on the size of the labour market, but with big differences within regions (at NUTS 3 level) linked to the structure of the local economy (specific industrial and service sectors, and construction). The largest numbers of unemployed are in the South and East Region (NUTS 2).

Italy: The crisis mainly affected the most industrialised northern and central regions such as Lombardia, Veneto, Piemonte, Friuli Venezia Giulia, Toscana and Marche - all regions covered by Objective 2 - Regional competitiveness and employment. The industrial (manufacturing) structure is characterised by the presence of many SMEs and micro-enterprises.

Latvia: There are long-standing regional differences in unemployment and other labour market indicators that, along with differences between urban and rural areas, have persisted throughout the crisis.

²⁵ Davies, S., Kah. S. and C. Woods (2010), The Regional Dimensions of the Financial and Economic Crisis, European Policies Research Centre, University of Strathclyde, Glasgow, February.

Portugal: Between 2009 and 2010 the strongest fall in employment was registered in the Central Region of Portugal (a decline of 14.600). Unemployment rates rose in all Portuguese regions (with the exception of Madeira) with the biggest rise in unemployment registered in the Algarve, the Lisbon Region and in the North Region of Portugal. At the end of 2010 the highest rates of inactivity were registered in Alentejo, in the Azores, Lisbon and the Algarve (43.6%; 41%; 40.5% and 39.9% respectively).

Romania: The impoverished North-East of the country has been the worst affected, though industrialized areas such as the North West, the Centre and the South also felt the blow. The capital city of Bucharest has been the least affected, though even there some services and construction have been hard hit, but the restructuring of public administration (concentrated in the capital) could have a negative effect even while the economy as a whole is recovering.

Slovakia: Traditionally the labour market in the Slovak Republic has been strongly regionalized, with the highest unemployment in the south-east of the country (the Prešovský, Košický and Banskobystrický regions). The crisis had affected all Slovak regions, with unemployment rates increasing almost everywhere by approximately 5 percentage points (the exception being the Bratislava region with just 2 points). Employment measures taken in reaction to the crisis did not target specific regions or specific groups. Instead, support was provided to as wide a range of beneficiaries as possible in order to safeguard existing jobs and help create new ones.

Slovenia: The economic and financial crisis mostly affected the labour-intensive sectors. Textile sectors suffered first, employing mostly women aged over 45 with low or no qualifications (sewing clothes in MURA or car seat covers in Koroška region). This was followed by the construction sector employing low qualified men aged over 45. The areas most affected were those located in North-Eastern part of the country (Pomurje and Koroška), and some specific locations within other regions (such as Bela Krajina within the South-eastern region, or Idrija within the Goriška region).

Sweden: The Western part of Sweden (where the car industry is located) was badly affected, but difficulties were already apparent before the global crisis. The ESF was quite extensively used to address industry problems by enhancing skills in order to maintain jobs and to increase competitiveness, as well as to pave the way for better adjustment in the case of layoffs.

United Kingdom: All parts of the UK were affected by the downturn, with Northern English Regions, Scotland, Wales and Northern Ireland hit hardest. Regional differences in responses reflected the relative intensity of the problems and the different responsibilities and capacities of the regional (Scotland, Wales, England, Northern Ireland) governments, with the main emphasis put on labour market measures to mitigate the effects of the crisis.

2.1.7 Full-time and part-time employment

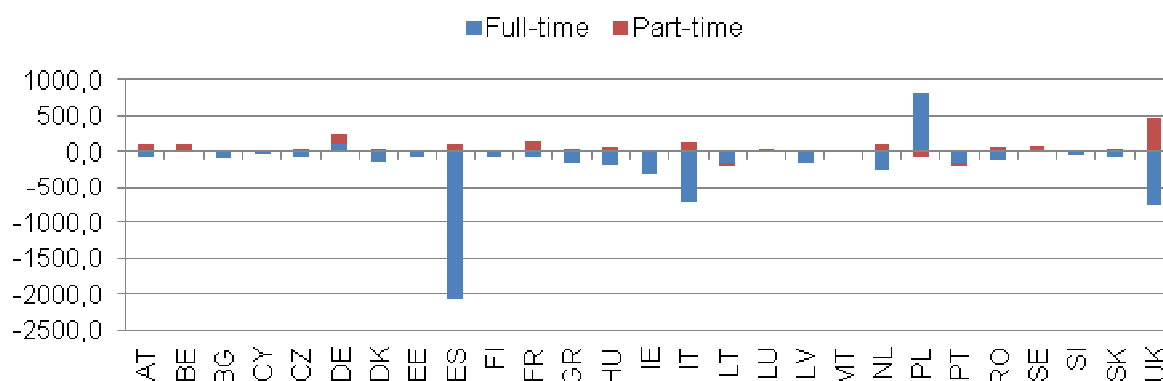
A final aspect to consider is the shift of employed workers from full-time to part time work which – at least in some countries – was seen as part of a strategy to mitigate the effects of the crisis in terms of number of persons employed. Figure 16 and Figure 17 present the changes in number of persons employed in full-time or part time work during 2007Q3 and 2010Q3.

In most countries the number of persons employed in full-time work mostly declined (i.e. either shifting to part-time work or being dismissed from their jobs), while the number of persons employed on a part-time basis having increased particularly strongly in some countries. The high percentage changes as reported in Figure 16, however, partly stem from the fact that only a relatively low number of persons have been employed on a part-time basis in the past. Furthermore, it has to be noted that the graphs represent the changes between 2007q3 and 2010q3 and that, in some countries, the part-time working schemes that were used to mitigate the immediate effects of the crisis have already been withdrawn (e.g. DE).

However, as can be seen, in a number of countries the change of persons in part-time working schemes is still significant and, in almost all countries, the share of part-time workers has increased since the onset of the crisis (see Figure 16). Exceptions are PT and LT where however the share of part-time employment is rather low (see Employment Europe, 2010).

Thereby the number of average hours worked (per person employed) was almost stable or only slightly declining in most countries. For example, in the EU-27 the average hours worked only declined from 38.1 hours in 2007Q3 to 37.6 hours in 2010q3. Most of this decline is explained by changes in the number of people working full-time and part-time work, while the average hours worked by people **within** those two groups of people remained much the same.

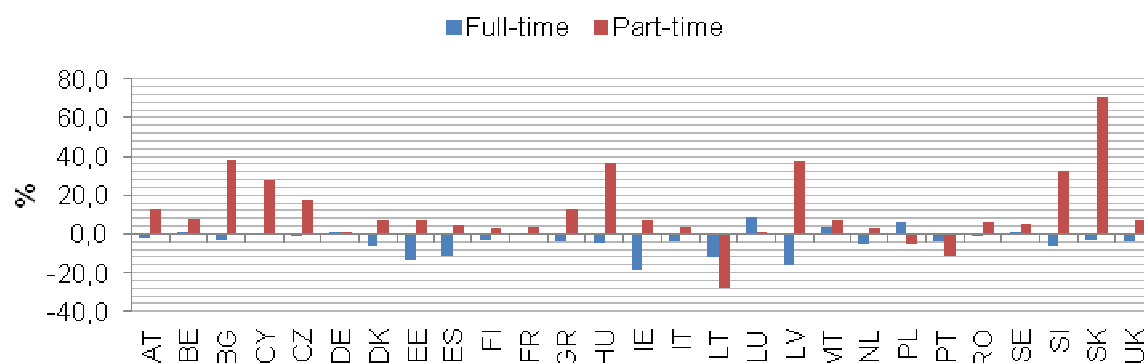
Figure 16: Full-time and part-time: employment changes in EU Member States



From 2007q3 and 2010q3 in 1000 Persons

Source: EUROSTAT; own calculations

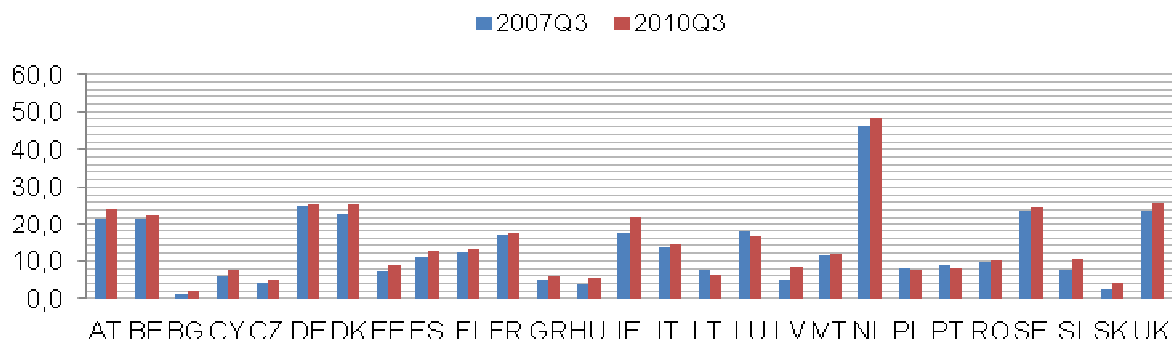
Figure 17: Full-time and part-time: employment changes



From 2007q3 and 2010q3 in %

Source: EUROSTAT; own calculations

Figure 18: Proportion of persons in work and working part-time



Source: Eurostat; own calculations

2.1.8 Vulnerable groups

It has not been possible to provide a quantitative assessment of the effects of the crisis on groups such as migrants, people with disabilities, the long-term unemployed, the low paid, low income or no income households, etc. This is due to the lack of appropriate data within the timeframe and scope of the study, given that a comparative analysis has to be based on timely EU-wide LFS data, where the survey only collects regular, quarterly, data with respect to the main quantifiable characteristics of the working population and their working arrangements.

The LFS system does include periodic questions concerning particularly disadvantaged groups such as migrants and those with disabilities, but these surveys are infrequent since they are mainly intended to provide benchmarks of their relative position in the labour market in terms of structural analysis and policy making, rather than for monitoring purposes.

In fact the last LFS report survey coverage of migrants was in 2008, and that on people with disabilities was in 2003. A new survey on those with disabilities was being conducted in 2011 (but outside the timeframe of this analysis) and a new survey on migrants is due in 2014.

However, some indications can be gleaned from national level analyses of past recessions. For example, an extensive 2009 UK analysis²⁶ confirmed that (in the UK) 'during an economic downturn, the following groups have experienced an increase in, and longer duration of unemployment, namely: disabled people; ethnic minorities; and (since the 1980s) less skilled workers'.

The evidence reviewed also highlights the heterogeneity of vulnerable groups. Within groups, variations in labour market outcomes can be high, for example, for different ethnic minorities. There are also important differences by gender and for less skilled workers, as well as links between characteristics – being disabled and older, or being less skilled and older – as a result of which some members of vulnerable groups may face multiple barriers to obtaining a job.

²⁶ Stafford and Duffy (2009), Review of evidence on the impact of economic downturn on disadvantaged groups, University of Nottingham for Department of Work and Pensions, UK government

This closes our discussion on the effects of the crisis on employment. To illustrate and further specify these findings on the MS level we summarize in Box 2 additional information on vulnerable groups and ESF target groups provided by the geographical experts. .

Box 2: Other labour market groups particularly affected by the crisis for which ESF measures have been undertaken

Austria: Additional groups addressed by the ESF are: people with disabilities, people with migrant background and unemployed (long-term unemployed in particular).

Bulgaria: Long-term unemployed (LTU), particularly the poor LTU. This group includes first of all representatives of ethnic minorities, the Roma, in particular. In terms of age, young people are the major group affected by LTU.

Estonia: Some ESF measures were targeted especially to non-Estonians (the majority of the Russian speaking population) to increase their competitiveness on the labour market.

In Estonia labour market outcomes have been traditionally worse for the non-Estonians than for the Estonians: e.g. the unemployment rate of non-Estonians has been almost double that of Estonians and the gap has even widened during the crisis.

Lithuania: Active ESF measures have been undertaken in the enterprises facing economic difficulties. The enterprises were provided with an opportunity to get a subsidy for the employment of the companies' employees that were exposed to lay-offs and part-time work, regardless of the area of activity. Hence, while the target groups in manufacturing/construction/service sectors were certainly affected by the measures, there were no initiatives which were specially designated for the purposes of a single target group.

Poland: In the anti-crisis package the main emphasis was put on persons who lost their jobs due to knock-on effects of the crisis on companies, without further restricting the target group. However, the group of 45+/50+ is considered as a horizontal issue in the Human Capital Operational Programme. So, in most of calls for proposals this group is a strategic criterion scoring additional points, but this is not connected to the introduction of anti-crisis measures.

2.1.9 The main findings

The most important effects of the crisis on overall employment and on different groups of workers have been that, not only did the global crisis affect different Member States very differently, but that the consequent impact on employment also varied considerably between them. This different 'elasticity' between economic and employment effects is reflected in the spread of experiences in the 'old' Member States between ES, PT and IE on the one hand, and BE on the other.

Generally, the macroeconomic environment has become much more uncertain and volatile making particular forecasts rather difficult. A return to sustained pre-crisis growth rates seems to be however very unlikely.

Using data from the EU LFS, the analysis has looked closely at the employment impact in terms of the gender, age, education of those affected, as well as whether they were employed on a full-time or part-time basis.

In the **first period of the crisis** the biggest changes in employment levels occurred. Labour shedding took place mostly between the third quarter of 2008 and the third quarter of 2009, when 5.1 million jobs were lost in EU-27.

About three quarters of that loss was due to the reduction in the number of jobs held by males. In terms of age, the cutback particularly hit the prime age (25-54) group, with 3.6 million job losses (three-quarters of whom were male), followed by the younger age group, which lost slightly over 2 million jobs (two thirds of whom were young men). This came on top of the fact that young people had already suffered from employment cuts in the pre-crisis period, specifically between the third quarter of 2007 and the third quarter of 2008. As regards the oldest age group, on the other hand, employment

increased by over 500.000 over this period, mainly attributed to a rise in female employment.

In terms of level of education, the number of low skilled workers (accounting for roughly 25% of total employment in EU-27) fell by about 3.3 million, two thirds of whom were men. The situation of the low skilled was already critical before the crisis when employment fell by 1.7 million persons between the third quarters of 2007 and 2008. At that time, however, males and females were affected more or less equally by job losses.

Initially at least, the crisis affected some sectors more than others²⁷ – notably the manufacturing sector and, in particular, that part of the sector most closely associated with motor vehicle manufacturing, and most affected by market conditions in the EU as a whole and in the global economy.

In terms of full-time and part-time employment, while the former decreased everywhere except LU, MT, PL, part-time employment increased everywhere except LT, PL and PT. In the **subsequent period** (2009q3-2010q3), overall employment in the EU-27 was still on the decline, but again developments differed by gender, age and education. Employment continued to fall for the youngest age group, losing 640.000 jobs (affecting males and females equally), as well as for the prime age group where the number of workers fell by 720.000. In contrast to the crisis period (when males in the prime age group were most affected by job losses) in the post-crisis period, females experienced a somewhat larger share of the employment reduction (accounting for 58% of the job losses). Of the employment increase (840.000 jobs) in the oldest age group, slightly more than two thirds are attributed to the rise in female employment.

In terms of education, the number of low skilled workers continued to fall. Of the decline of 1.8 million workers, 61% were males. Conversely, medium skilled men are better off in the post-crisis period, showing a slight employment increase, while the number of female workers continued to decline. More than half of the 1.6 million jobs created in the high skilled segment are attributed to the increase in female employment.

In terms of age groups, the employment of young people aged 15-24 fell virtually everywhere in the EU (except LU) between Q3 2007 and Q3 2010 by some 20%, while the employment of those aged 55-64 rose virtually everywhere (except LT and LV).

In the same period²⁸, the employment of men fell virtually everywhere (except LU and PL) while the employment of women actually rose in AT, BE, CY, LU, MT and PL.

In terms of education, the employment of more highly educated employees increased everywhere in the period, while the employment of those with low levels of education fell everywhere (except RO).

²⁷ The study has not undertaken a sectoral analysis, however, for three main reasons: firstly because of limited comparable data availability through the LFS; secondly because the ESF primarily seeks to target groups on the labour market rather than sectors; and thirdly because the changing fortunes of those employed in different sectors are anyway apparent through the employment data that has been analysed – with prime-age men (who dominate manufacturing employment) being particular badly affected initially.

²⁸ This pattern was reversed in some cases after the period covered by this chapter. For example, according to UK labour market statistics (ONS data from December 2010 to October 2011) the trend has been inverted in terms of employment and unemployment rates and numbers of unemployed increased more for women than for men. Likewise, a similar trend was observed for the claimant count: the number of male claimants has fallen for 14 consecutive months but has increased for nine consecutive months for female.

In this period there are signs of a return to patterns in which the most disadvantaged and vulnerable in employment terms are those with limited labour market experience, without the skills in demand, or who are directly or indirectly discriminated against in the labour market. The findings are broadly in line with **previous experience** in that the crisis had a particularly negative effect on young people and the least well educated and (almost certainly, although we do not have comparative data to illustrate this) on vulnerable groups who already had well below average employment rates, notably migrants and those with disabilities.

The most unusual aspect of this recession, however, has clearly been the rapid decline in the employment of men compared to relative stability or growth in the employment of women (at least in the short term) – a direct result of the crisis having had its most immediate effect on those sectors (manufacturing and construction) where the workforce is particularly male-dominated.

The findings of this chapter also point to data and research methodology issues: Further research in this area may require secondary analysis of one or more longitudinal data sets – underlining the more general problem of seeking to establish reliable labour market indicators for those people whose employment problems are clearly serious, but at the same time difficult to quantify and monitor over time in a comparable way, especially through the downs and ups of a recession.

2.2 Labour market challenges for the future

The analysis of developments since the onset of the crisis, coupled with forecasts made by various public and private bodies, provide some indications of what may lie ahead for Europe's labour markets.

In this uncertain context, however, it is possible to identify four key factors that will significantly determine the kind of labour market challenges that are likely to confront European and national policy makers, and the European Social Fund in particular, in the coming years:

- The **timing and speed of the economic recovery** from now onwards – about which there is considerably short-run uncertainty, no clear view concerning medium to long run prospects, and considerable heterogeneity across countries
- The eventual consequence of the **structural changes** that have been taking place in Europe's economies and labour markets since the 2004/2007 enlargements of the Union, and the extent to which restructuring and integration will continue, and will have been affected by the experience of the crisis
- The changes in **the employment status of employees** and the way in which employers react to worsening labour market conditions, including whether the social partners and Member State governments continue to pursue balanced flexicurity principles, or whether divergent responses across Member States persist and even strengthen.
- The wider consequences of high levels of short-term unemployment developing into more entrenched **long-term structural unemployment** that reduces labour force capacity, with consequences for achieving EU 2020 employment and social objectives.

2.2.1 Forecasts for the short term future

At the moment²⁹ it is clear that all short term economic forecasts – whether from the EU, OECD or other bodies - agree that growth in the EU is likely to be well under 1% for 2012, and that there is a risk of growth becoming negative. On this basis, unemployment in the EU is almost certain to continue to rise, although to what extent remains highly uncertain.

In order to obtain some quantitative indication of what could happen to employment and unemployment, as and when economic confidence returns, one option is to look to the most recent experience, namely what happened in the period before, and after, the dotcom crash in 2001/2002. Given that this crash pre-dated the 2004 and 2007 enlargements of the Union to include the Member States of Central and Eastern Europe and others, this has been done just for EU-15 Member States.

In the period before the 2001/2002 dotcom crash, EU-15 experienced relatively high GDP growth - almost 3% a year on average – resulting in a reduction in the rate of unemployment from 11% in 1995 to 7.4% in 2001. In the post-dotcom recovery period from 2003 onwards, economic growth was less strong than it had been earlier – of the order of 2% a year – and, while the unemployment rate fell, it stayed at around 8% until 2007, when it dropped to 7% - the lowest rate achieved in the past two decades.

As the financial-crisis-induced recession hit, however, GDP growth began to fall - reaching a low point of -4.4% in 2009 – although growth became positive again in 2010. Nevertheless, since 2008, unemployment has remained close to 10% in EU-15.

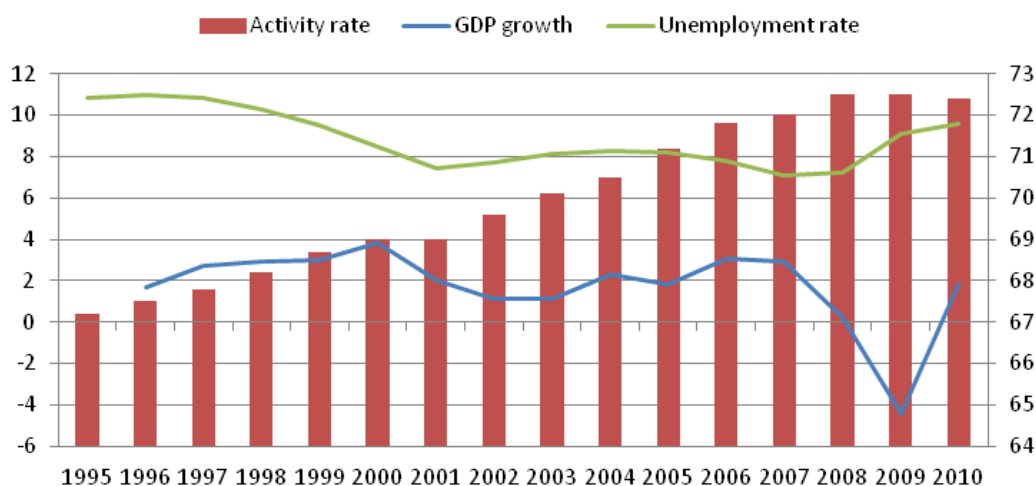
Following their entry into the EU, labour market trends in the EU-12 Member States were less favourable than in the past, with many countries experiencing job-less growth, despite relatively high GDP growth rates, due to general improvements in productivity in this catching-up phase. As a result there was little in the way of increased employment or reduced unemployment.

Only in the years immediately before the current crisis did their labour market situations begin to improve. Moreover, because of their different economic situations, the crisis hit these countries in quite different ways with, for example, the Baltic States facing some of the most severe recessions in the EU, while Poland even managed to maintain positive GDP growth rates.

In the light of this experience, it is useful to look more generally at the relationship between GDP growth and employment in order to gauge to what extent, and with what speed, the eventual economic recovery will revive employment in the EU.

²⁹ November 2011

Figure 19: Activity rate, unemployment rate and GDP growth for EU-15



Source: Eurostat

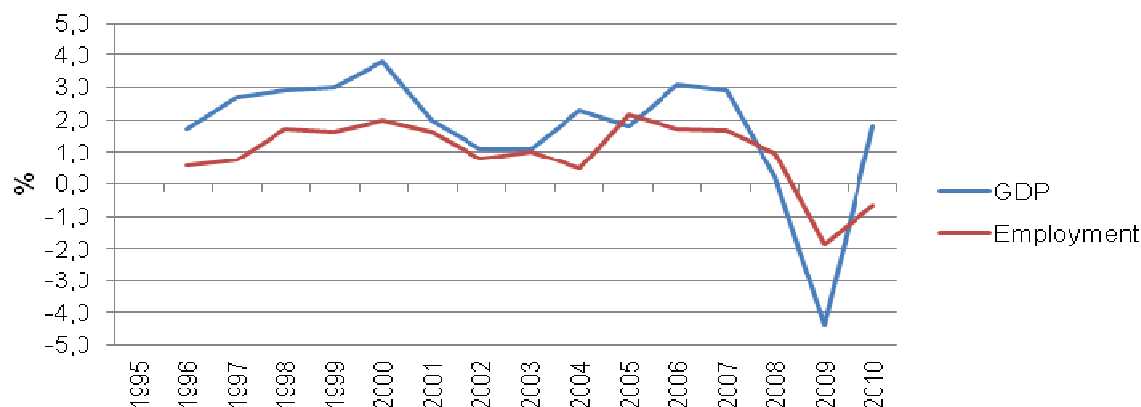
Between the rate of growth of GDP and changes in the unemployment rates there is, of course, a generally negative correlation. However the relationship is not one-to-one: empirical econometric results for the EU over recent years suggest that, for each percentage point that GDP increases, the unemployment rate declines by only about 1/3 percentage points. Moreover that GDP growth must be above a threshold of about 1.5% before unemployment rates start to decline.

Though these relationships can obviously differ to some degree between Member States and over time, they suggest that, even under the optimistic assumption that GDP growth in EU-15 would reach the pre-dotcom crisis level of 3% again, the low-point unemployment rate of 7% that was achieved in 2007 is only likely to be reached after several years. Moreover, for countries that experienced the most dramatic increases in unemployment rates (such as Ireland, Spain, and the Baltic States), the period could be very long, even under favourable assumptions.

An analogous relationship holds between the growth of GDP and employment although, as Figure 20 shows, in periods of relatively strong GDP growth, the rate of growth of GDP is roughly 1-1.5 pp point higher than the growth in employment while, in periods when GDP growth declines, the growth rates of GDP and employment are much closer.

In the crisis period 2008-2010, however, GDP growth fell much more than employment growth due to the various policy measures that were taken to 'protect' jobs, including the use of short-time and part-time working schemes by firms. Moreover, it can also be noted that, as happened in the post-dotcom recover period 2003-2005, employment growth in 2010 lagged behind GDP growth.

Figure 20: GDP and employment growth rates in EU-15



Source: Eurostat, own calculations

This relationship between GDP growth and employment growth is volatile in the short run but, over time, the empirical findings show that, in general, GDP growth must reach 1% before employment growth becomes positive, and that for each percentage point higher GDP growth, employment growth increases by 0.4 percentage points.

Using this result, and assuming that GDP growth was only 1% for some time, then it is estimated that it could take until 2016 or 2017 to return to pre-crisis levels, unless there were very significant reductions in average working hours.

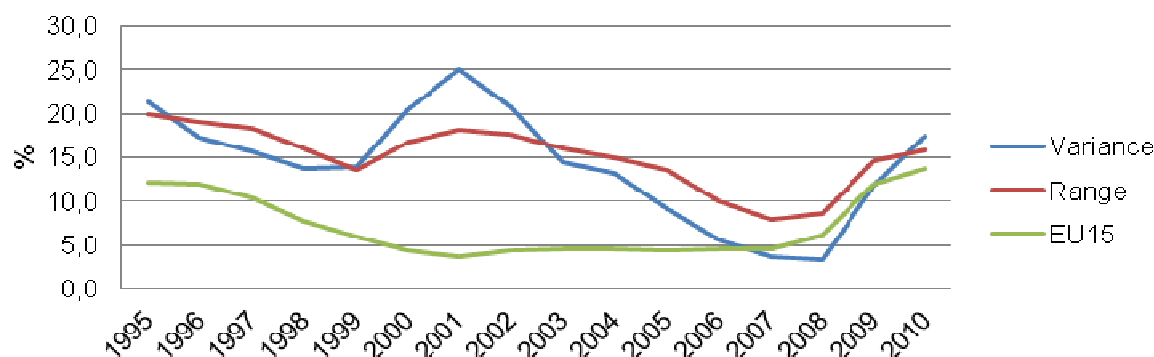
A further aspect that should be noted is the heterogeneous development across EU27 Member States, not just with respect to economic indicators such as GDP growth or debt ratios, as currently being addressed in the public debate, but also with respect to labour market outcomes.

Figure 21 shows the EU-15 unemployment rate alongside the variance of unemployment rates across countries and the range between countries (i.e. the maximum unemployment rate minus the minimum unemployment rate). As can be seen, these were declining over the period 1995-1999, but with heterogeneity again rising in some Eastern European countries in the 1990s.

Indicators of range and variance subsequently declined quite strongly until 2007/2008, with the range dropping from 18% to 8%, and an even greater decline in the variance – with both being particularly driven by reduced unemployment rates in Spain in the 1990s, and improvements in the labour market situation in the Eastern European countries since about 2000.

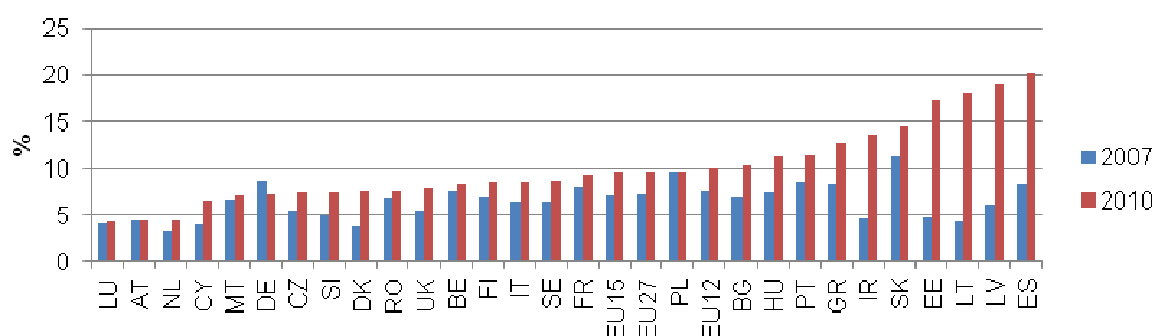
However, in the course of the crisis, diversity again increased, with the unemployment rates indicating that labour market performance is becoming more diverse across the Member States of EU-27. While unemployment rates in 2007 ranged from 3-4% to 12%, the range now goes from 3-4 % (in countries which more or less retained their pre-crisis unemployment rates) up to 20% in Spain, and more than 15% in the Baltic countries.

Figure 21: Unemployment rate heterogeneity in EU-27



Source: Eurostat, own calculations

Figure 22: Unemployment rates in EU-27, 2007 and 2010



Source: Eurostat, own calculations

2.2.2 Structural changes in MS economies and labour markets

Two major shifts in the EU labour market since the recession began have been well-recognised and documented: the concentration of major jobs losses in two key sectors – construction and manufacturing – and the related changes in the relative labour market fortunes of men and women, with most of the job losses initially affecting men, given that employment in these two sectors is male-dominated. Only later on the impacts of the crisis were to be felt more by women, young persons and vulnerable groups.

Two other changes have also been apparent, however, both concerning age groups. The first is that young people – traditionally vulnerable to cyclical down turns – have been particularly badly hit, resulting in average unemployment rates of 20%. The second is that workers aged over 55 did not only progressively increase their levels and rates of employment throughout the past decade to 46% in EU-15 (48% in EU-12), but also managed to continue this trend during the recession.

2.2.3 Quality of jobs

Less well recognised, however, is what has been happening to the quality of jobs – measured not so much by a variety of qualitative indicators or proxies, as in the European Employment Strategy, but by the more general economic measure of level of pay, as widely used in North America.

In this respect, research undertaken by and for Eurofound over the past 5 years has looked at changes in the overall structure of jobs – with a job defined as an occupation in a sector, and using data on level of pay (grouped in quintiles) as a measure of job quality (with educational attainment available as a complementary ranking criterion).

This analytical work enables two basic questions to be addressed concerning recent labour market developments:

- To what extent has the growth of employment in recent years been in high, medium or low paid jobs, and in which areas of the economy have these changes taken place?
- Has the crisis affected these developments, and are any changes likely to be permanent, or to be reversed, as recovery takes place?

Findings of a study of the earlier period have already been published, but the report *Employment and Social Developments in Europe 2011* ³⁰ contains a detailed analysis of developments over the crisis period, together with a comparison of the earlier period, in terms of the changing structure of the European labour market. Some of the most useful empirical conclusions for our purposes result from the comparisons between changes during the recession (between 2008 and 2010) and the patterns of job expansion between 1998 and 2007.

Until the recession struck, the EU had experienced strong overall employment growth, as outlined above, but with appreciably higher employment growth in the top (fifth) wage quintile, followed by the fourth quintile. However, there was also an appreciable growth in the bottom quintile, with only limited employment growth in the second and third quintiles.

This pattern is characterised by the authors as ‘upgrading’ with some ‘polarisation’. Thus, compared to the strong job growth in the US a decade earlier, growth in the EU in this period was somewhat less polarised, but with top quality jobs showing more growth than jobs at the bottom.

The authors also note that, while the recession period between 2008 and 2010 was one of employment contraction rather than expansion, the structural changes exhibit a broadly similar pattern, but with the crisis period recording some increase of previous trends.

In effect, in the period of job growth, the polarisation tendency with respect to the two ends of the wage distribution scale was accounted for largely by the growth of services jobs. In the recession, on the other hand, it was the massive job losses in manufacturing and construction that brought about a significant collapse in the number of middle-ranking jobs – sometimes known as ‘hollowing out the middle’.

³⁰ European Commission (2011a), *Employment and Social Developments in Europe 2011*, social Europe, DG Employment, social affairs and equal opportunities, Unit D1, 2010 available at: <http://ec.europa.eu/social/main.jsp?langId=en&catId=89&newsId=1137&furtherNews=yes>

It should be noted, however, there are generally some exceptions within these broad generalisations about developments in jobs (occupations in sectors). For example, while most of the jobs lost in manufacturing were in the middle quintile pay group in low-technology areas of manufacturing (such as food processing and textiles), some of the decline in this middle quintile was also seen in high-technology sectors in France, Slovakia, Slovenia and Sweden, for example.

The construction sector also accounted for an important part of the change in the overall balance of jobs. Just as the boom in construction had expanded the middle-ranking quintiles in the preceding decade, the collapse of construction in many countries accentuates the decline of the middle compared with the long-term trend (noting that construction earnings are relatively high compared with the educational attainment of the job holders).

A most notable feature of this recession, however, has been the persistence of job growth in the top quintile, although not in all Member States. Thus, even in Ireland and Spain, two of the countries experiencing the biggest drop in employment during the recession, the number of jobs in the top quintile increased. As in the preceding decade, however, job growth here was due mainly to an increase in what are called 'knowledge intensive services', which include both public services (mainly in education) and private services (business services).

At the same time, the decline in the number of lowest-paid jobs has been comparatively modest in the recession, with other factors contributing to falling employment in the middle of the job-wage distribution, such as the polarised distribution of part-time and temporary work. In addition, shifts in the gender composition of the labour force have been polarising, with women under-represented in the middle of the job-wage distribution and men, who suffered the greater employment losses, over-represented.

Perhaps the most important long-run factor behind the 'disappearing middle' in the distribution of jobs is the polarisation of services sector employment, with employment being generated at the top and the bottom of the employment structure, but comparatively little in middle-ranking jobs. This suggests that services cannot necessarily be relied upon to fill the gap created by the decline in middle-ranking manufacturing jobs, as commonly thought. In fact the continued growth of services seems more likely to engender greater wage inequality, thereby limiting career mobility possibilities for those in lower-end employment, and exacerbating problems of job-skills mismatch and over-qualification.

Women had benefited most from employment growth during the preceding decade, and also fared better than men during the early stages of the recession given that the employment lost in construction and manufacturing was largely male-dominated. In fact, during that period, the few sources of (generally high quality) employment growth were in female-dominated jobs in health and education. Overall, the authors estimate that four 'male' jobs were lost for every one 'female' job during this phase of the crisis, though this gender imbalance has tended to give way to a more equal pattern of loss in the later stages of the recession and during the initial if hesitant recovery.

The recession has also seen changes in the age profile of the European workforce, with one of the most striking features being the significant increase in employment among those aged between 50 and 64 years, as indicated above. However, this research also reveals that, while the employment of older workers has increased in all wage quintiles, it has been mainly at each end, but particularly at the top. Younger workers, on the other hand, have been the most exposed in the crisis, and their numbers have been declining in all quintiles.

2.2.4 Employment status and relationships and the prospects for flexicurity

In terms of changes in employment status, much of the overall fall in temporary employment in the EU as a whole was due to developments in the Spanish construction sector. When Spain is taken out of the picture, temporary work actually grew during the recession, and especially rapidly since 2009.

Part-time work has also increased in all quintiles, with the greatest growth in the top and bottom quintiles. The most notable fact, however, is that the number of additional part-time jobs created has been shared equally between men and women, in contrast to the strong female bias in previously existing part-time jobs. Moreover, the new part-time employment of men has been primarily in lower-quintile jobs in agriculture, food and beverages, and in building and landscape services, while over two thirds of the growth in female part-time employment in the same period has been in higher-paid jobs in education, health and professional services.

In terms of foreign workers, there has been some reduction in the numbers employed in the EU-27. This has been heavily influenced by the pre-crisis boom in the construction sector in some Member States. At the same time, however, we can also see high rates of growth in the employment of non-native workers in Belgium, Cyprus, Italy and Sweden, particularly in lower paid jobs, notably so in Italy.

Some future developments appear more predictable than others. For example, many Member State governments are seeking to restructure activities and employment in the public sector as part of their efforts to reduce public expenditure, while the prospects for private sector developments depend largely on the recovery and on the length of lags before changes in output are reflected in changes in employment.

Overall the findings of the Eurofound research suggest that the recession has already changed the pattern of job growth compared with the decade before – moving, in the words of the authors, from a situation of ‘upgrading’ with some ‘polarisation’ to one of stronger ‘polarisation’ and some ‘upgrading’. As most of the past growth at the top of the income structure has been linked to the development of public-sector jobs, the implementation of any restructuring of such employment is likely to have a significant effect, including possible in terms of gender balance.

These trends, and the extensive use of short-time working in some sectors during the early part of the recession, suggest that the typical, average, employment relationship could move towards a looser relationship between employer and employee in future, especially if the difficult labour market conditions persist

2.2.5 Long term unemployment and labour market hysteresis

Another important factor concerning the timing and speed of the economic development and the future path of structural labour market developments is the extent to which low rates of economic growth and limited new employment possibilities are transforming short-term, cyclical, unemployment into long-term structural unemployment.

This process is generally seen by analysts and policy makers as resulting in a progressive loss of real workforce capacity and earning power among those concerned (whether they have been in employment in the past but lost their jobs, or have never managed to get an established place in the labour market) due not only to a loss of skills, knowledge and practice, but also to a loss of work habits and motivation. This then, in turn, translates into lower rates of productivity growth, reduced competitiveness, and a general reduction in innovative capacity.

This phenomenon of labour market 'hysteresis' is well documented in the research literature, and it is recognised that, the longer the recession lasts, the more it risks becoming an obstacle to the EU returning to the levels of employment it had before the onset of the crisis, let alone achieving its wider Lisbon or Europe 2020 goals.

While the rate of **long-term unemployment** bottomed out at 2.5% in mid-2008 just before the crisis hit, it has risen strongly since, reaching over 4% in the first quarter of 2011, with those who are long-term unemployed now accounting for 42% of total unemployment, as against 30% two years ago.

The increased risk of long-term unemployed may have had more severe effects on the most vulnerable groups, including young people, migrants and the low-skilled. On the other hand, increased unemployment and long term unemployment have not impacted on inactivity in the EU as a whole, although there have been divergent developments in inactivity rates across Member States and for particular groups.

In general, while 20% of inactive people do want to work, the share of inactive people who would like to work, but do **not** seek employment in practice, has shown a small increase from 15% to over 16% between the, pre-crisis, first quarter of 2008 and the same quarter in 2011.

In terms of the **gender** impact, care is needed in reviewing the evidence and predicting the consequences. As noted earlier, the crisis initially impacted primarily on male employment. As a result, the increase in unemployment since the onset of the crisis has been made up of 60% men and 40% women, with 2.7m more unemployed women and 3.9m more unemployed men in the middle of 2011 compared with March 2008.

However, as the crisis has persisted and spread from male-dominated manufacturing to the more female-dominated service sectors, the relative situation of women has deteriorated. In the second quarter of 2011, unemployment of men actually fell by some 50,000, while that of women increased by 120,000.

In terms of long-term unemployment, the rate for women has risen from less than 3% in 2008 to 4.1% in the first quarter of 2011, compared with comparable data for men of 2.5% to 4.2%. Moreover, the recent unfavourable developments in unemployment for women clearly risks producing a further worsening of long-term unemployment.

The **precariousness of young people** is equally worrying, as they are more affected than other age groups by part-time work – including involuntary – and temporary work,

if employed at all. The overall EU unemployment rate for young people is over 20%. In terms of numbers, unemployment of young people has eased somewhat in recent months but, at over 5m, it is still up by more than 25% compared with the pre-crisis period of 2008. As with adult unemployment, young men were most affected initially, but since the beginning of 2010 young women have borne the brunt of the increase.

While there are general concerns that a period of unemployment in early adulthood has a lasting negative effect on both future employment and earnings, the greatest concern is with the NEETs – those neither in education or training, nor in employment. In the first quarter of 2011 this group accounted for 13% of young people – a modest increase on the 11% registered in 2008, but merely demonstrating that this is a profound structural labour market and social problem that was deeply entrenched long before the recession struck.

In terms of **other vulnerable groups**, their unemployment rates and long-term unemployment rates have also risen and remain very high. The unemployment rate for non-EU nationals is more than twice the national average, and while the figures for third country migrants have improved a little recently, they remain very high, while the unemployment rates of the low-skilled have not only remained high, but also increased, as has the gap in the unemployment rate of high and low skilled workers.

The overall assessment in DG EMPL's own EU Employment and Social Situation Quarterly Review of September 2011 is that 'While the sharp deterioration in the EU labour market due to the recent down turn has affected nearly all segments of the population, the cumulative impact is particularly severe on migrants and the low-skilled, high and until recently rising unemployment, long term unemployment and inactivity may make these groups particularly vulnerable to poverty.

We see no evidence that contradicts this assessment of the current situation, and no evidence that either a recovery or the on-going structure changes in the EU's economy or labour markets will do much to improve the relative positions of those groups in the short-run.

2.2.6 The uncertainty of the future

Despite the best efforts of analysts and forecasters, we have to recognise that the **timing of the economic recovery** is uncertain, with precise turning points very difficult to predict.

The late German/American economist Rudi Dornbusch is often quoted as saying: 'In economics, things take longer to happen than you think they will, and then they happen faster than you thought they could'. These wise words reflect the fact that two of the key economic factors that drive the economy – the decisions of consumers and companies to spend and invest – depend on how confident the parties concerned are regarding the future. And experience suggests that they tend to move somewhat unpredictably between (often excessive) pessimism and optimism, and will be influenced by international as well as European developments. Nevertheless, it is difficult to envisage any dramatic turnaround in the short-run.

In terms of the **impact of economic developments on the labour market**, some basic relationships will continue to hold – employment will grow more slowly than GDP over time because of the growth in productivity – but the exact consequences for the labour market and unemployment will depend on many factors, not least how long it

takes to integrate, or re-integrate, those who are effectively excluded from the labour market for long periods during a recession, including many young people.

Moreover, the labour market is, itself, undergoing a process of change in a number of ways; in terms of the continuing reductions in employment in manufacturing; the continued growth of jobs in both highly sophisticated and more basic services; the increased participation of women, notably in better quality jobs; the ageing of the workforce with increased participation of older workers.

Likewise the changing nature of **employment relationships** – notably with the increased loosening of such relationships through temporary work contracts, part-time work for certain groups, as mentioned – could also prove significant in the recovery phase and beyond. Equally the term ‘flexicurity’ – used previously to refer primarily to the relationship between labour market regulation and social security support – may have taken on a much wider meaning with the adoption of well organised, anti-cyclical, systems of temporary short-time working by companies (notably in Germany and elsewhere).

In contrast, however, the labour market and industrial relations consequences of the use of temporary work contracts for essentially permanent jobs became all too apparent in the recession in some countries, once again raising concern about the cost of segmented labour markets in Europe, whether in particular countries, sectors or occupations.

In terms of **long term unemployment** it is clear that those in the weakest position in the labour market in the pre-crisis period have suffered the most as a result of the crisis. This includes somewhat different groups, however – migrant workers, whether from non-EU Member States or from other Member States; low-skilled workers; and young people. In all cases, they have been most badly affected by the crisis.

In so far as the evidence suggests otherwise – the position of the NEETs has worsened less than average – this is undoubtedly because it represents a pre-crisis situation that was already so bad that it was not possible for it to get very much worse.

In terms of **gender**, the evidence is mixed in that men were badly affected in the early stages of the crisis and remain somewhat more affected than women even now, but the recent evidence is of a deteriorating position of women that is likely to continue.

In terms of the implications for the **European Social Fund** it has to be recognised that, throughout its existence, it has had to respond to broad structural developments as well the specific, cyclical, features of each crisis, while continuing to address its core policy responsibility, namely to assist the Member States to attain their employment goals by increasing the efficiency of their labour markets through a range of policies and measures to improve skills levels, increase adaptability and support institutional reforms.

However the current confluence of cyclical uncertainty, structural shifts, changing relationships between employer and employee and the growth of persistent structural unemployment, is particularly challenging. In one sense little has changed from the past – the recession has simply brought long-standing issues into high relief. However, the scale of the challenge has increased enormously, as have the uncertainties regarding the timing and pace of the eventual economic recovery.

3 Labour market policy responses

Having established a broad picture of the impact of the crisis on the labour market, and the possible implications for labour market policies in the future, this chapter summarises the main activities at European and national level in response to the crisis. The chapter provides a broad explanation of the labour market context and how different policy measures contribute to short term (coherence) and long term employment (rationality) developments. The chapter summarizes actions taken by Member States during the crisis based on expert interviews.

3.1 Labour market issues and policies: the context

Labour market measures are conventionally judged in terms of their contribution to achieving 'full employment', which is taken to mean the highest level of employment that can be achieved without this leading to higher or accelerating rates of inflation³¹.

Unemployment problems in the way of achieving full employment are generally categorised as structural, cyclical or frictional where:

- Structural unemployment is due to a country or region's pattern or structure of output (what it is capable of producing at a particular point in time) being out of line with the types of goods and services in demand in the market or a mismatch between qualifications with labour supply and demand.
- Cyclical unemployment is due to insufficient overall demand in the economy – the typical situation that arises during a recession or economic downturn, whatever the causes.
- Frictional unemployment is basically that which results from people often being temporarily unemployed when they change jobs or look to find another.

In this respect it is also recognised that unemployment problems can evolve – frictional unemployment can become cyclical, and cyclical become structural – as the experience of being unemployed reduces the capacity, motivation and opportunity of those affected to take up new employment.

For the EU the 'full employment' goal was effectively defined in 2000 in the Lisbon strategy as having 70% of the population of working age in work³². Some EU Member States have been above this for some time, notably the Nordics, but also the UK and the Netherlands, although the last two countries have a particularly high proportion of part-time workers.

Employment rates adjusted to take account of the proportion of part-time workers (known as full-time equivalent (FTE) employment rates) are in some respects recognised as more accurate for comparative purposes³³. These currently average around 60% for the EU as a whole. As an indication, the FTE employment rates for the largest MSs are: 61% for DE and UK, 60% for FR, 56% ES and 54% IT. Note that, in particular, the FTE rate in the Netherlands is 59% compared with a rate of around 78% when no account is taken of part-time working.

³¹ Which full employment test criteria are used depends on whose theory/model is used – for example, Nobel prize economics laureates Pissarides (2010), Krugman (2008), Phelps (2006), Stiglitz (2001) would, on the basis of their writings, offer somewhat different methods and results

³² A rate that was actually achieved in 2007/8 if measured in terms of 20-64 year olds, but which fell short by 4% points if measured in terms of 16-64 year olds (the original target)

³³ Especially as they also take into account inactive parts of the population and thus include a measure for social inclusion

Labour market policies can help tackle these problems in various ways and in varying degrees. Policy measures are commonly categorised as follows:

- Active measures covering activities that help or encourage people to get into employment or avoid them being inactive or unemployed. These focus particularly on training and vocational education but can also include recruitment subsidies or incentives – for employers or employees.
- Active labour market measures include also mobility measures which are principally focused on improving job placement and providing career guidance services as well as some support for long distance job moves.
- Passive measures are mainly related to income support, including unemployment benefits and wider forms of social security support.

Structural economic and labour market problems generally need to be addressed by a range of structural adjustment measures including, in terms of the labour market, active measures to support education and training and retraining, as well as actions to support mobility – helping people change jobs, move to different sectors, or even moving to different geographical areas.

Such measures are generally viewed positively by policy makers because they are seen as contributing directly to the creation of employment, and because they tend to reduce dependence on passive income support measures in so far as they reduce the number of people who are unable to find a job i.e. unemployed or inactive.

The above approach works fine in periods of ‘full employment’ where the policy emphasis is on increasing employability and adaptability and, ultimately, productivity. However, when a recession hits – especially a major, far-reaching recession of the kind recently experienced – the criteria of what is ‘good’ or ‘bad’ in policy terms becomes much less clear-cut.

If there is a recession, then employment and unemployment problems cannot just be addressed by structural measures. A recession creates a different kind of challenge requiring economic policy action to sustain and increase demand, as well as labour market action (as currently being undertaken across the EU and much of the rest of the developed world).

Hence, when unemployment rises during a recession, more policy attention has to be given to passive measures and income support in order to avoid increased poverty as well as to maintain levels of demand in the economy. In practice, it normally requires a **combination of active and passive measures** in order to be really effective in raising employment levels in both ‘good’ and ‘bad’ economic conditions. ‘Making work pay’ – i.e. making sure people are better off working than not working – is a frequently heard argument in favour of minimising passive support. However, since no EU Member State wants to see its citizens (especially children) fall into extreme poverty, there is almost always some form of income support available for individuals and families who are without work for whatever reason (being disabled, sick, “idle”, having children to care for, and so on). In practice the ‘smart’ policy approach is to combine active and passive measures in ways that encourage people into employment, without simply threatening them with extreme poverty.

The nature, scope and effect of the national labour market policies introduced in response to the crisis vary greatly across Member States. The difference between active labour market measures and passive labour market measures will be drawn along the categories of the labour market policy database³⁴ using the distinction between:

Active labour market policy measures as a response to the crisis by:

- a) maintaining employment and creating jobs,
- b) upgrading skills,
- c) increasing access to employment and promoting mobility.

Passive labour market policy measures as a response to the crisis through:

- d) unemployment benefits, out-of work assistance and early retirement benefits.

However, there is no absolutely clear distinction between passive and active measures. Active labour market policy measures (ALMPs) for the unemployed usually include unemployment benefits at least at the same level as if they were “passive” recipients³⁵. In other words, ALMPs represent an additional level of ‘activation’ on top of existing passive measures.

Another important dimension of the linkage between active and passive measures is the strong activation role through modifications of passive benefits. In the evaluation literature this seems to emerge as one of the most cost-effective (if sometimes controversial) measures in increasing re-employment. DK for instance has made the benefits reduce over time, shortened the period of eligibility for unemployment benefit, and set verifiable job search activities as condition to receive benefits. It needs to be stated, however, that such a mutual obligation approach is more likely to succeed in more positive labour market conditions, where the main focus is on matching people to vacancies, rather than trying to find sufficient vacant jobs. In the crisis period the main bottleneck for active measures has been rapidly rising unemployment³⁶.

3.2 Labour market policy responses to the crisis

The recent changes in active and passive labour market measures are based on European and national policy changes triggered by the financial crisis. The European Commission in this respect launched the European Economic Recovery Plan while Member States issued their complementary Recovery Packages.

The share of active and passive labour market measures in relation to national GDP varies between Member States. Further differences amongst EU-27 are economic and financial policy measures (austerity or fiscal stimulus). The financial situation of the Member States reflected the focus on labour market measures and the allocation of budget shares to active and passive interventions. According to the various economic

³⁴ Eurostat (2006), Labour market policy database, Methodology, Revision of June 2006, Methods and Nomenclatures, 2006 Edition, pp. 11, 13, 18

³⁵ One example of the difficult distinction between active and passive measures is the short term working schemes. Eurofound (2010) states that Eurostat counts the German “Kurzarbeit” under the heading “Out of work income maintenance and support” (i.e. a passive measure), whereas the German Federal Employment Agency files them under ALMP expenditures (still this fact is not relevant to data used in this study, as the latest available figures are from 2008 and they do not include the crisis-related increase in STW).

³⁶ Eurofound (2010): Financing and operating active labour market programmes during the crisis. Background paper.

situations, different Member States implemented different sets of crisis related actions. However, although different, the various interventions are of similar kind.

3.2.1 European Economic Recovery Plan

In 2008, the Commission and the EU Heads of States agreed to a coordinated response³⁷ to the crisis, and the Commission outlined a common approach in the **European Economic Recovery Plan** that was approved by the Council in December 2008.

The Plan based on two main pillars:

- The first pillar was a major injection of purchasing power into the economy, to boost demand and stimulate confidence. The Commission proposed that, as a matter of urgency, Member States and the EU agree to an immediate budgetary injection amounting to € 200 billion (1.5% of GDP), to boost demand in full respect of the Stability and Growth Pact.
- The second pillar rested on the need to direct short-term actions to reinforce Europe's competitiveness in the long term. The Plan set out a comprehensive programme to direct action to "smart" investment. Smart investment means investing in the right skills for tomorrow's needs; investing in energy efficiency to create jobs and save energy; investing in clean technologies to boost sectors like construction and automobiles in the low-carbon markets of the future; and investing in infrastructure and inter-connection to promote efficiency and innovation.

The fundamental principle of this Plan is solidarity and social justice. In times of hardship, action is geared to helping those most in need to work, to protect jobs through action on social charges, to immediately address the long-term job prospect of those losing their jobs, through the European Globalisation Adjustment Fund and an accelerated European Social Fund.³⁸

3.2.2 National Recovery Packages

All Member States quickly introduced recovery packages in order to counter the effects of the crisis. In general, national governments proposed recovery packages and anti-crisis measures as early as in late 2008 or early 2009 and adopted them in the first quarter of 2009. In some Member States these packages amounted to 2% - 4% of GDP (CZ, DE, AT, SI, FI, SE, PL), while other MSs have introduced less significant packages (SK³⁹, IT, PT, FR, CY, UK, ES, MT)⁴⁰ and in some cases austerity measures have been implemented (BG, EE, GR, LV, LT, HU, RO). It should be noted that some MSs (DK, LU, BE, NL, IE) already had a significant share of LMP in GDP before the crisis unfolded.

A significant distinction can be drawn between those states where governments have introduced austerity packages and focused on the economy and financial stability, and

³⁷ European Commission (2008), From financial crisis to recovery: A European Framework for action", COM 706 (2008) final, Brussels 2008

³⁸ European Commission (2008), A European Economic Recovery Plan, COM(2008) 800 final, Brussels 2008

³⁹ Ministry of Finance of The Slovak Republic (2011), Stability Programme of the Slovak Republic for 2011 – 2014, April 2011, p. 9

⁴⁰ European Commission (2009), Economic Recovery Packages in EU Member States Compilation of Briefing Papers, Policy Department Economic and Scientific Policy, Brussels 2009, p. 2

those states where the governments concentrated immediately on the labour market and support for vulnerable groups. This is even more relevant for those Member States which received bail-outs due to their national economic difficulties.

While LV and HU received bail-outs already in 2008, GR, IE and RO received bail-outs in 2010 from the EU and the International Monetary Fund (IMF). In December 2010 the Irish government accepted an € 85bn bail-out. Consequently, in order to decrease the important budget deficit, government spending has been slashed by €4bn in 2011 with all public service pay cut by at least 5% and reduced social welfare.

In the case of GR, where the budget deficit was 13.6% of the GDP, radical spending cuts and a major increase in tax revenue were introduced by the government in parallel to accepting a € 110bn bail-out⁴¹ from the EU and the IMF. The government introduced radical measures designed to decrease public spending and help public finances recover. The measures include a rise in the average retirement age, a freeze of public sector salaries and pensions, an increase in VAT (from 19% to 23%) and other taxes⁴².

Similarly, given the very difficult economic situation in PT, ES and the Baltic States where employment fell dramatically, the respective governments introduced various austerity measures in 2010 and 2011. PT has received external financial support while ES tried to tackle the crisis with foreign investment support. Likewise, public spending has been cut significantly in the UK, FR, the NL and IT in 2011.

Consequently, in the Member States where national governments had significant budget deficits, austerity measures were introduced, public spending was increasingly limited, and the expenditures related to labour market measures varied considerably.

3.2.3 Labour market policy measure expenditures

In 2008 Member States spent €201bn on labour market policy measures⁴³. This accounted for 2.2% of GDP (2008), with labour market services (mainly through PES and other institutions) and ALMP amounting to one third and passive support to approximately two thirds of the expenditure (see Table 1). There are huge differences in the share of GDP spent on labour market policies in different countries, as illustrated in Figure 23. Expenditures range from 3%-4% (in BE, DK, IE, ES) to around 0.5% of GDP (in RO, MT, CY, CZ, BG). In general EU-12 have lower spending in labour market policies, as unemployment benefit systems are much less developed. Poland is an exception, with ALMP measures at the expenditure level of EU-15.

Despite the financial constraints prevailing in many Member States almost all of them have substantially increased their labour market budget. In absolute terms labour market expenditures grew from €201bn in 2008 to €256bn in 2009, i.e. by 28%. For the EU average this meant that the share of labour market expenditure in GDP rose by nearly 0.6 pp. with 80% of the increase related to income support (PLMP), 13% to ALMP and 7% to increase for services (see Table 1).

⁴¹ Further bail-outs have, of course, been agreed since the end of 2010

⁴² BBC News (2011), "EU austerity drive country by country", 6/04/2011, BBC online <<http://www.bbc.co.uk/news/10162176>>

⁴³ These and the following figures rely on the labour market statistics of Eurostat.

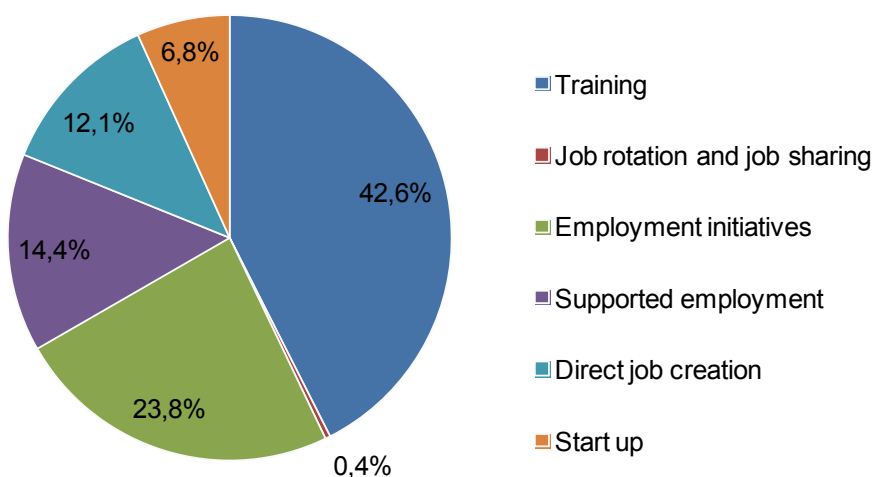
Table 1: Public expenditure on labour market policy measures by type of measure in 2008 and 2009

		Mio € 2008	Mio € 2009	% of total LMP 2009	% 2008- 09	distribution of increase 2009
LM Service		22,973	27,020	10.5%	18%	7%
ALMP measures		57,896	64,914	25.3%	12%	13%
...from that	<i>Training</i>	22,191	27,622	10.8%	24%	10%
	<i>Job rotation and job sharing</i>	249	235	0.1%	-6%	0%
	<i>Employment initiatives</i>	14,493	15,425	6.0%	6%	2%
	<i>Supported employment</i>	9,166	9,371	3.7%	2%	0%
	<i>Direct job creation</i>	7,715	7,875	3.1%	2%	0%
	<i>Start up</i>	4,081	4,386	1.7%	7%	1%
Income support		119,782	164,379	64.1%	37%	80%
Total		200,651	256,312	100.0%	28%	100%

Source: Eurostat 2009

ALMP amounted to €64.9bn in 2009, an increase of 12% over 2008, with training being the largest component (43%), followed by employment initiatives (24%), and support for employment and direct job creation (14% and 12% respectively). Compared with 2008, the ALMP budget grew by 12%. Most of the increase was related to training, whilst employment initiatives and direct job creation grew by 6% and 7% respectively. By contrast, spending on job rotation was reduced (see Figure 23).

Figure 23: ALMP financial allocation by type of instrument in 2009



Source: Eurostat 2009

This general picture is much more differentiated at Member State level. First of all the volume of LMP varies largely between Member States. In order to make figures comparable, active and passive labour market measures as well as expenditures for services are related to GDP (all based on EUROSTAT data for 2009) and showing that an average of about 2.2% of the GDP is spent for LMP.

Expenditure for labour market policies in EU-15 are above this average (except GR and UK) and in most EU-12 far below this level (see Figure 24) with RO, BG, CZ and MT having spending levels around half a percent of GDP. The position of ALMP (the red bar in Figure 24) is quite high in BE, DK, NL, DE, FR, AT, FI, SE, IE, ES, PT and especially in PL. On the other hand most of EU-12 (with the exception of PL), UK, and to some extent also IT, have comparatively low shares of ALMP (related to the GDP).

If we focus on expenditure for measures that can be co-financed by the ESF (which are in principle the ALMP i.e. the red part of Figure 24), EUROSTAT data provide some insight into what happened at the onset of the crisis. From 2008 to 2009 Member States increased expenditure for ALMP substantially – between 2008 and 2009 the funds spent for ALMP went up by 13% - from 57.9 to 64.9 bn euro, although with some marked differences. Most of the countries with high volumes of ALMP also increased the expenditures for ALMP still further (especially DE, FR, PL). In ES they grew slightly, and in IT they were slightly reduced.

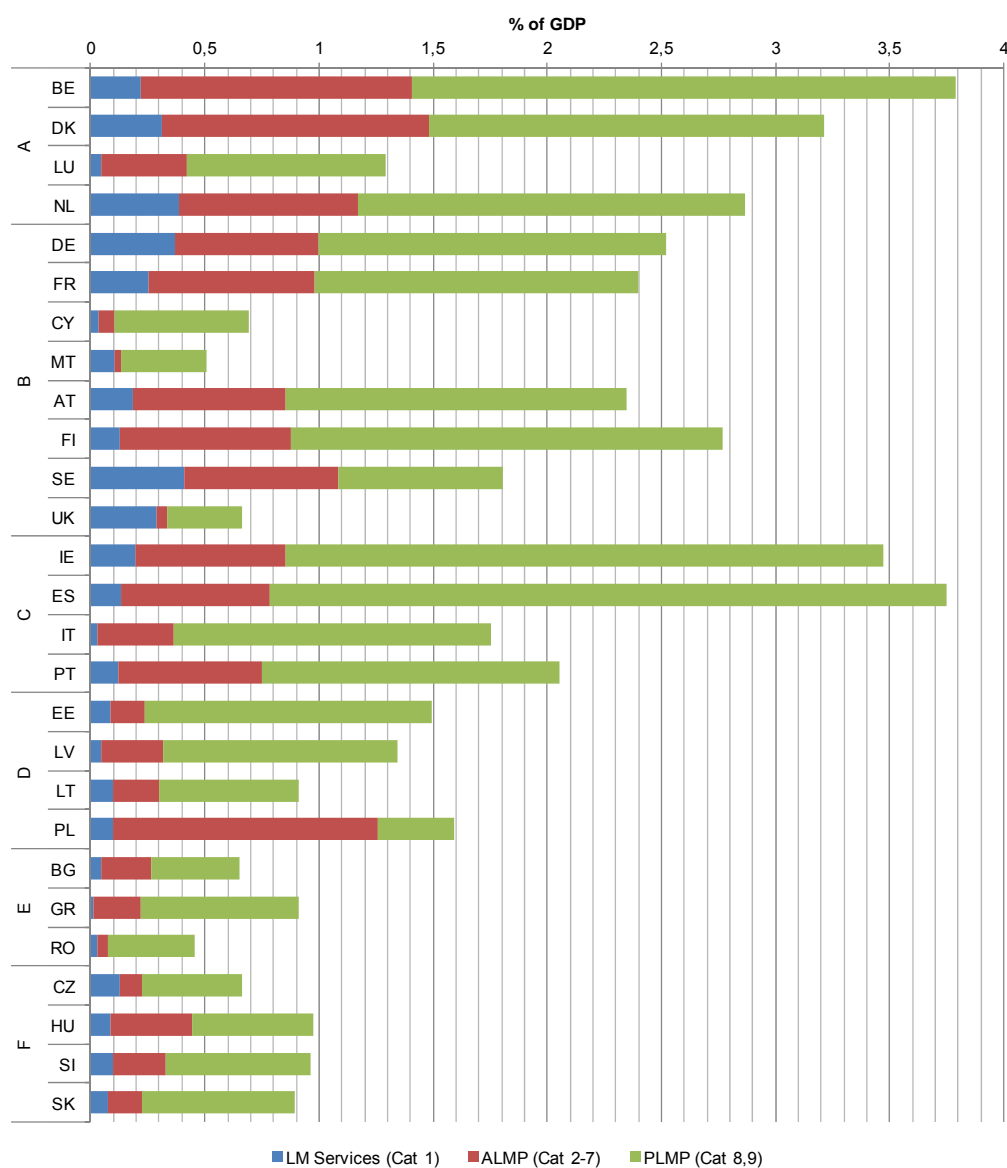
If we compare figures on labour market expenditure in relation to GDP with the labour market development (described by unemployment rates, see Figure 26) it becomes clear that those countries most affected by unemployment (ES, PT, FR, IE) have put substantial efforts into LM expenditure. DE, AT and the Benelux countries were less affected, but also have a comparatively high level of LM expenditures. Most striking are discrepancies in the Baltic States (especially LT), where unemployment is high but LM expenditure are comparatively low. This is a similar situation to that in most of the other EU-12.

Further insights can be gained concerning the focus of LM expenditures by comparing the shares of the three expenditure categories in GDP between 2008 and 2009. Figure 25 shows the change in pp between the shares of LM services, ALMP and PLMP with the long bars indicating a relatively high increase in the respective type of expenditure. From that chart it is clear that the IE, EE and ES increased their LM expenditure the most, but with the main focus on passive measures. The biggest increase in ALMP by far was in PL, where the share in GDP increased by nearly 0.7 pp, but DK, PT, HU and LV also had comparatively high increases.

According to the data collected by the experts, some of the Member States have issued LM packages as part of the recovery measures. The highest shares of LM packages (in relation to GDP) have been launched in BE (3.7%) and ES (3.7%) followed by IE (3.5%), DK (3.2%), NL (2.85%), FI (2.75%), DE (2.5%) (see Figure 24).

Box 3 contains examples of recovery packages where labour market policies played a secondary role, and where the government priority was to restore economic and financial stability.

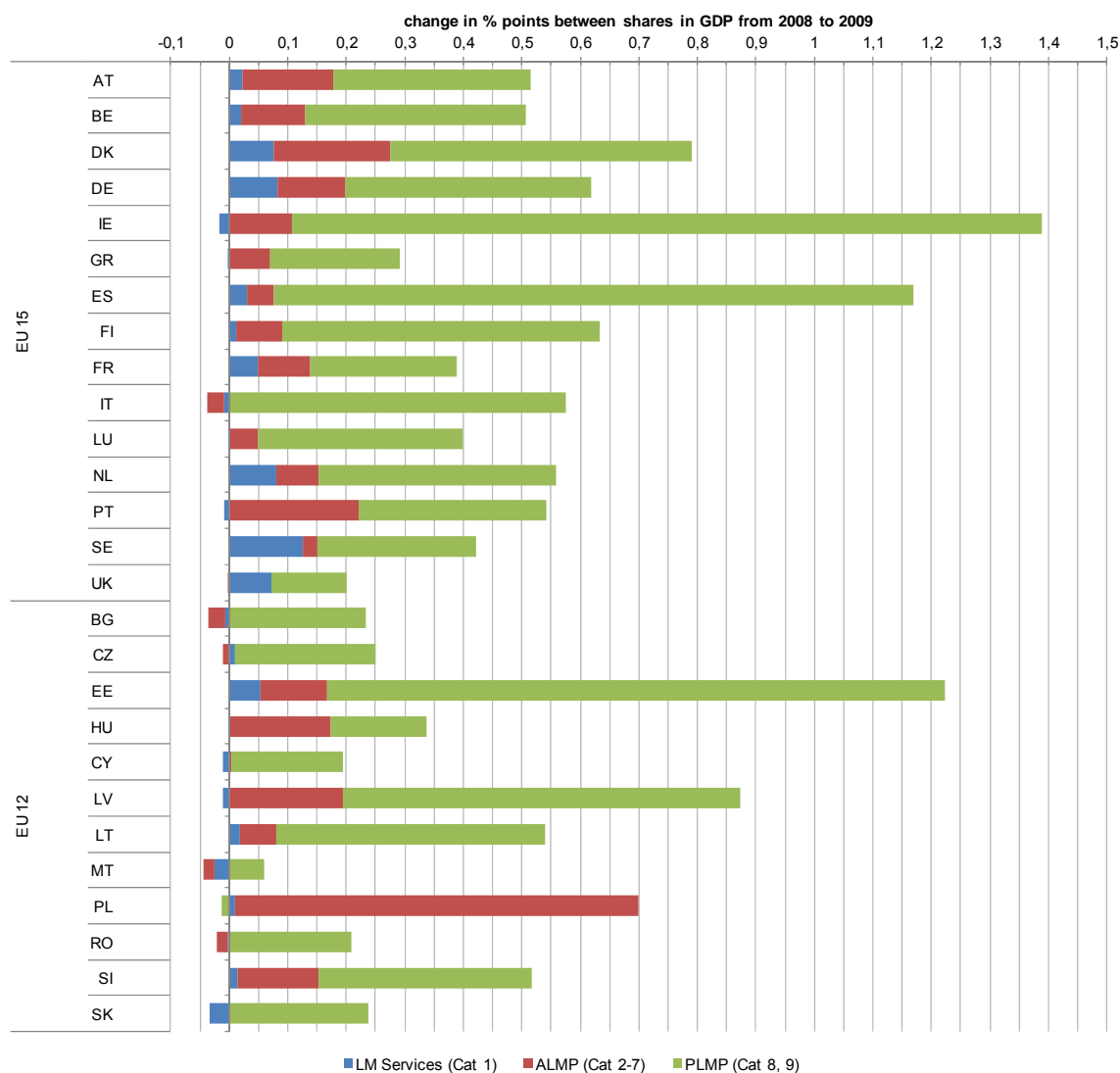
Figure 24: Active and passive labour market policy measures in share of GDP 2009⁴⁴



Source: Eurostat 2009

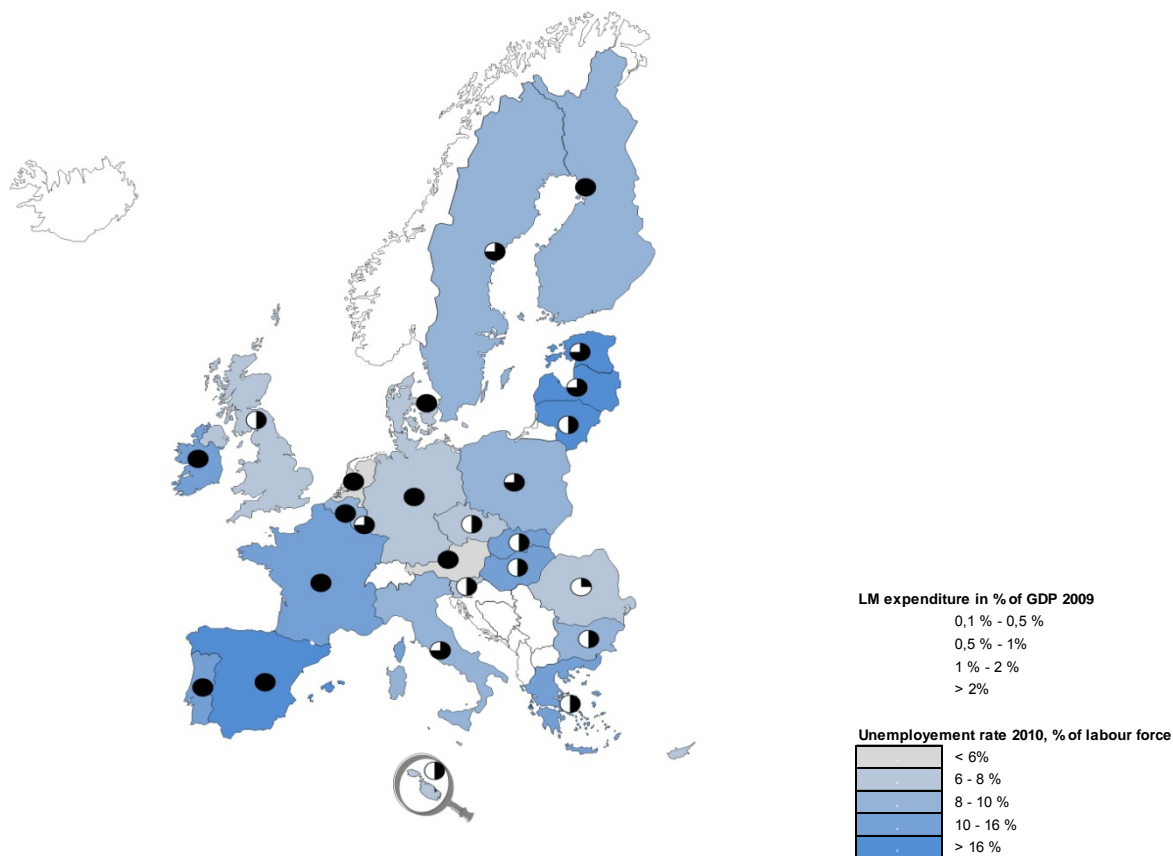
⁴⁴ Expenditure on labour market policies (LMP) is limited to public interventions which are explicitly targeted at groups of persons with difficulties in the labour market: the unemployed; the employed at risk of involuntary job loss; and, inactive persons who would like to enter the labour market. Total expenditure is broken down into LMP services (category 1), which covers the costs of the public employment service (PES) together with any other publicly funded services for jobseekers; LMP measures (categories 2-7), which covers activation measures for the unemployed and other target groups including the categories of training, job rotation and job sharing, employment incentives, supported employment and rehabilitation, direct job creation, and start-up incentives; and LMP supports (categories 8-9), which covers out-of-work income maintenance and support (mostly unemployment benefits) and early retirement benefits.

Figure 25: Changes in expenditures for active and passive labour market policy measures in pp of GDP from 2008 to 2009



Source: Eurostat 2009

Figure 26: Unemployment rate and labour market expenditure in % of GDP 2009



Source: Eurostat 2009

Box 3: National recovery packages with a limited labour market policy responses

The **Polish** authorities, in response to the crisis, introduced an anti-crisis package supporting employers and protecting employees. The package was prepared in co-operation with trade unions and employers. It included a comprehensive programme of speeding up the spending of EU funds (i.e. ESF, ERDF, Cohesion funds etc). The anti-crisis package has been supplemented by the activities financed by ESF funds (within the Human Capital OP), leading to mitigation of the negative effects of the economic slowdown in Poland. The package consists of the set of recommended measures for regional Intermediate Bodies to introduce within the implementation of the HC OP regional component. The inflow of EU funds was a major contributor to alleviating impact of the crisis on the Polish economy, where it was milder than in other European countries.

In **Romania**, a 'stabilization package' rather than a recovery package was launched, since the government had focused on the re-balancing of the economy public finances up to 2010. The macro-stabilization package might be followed by a full recovery package in the years to come, depending on the capability of the Romanian economy to maintain the current course of action and thus keep both the fiscal and currency stability. The current arrangements with the IMF nevertheless preclude any kind of more ambitious 'fiscal stimulus', i.e. deficit spending is practically excluded, a fact which affects also LM policies on a more ambitious scale.

In an effort to bring **Greece's** public finances back under control, the government announced a first package of austerity measures in March 2010, followed by a tax reform in April 2010. When these failed to placate the markets, in May 2010 the government negotiated an unprecedented €110 billion loan with the EU, the European Central Bank (ECB) and the IMF. In return for the loan, the government signed up to a three-year Memorandum of Economic and Financial Policies, which commits the Greek government to sweeping spending cuts and revenue increases. At the same time, a second austerity package was also announced. The focus of the austerity measures package of Spring 2010 were a combination of increases in indirect taxes, introduction of new direct taxes, personal income tax reform, cuts in public sector pay and pensions. Later that year, the fiscal squeeze affected other social benefits and public services. The austerity measures package of Spring 2010 has a strong fiscal component and as such they were rather inadequate for addressing labour market problems. The measures that related to the labour market included pay and other benefit cuts (such as abolition of the 14 salaries per year, reduction of Christmas and Easter pay benefits, etc.) for public sector workers.

In **Latvia** the initial recovery package was called "Action Plan for the Programme of stabilization of the Latvian economy and recommencing growth" and it was adopted by the Cabinet of Ministers on 19 February 2009. It was then replaced by the Strategic Development Plan of Latvia 2010-2013 adopted on 9 April 2010 which incorporated the original plan. While unemployment proved to be a major consequence of the crisis and Latvia had the highest unemployment rate among the EU member states in 2009, the main focus of the Action Plan was budget consolidation rather than labour market recovery. As the labour market situation deteriorated, the attention progressively turned towards labour market policies.

In **Lithuania**, the Economic Stimulus Plan was initiated by the Ministry of Economy in early 2009. The package was first and foremost focused on fostering economic activity in Lithuania, paying particular attention to the industries hit particularly hard by the crisis. As a result, the funds were originally targeting the export-based, high-tech and high-value adding companies, as well as construction and manufacturing industries. Any LM-related policy issues were addressed separately from the recovery package by the Ministry of Social Security and Labour.

The effects of the crisis on the **Czech** labour market have been weaker than in most other Member States and they were visible later than for the EU average. The government, however, reacted mainly by supporting the banking sector (increasing the guarantee of bank deposits), but also with two stimulus packages providing public subsidies in the form of grants to employers to co-finance education and training of their staff. These training measures were largely supported by the ESF (under the 2000-06 programme).

3.2.4 The contribution of social partners and other interest groups

As highlighted in the EERP, the involvement of the social partners in the development of anti-crisis measures and recovery packages was encouraged. In fact, the crisis presented unprecedented challenges to the social partners, where they have taken a very active role in negotiating anti-crisis packages⁴⁵. At the onset of the crisis social partners agreed with governments on the need for stimulation measures, albeit with different foci: Trade unions put emphasis on larger fiscal stimuli and measures to sustain purchasing power and boost public investment. Employers' organisations rather claimed that priority should be given to improve access to credit for enterprises and cut labour costs and taxation. Through the process of social dialogue a number of Member States reached agreements on bi- or tripartite national cross-sector anti-crisis packages⁴⁶. Most of the agreements focused on employment measures such as short-term working arrangements and wage moderations. Sectoral-level agreements were widespread and occurred mainly in the manufacturing sector.

In a number of Member States, particularly in DE, these agreements were drawing on the strengths of the consensus model of social dialogue, and focused on addressing the immediate crisis in the manufacturing sector. However relations between governments and social partners were not generally as harmonious: In several Member States disagreement prevailed, notably in many of the 'new' Member States

⁴⁵ European Commission (2010b): Industrial Relations in Europe. Brussels

⁴⁶ Until the end of April 2010 this was achieved in Belgium, France, the Netherlands, Poland, Spain, the Baltic states, Bulgaria, the Czech Republic, and, in the form of parallel accords, Slovakia. Negotiations were unsuccessful in Finland, Hungary, Ireland, Luxembourg and Slovenia. They have reopened in Spain (in the case of a tripartite accord) after a considerable interregnum.

where relations between the social partners were already fraught, and where the social partners, notably the labour unions, were acting from a position of relative weakness.

For example, in HU the government acted independently from other actors as the crisis presented a new challenge for corporate trade unions and work councils. In fact, the trade unions had to change a strategy that, since the mid-1990s, had focused almost exclusively on pay increases. Now, the protection of jobs came to the forefront.

In SK and the CZ, the labour unions have been weakened during the former regime. Nevertheless they are still part of the decision making process. The so-called tripartite system in both countries forms a legal decision-making triangle between trade unions, employers' organisations and the state. Trade unions were opposed to all reforms but their opposition had little influence on policy in practice.

In some Member States the crisis led for the first time to social partner agreement at cross-industry level, where governments or employers might otherwise have acted alone: In PL, in March 2009, on the other hand, the social partners announced that they had agreed on an anti-crisis package with 13 proposed priorities. The government accepted them and adopted the social partners' package into legislation.

In the case of the Baltic States, reforms were taken in a swift manner so as to rapidly react to the crisis and stabilise the financial markets and ensure the solvency of the States. In the case of LT the austerity measures were not supported by the social partners.

In FR the social partners of the CPNFP (national committee for vocational training) signed a joint agreement to provide more funds for training targeted on the groups the most affected by the crisis (less qualified, lost of employment, part time employment, etc). They also championed the creation of a social investment fund within the recovery plan to organise measures more efficiently.

3.3 National labour market policy responses

3.3.1 Assessing coherence and rationality

Understanding which interventions are efficient and effective in reaching the target groups and improving their employability and income chances, which interventions work better than others, which are more cost-effective and which are more appropriate for target groups with lower chances to succeed on the labour market is one of the most important goals of evaluations.

Many studies have dealt with evaluating employment and social inclusion policies. Still, the stock on common knowledge is limited and difficult to generalise due to the specific national institutional, legal and economic context they are applied to. Labour market and social inclusion policies, as supported by ESF, operate in a complex and multi-level governance setting, where different institutions, different interventions shape service and assistance provided to the employed and unemployed, to SMEs, start-ups and individual target groups. Often it is difficult to separate out the impact of individual measures.

Evaluating the impact of interventions requires a complex setting of monitoring and evaluation arrangements, where indicators and targets are required in order to identify relevant evidence. This is true for periods without an economic crisis but, when labour markets face significant additional challenges, this becomes even more important. In

this 2008 to 2009 crisis we saw huge job losses that occurred among core groups of the labour markets. Very few evidence based results are available, however, on the effectiveness of crisis-related interventions in the labour market.

A summary and generalisation of evaluation studies related to labour market and social inclusion policies is presented in Table 2, referring to short and longer term impact. The table is based on some meta-evaluations and reports from ILO and World Bank referring to LM policies during the crisis. Of course, this table needs to be interpreted with some care, as the results are gained by synthesising larger number of evaluation studies and similar work at meta-level. Nevertheless, in a specific context one or other of the measures quoted below as “low impact” may turn out to be useful, if they help overcome specific problems.

There is also another caveat that relates to the crisis: any intervention in activation measures and measures to bridge difficult periods and maintain people in employment are generally judged to be more beneficial than simply supporting household incomes.

A general reservation is that most of the measures need to be at a large enough scale to really make a difference in the face of massive job losses or threats of job losses. Furthermore, if they are kept in place for too long they risk becoming deadweight and conserving inefficient structures.

No short-term measures can be an effective substitute for consistent and persistent investment in high levels of education and training in order to raise the labour market potential of any economy. Thus common sense dictates that any short term measures that is linked to the longer term goals is likely to be more effective than short-term measures whose effects diminish over time.

Evaluation also shows that young people as well as elderly need well targeted programmes. Young people mainly have to overcome the barrier of entering the labour market, whereas with older workers the challenge lies in preventing an early exit from employment during a crisis.

Results for all groups tend, in general, to be more positive when measured over the longer term than in the short term. This is especially true for training-based measures, where significant positive employment impacts are much more likely to be identified two to three years after a person's participation⁴⁷.

The meta-analysis identified a common weakness of ALMP evaluations in that they focus largely on measurable output indicators like the post-programme employment status and earnings, and commonly ignore the costs of programmes.

However, when assessing what is coherent with the needs of labour market during the crisis, and what is rational for the time after, these assessments need some re-examination. Little information is yet available on which any assessment of coherence and rationality can be based. Eurofound (2010) suggests – based on a literature analysis - that expenditures on ALMP may be constrained during a downturn as they are crowded out by passive measures due to rising unemployment. Empirical evidence from 2008 to 2009 does not confirm this, but it does indicate that increases in LMP have mainly focused on passive support. This emphasises the value of having sufficient funds available to support active measures as well.

⁴⁷ Eurofound (2010)

Table 2: Results of meta-evaluations related to coherence and rationality of ALMP

	Coherence with crisis	Rationality for long-term LM strategy
1. Maintaining employment and creating jobs		
Short-time work arrangements (STWA)	Reduces labour costs for employers and allows them to keep qualified workers; enhances job security for workers ⁴⁸ . Any detailed assessment needs to take into account the scale in which STWA are applied. If granted for too long it but might impact negatively on income and implies the risk of deadweight losses; restricted timing is recommended	Better results if combined with training that enhances skill levels for workers; might contribute to labour hoarding in sectors affected by the crisis
Temporary wage subsidies	Reduces labour costs for employers, while workers receive the same wage. May lead to crowding out of non-subsidized workers ⁶⁸ ; these measures also can be targeted to protect vulnerable groups ⁴⁹ ; only rational if the crisis is supposed to be short-term ⁶⁹	Costly and difficult to phase out. May entail deadweight losses in terms of supporting workers who would not have been kept in employment; negative impact on social security funds ⁶⁸ ; may hinder the longer term skill development in the labour market
Reductions in non-wage costs	Reduces labour costs for low-income persons (if applied to such target groups), supposed to have positive impact on wage and employment ⁵⁰ , but risk of crowding-out of non-eligible groups of persons	Reduces labour costs for low-income persons (if applied to such target groups), supposed to have positive impact on wage and employment ⁷⁰ , but risk of crowding-out of non-eligible groups of persons. Defers costs to other public bodies (social security, tax offices); may increase precarious employment
Public sector employment	Can help to immediately reduce poverty and social inclusion through bringing threatened groups into employment; positive impact on infrastructure/services in local communities ⁶⁸	Costly and not effective in creating long-term jobs; difficult to phase out; proven to be not so effective in countries with higher income levels ⁶⁸ ; similar results from evaluations across Europe that show the low impact if not worsening of employment prospects for these persons ⁵¹
Employer incentives for employment	If this instrument is applied for keeping employees it bares the risk of subsidising deadweight; being costly; is suitable in areas with lack of alternatives for employment; for keeping vulnerable groups in employment or providing access; risk of state-aid	High risk of deadweight; no enhancement of skills for workforce; disincentive for workers to search for jobs ⁶⁸
Promoting self-employment and business start-ups ⁵²	Mixed evaluation results, some evaluations find positive effects for employability of unemployed ⁵³ , others emphasise that it is costly and not always effective because financing is too restrictive and training often does not focus on the appropriate skills ⁶⁸ ; very dependent on the national context	Many recipients do not succeed over the long-term; transfers the employment and income risk directly to the individual

⁴⁸ Cazes et al (2009) Labour market policies in times of crisis. ILO

⁴⁹ World Bank (2009): How should labour market policy respond to the financial crisis

⁵⁰ Plá et al (2010): Wage effects of non-wage labour costs. IZA Working Paper 4882, Berlin.

⁵¹ Eurofound (2010): Financing and operating active labour market programmes during the crisis. Background paper

⁵² through capital and training

⁵³ ibid

	Coherence with crisis	Rationality for long-term LM strategy
2 Upgrading skills and matching LM needs		
Training - general	Increases chances of trainees to find a job ⁶⁸ ; but bears the risk that in times of crisis, when massive training is provided, a need analysis is missing and thus training bears the risk of “stranded investment” Training for those who are becoming unemployed allows faster transition into new jobs/industries; short training programmes might not be as effective as longer and more profound ones For low-skilled workers access to training is lower than for better qualified. Thus training tends to favour already better educated one. Training of the low-qualified therefore might have higher impact on wages and employment	Costly, and training is often not linked to demands of employers - might cause a skill mismatch ⁶⁸ ; Evaluations show a modest likelihood of having a positive impact on post-programme employment; effects may take 2 to 3 years to manifest on job, income etc; Impact on transition to higher paid/better qualified jobs depends on the quality of the training (among other factors)
Work experience/ apprenticeship	Stimulates employers to offer jobs for youth allowing them to enter into the labour market	Improves probability to enter the labour market
3 Increasing access to employment and promoting mobility		
Job search assistance	Improves the job search abilities of unemployed at relatively low costs ⁶⁸ ; but is less effective when labour markets are slack	Is most efficient when employment is growing and a mismatch between demand and supply needs to be tackled
Mix of measures	Measures based on “services and sanctions” (including job-matching, counselling, guidance) and private sector employment subsidies are more likely to have positive outcomes, but faces difficulties in times of tight labour markets ⁷¹	Measures based on “services and sanctions” (including job-matching, counselling, guidance) and private sector employment subsidies are more likely to have positive outcomes in times of job growth ⁷¹
Flexicurity	Reducing employment protection increases job mobility and flexibility, better chances for job applicants, but higher risk to lose a job for employees and workers	Reduces segmentation and improves functioning of the LM ⁶⁸
Job mobility	Difficult when employment prospects are low	Improves matching of skills (under growth conditions)
4 Passive labour market policy measures as a response to the crisis supporting households		
Providing income support	Maintains income, direct impact on consumption, prevents households from falling into poverty (automatic stabilizer); high direct and indirect costs ⁶⁸	Potential disincentive effects if not combined with activation measures ⁶⁸

Using these evaluation findings as a basis this study – and notwithstanding the fact that the type and quality of the programmes is one of the primary factors determining the success or labour market outcomes – the following section briefly describes the implementation of such measures in different Member States, and assesses the coherence and rationality of their use.

3.3.2 Measures for maintaining employment and creating jobs

Most Member States introduced measures aimed at encouraging employers to retain or hire workers. These measures included short time working arrangements, temporary wage subsidies, non-wage cost reductions, expanding public sector employment and self-employment. While some Member States introduced these measures only in response to the crisis, similar policies were already in place in others, in which case the arrangements were often modified.

Such policies have been considered as one of the essential instruments towards mitigating the negative effects of the crisis on employment and job creation as people could be kept in employment. With these measures wage costs for employers could be reduced while retaining employees. Still, little systematic evaluation has been undertaken to judge the success of individual measures undertaken within this field.⁵⁴

The main instrument used during the crisis related to this field was **STWA combined with training**. Short-time work arrangements were used in 20 Member States⁵⁵. The share of employees taking part in STWA was highest in BE and DE in 2009⁵⁶. Box 4 describes the use of STWA in these countries (BE, DE) and in other cases (AT, LU, PT).

STWA measures were often combined with qualification measures in order to support the long-term objectives of enterprises, most commonly combining STWA with vocational training. In the case of AT, IE, BE, DE, LT, LV, HU, MT, PL, PT, SI, FI the government subsidised training for those in short-time work. However, where training schemes for STW employees were not obligatory, as was the case in CZ, HU, NL, PT and SI, take-up rates for training were low.

For bridging short periods of crisis, these measures were very useful in keeping people in employment and thus reducing potential transaction costs (of becoming unemployed and re-entering the labour market again). The main problem with STWA is the timing: if provided for too long it risks encouraging labour hoarding. If granted in too restrictive a manner, however, it might not have an impact at all.

Another limitation is training. During the crisis a lot of training has been provided to both employed and unemployed persons. However, training set up in such a short time might not always be based on need assessment and might not always be provided in the best quality due to limited training capacities. However, no evaluation so far has been available on these aspects, thus our assessment is that – with some caution – we consider STWA combined with training as coherent with the crisis. The rationality for longer-term strategies depends, however, on training being based on needs assessment and quality criteria.

⁵⁴ So far very little analysis has been undertaken to assess across the board their impacts on mitigating the crisis. Therefore we have asked our geographical experts to broadly assess the impact of these policies based on a few judgment criteria to obtain some indications of impacts.

⁵⁵ AT, BE, CZ, DE, EE, ES, FI, HU, IE, IT, LU, LT, LV, MT, PL, PT, NL, RO, SI, UK

⁵⁶ European Commission (2010), Employment in Europe report 2010, – DG Employment, Social Affairs and Equal Opportunities, p.78

Box 4: The use of Short-Time-Work Arrangements in response to the crisis

*In **Belgium**, the measure was introduced in June 2008 and was targeted at all employees. In fact, the number of participants increased from about 87.000 people in July 2008 to a peak of 313.000 people in March 2009 followed by a steady decline⁵⁷.*

***Germany** had the 2nd largest share of employees taking part in STWA as a percentage of total employment. The number of recipients increased from 39.000 people in May 2008 to over 1.500.000 people in May 2009. STW arrangements already existed before the crisis, but the practical arrangements were temporarily modified (combined with increased training subsidised by the government; change in eligibility, duration, cuts in employers' SSC, more flexible procedures) until the end of 2010. Germany initiated in the framework of recovery package II the Act on Safeguarding Employment and Stability in Germany, which simplified entry requirements for receiving short-time allowance for the period between 1 February 2009 and 31 March 2012.*

*Also in **Austria**, the extension of STWA has been the most important measure in terms of budget and number of participants. The changes were introduced by the Labour Market Packages launched in March and July 2009. The employer may receive a special subsidy from the Public Employment Service (PES) upon concluding a collective agreement on the payment of a compensatory short-term allowance during a period of short-time work. The peak in terms of the number of recipients was reached in April 2009 where the number of STW employees amounted to 57.000 people.*

*In **Luxembourg** where STW arrangements were also modified in response to the crisis, employees received 90% instead of 80% of the normal salary during hours not worked but instead spent in training subsidised and arranged by the government⁵⁸.*

*In **Portugal**, the extended STW arrangements was not only combined with compulsive training but the scheme moreover targeted "Strategic Competitive sectors" such as car industries, commerce, wood and furniture industry as well as the textile and tourism sectors. The measure has been co-financed by the ESF.*

*In **Poland** the government's anti-crisis package introduced flexible working time, enabling the employers to adjust the working hours to the needs and possibilities of their companies. Additionally, employees of a company which suffers temporary difficulties due to economic slowdown or reduced working hours have been granted the right to remuneration supplements. The employees delegated to trainings or post-graduate studies in the period of reduced working time or economic slowdown have been granted the right to scholarships.*

Temporary wage subsidies took various forms. Hiring subsidies were introduced for the long-term unemployed (AT, EE, CY, PT) or made permanent (SE). Youth were targeted by additional hiring subsidies (AT, FI, EE, PT) or newly introduced (LT) or scaled-up wage subsidy programmes (UK, FI, FR, GR). Wage subsidy programmes were also introduced to reintegrate newly redundant persons (BG), older workers (FR) and to save jobs which were under specific threat of being terminated (IE). LV expanded public-sector job creation for unskilled municipal jobs.

Box 5: Wage subsidy programmes

*In **Austria** a one-person business which hires a young unemployed person (aged 19-30) for the first time receives during the first year of this employment contract 25% of the gross earnings including the employer's social insurance contribution from the PES. This measure was introduced in September 2009 and limited to the end of 2013. The main intention of this programme was to encourage one-person businesses to recruit employees and thereby to start growing.*

Temporary wage subsidies and reduction in non-wage costs are coherent with the crisis if provided with clear time limits. They seem to be appropriate for targeting specific groups of person with employability difficulties. Thus short-term rationality is high if limited in time and targeted, whereas in the mid-to longer term there could be a negative impact on costs and lead to crowding out of non-eligible groups.

⁵⁷ European Commission: (2010a), Employment in Europe report 2010, Social Affairs and Equal Opportunities, p.78.

⁵⁸ European Commission (2009f) Recovering from the crisis: 27 ways of tackling the employment challenge, European Communities, Luxembourg, p.36.

Direct public sector employment programmes have the advantage of immediate job creation. But participants tend to be reluctant to search for other jobs in that time. Therefore these programmes might even worsen employment prospects⁵⁹ in the longer run.

Different vulnerable groups have been targeted across Member States, for instance, in LT community jobs have been created for unemployed people who do not receive unemployment benefits while a new subsidised job programme was introduced in the UK for unemployed young people with a view to helping them find work with local authorities and other community organisations⁶⁰. In IE, national and local public sector jobs are also available as part of the work experience and internship programmes aimed at avoiding long-term unemployment for those receiving benefits.⁶¹ (see Box 6 for other examples). However in IE an evaluation of two large employment schemes (absorbing about half of ALMP in 2008) showed that job creation seemed to be less effective in terms of employability and costs than training.

Employer incentives for providing training and other staff related measures are also used to keep vulnerable groups in employment, but risk being deadweight. Furthermore state-aid rules must be taken into account, which might complicate the procedure. Thus, in the short run, the instrument seems to be appropriate, but the long term effectiveness needs to be critically assessed.

Box 6: Public sector employment

In Spain's "economy and employment stimulation plan – Plan E" the most important measure is the "State Fund for Local investment" launched in 2009 / beginning of 2010. It was a short-term emergency measure composed of a fund of €8 billion to finance urgent works at municipal level, especially those that generate employment. More specifically, it finances public works and investments in job creation carried out by municipalities with a view to giving a short-term boost to the economy and alleviating unemployment. In 2009, it managed to maintain more than 426.000 employment posts and 14.500 enterprises in Spain have managed to continue their activities thanks to this Fund. The scheme targeted the construction, the environmental and the tourism sectors as well as the sector for refurbishment of cultural and historical heritage sites/structures and tourism.

3.3.3 Measures for upgrading skills and matching LM needs

Prior to the crisis, education and skills training had not always been a visible priority in all Member States notably where financial resources were scarce. However, skills upgrading became one of the most widely used measures in response to the crisis. In fact, AT, DK, EE, ES, FI, FR, GR, IE, IT, LV, NL, PT, SE, SI, SK, UK have amended or introduced measures aimed at upgrading skills in various forms as part of their responses to the crisis. In many cases training has been promoted through various schemes and in combination with other crisis-response measures such as STWA.

The use of ESF as a co-financing instrument in such combined measures has been widespread and, accordingly, the eligibility criteria have often been widened or designed in a more flexible way to make the measures accessible to the target groups.

⁵⁹ Eurofound (2010) quotes Card et al (2010), Active Labour Market Policy evaluations - a meta-analysis), which analysed micro-economic evaluations of nearly one hundred programmes across 26 countries

⁶⁰ European Commission (2010a), Employment in Europe report 2010, DG Employment, Social Affairs and Equal Opportunities

⁶¹ Country Desk Officer (Ireland), EC DG EMPL

However training programmes have a “modest likelihood” of having a positive impact on post-programme employment⁶²; returns on training of employed (firm-sponsored training) are supposed to be positive with regards to productivity at industry level, and training of the unemployed has limited effects in the short run, but a positive employment impact in the long run⁶³.

A recent Eurofound (2010) study quoted a summary of more than 100 evaluations, which found that short-term training (less than 3 months) provides mixed evidence, while long-term training has a positive impact on starting or performing a regular job.

Wage subsidies to private companies to recruit unemployed persons in at-risk groups, as well as schemes encouraging business set-up for the unemployed, have been assessed to have positive impact, whereas job creation schemes and coaching in job applications proved neither effective nor efficient (Germany, related to pre-crisis period).

If training is provided widely within a short time span (as done through the crisis) important factors for success – such as needs assessment and quality control of the training - might be overlooked because of pressures of time and capacity.

Box 7: Examples for skill development and apprenticeship schemes

In Germany the “Support for professional training” while in STWA, which includes continuous vocational training (CVT) for low skilled employees, was reinforced. The measures were widened to include sub-contracted workers. Another programme “WeGebAU implemented by decision of board of governors of PES covers training cost for the elderly and low qualified employees and reimbursement of respective salary to employer.

In Ireland, the ‘Redundant Apprentice Placement Scheme’ will provide on-the-job training for up to 1.000 apprentices in the public and private sectors and the introduction of up to 700 places in the Institutes of Technology for redundant apprentices and crafts persons commencing in early 2011. Another programme is the Skills Development and Internship Programme, an enterprise led initiative aimed at those who are at least three months unemployed. Participants on the programme receive a 12 month placement with host organisations and undertake a significant education and training component. The government has made provision for up to 5.000 places to be supported under this programme. Further more the Labour Market Activation Fund (LMAF) was put in place to provide training and education places for unemployed people (based on successful proposals in 2010), with €20 million in multi-annual funding “ring-fenced” for the initiative. This measure was announced by the government in March 2010. It was expected that this would provide an estimated 3,500 work places for unemployed in 2010. The purpose of the fund is to provide training courses in a range of locations across the state targeting lower-skilled workers, and those formerly employed in declining sectors such as construction, retail and manufacturing. The Fund places particular emphasis on workers under 35 years old and the long-term unemployed and 75% of the places are to be targeted on those with qualifications at or below upper second level. Contract awards under the Fund are made via an open tender competition open to organisations across the private, not-for-profit and public sectors to support specific training and education programmes for priority groups of the unemployed. It was decided that the projects would be part-financed by the ESF under Priority 1. In August, 2010 the LMAF received a further allocation of €12 million which was financed, in part, by the European Globalisation Adjustment Fund. Funding was offered to 33 additional projects in Phase 2. Total funding is now €32 million for 59 projects proposing to provide up to 12.000 education and training places for the unemployed.

⁶² Eurofound (2010) quoting Kluge (2006): Kluge (ed) (2006), Active labour market policies in Europe. Springer, Essen ; which assessed 140 specific ALMP instruments across Europe mainly from the 1990s and drew these conclusions.

⁶³ Eureval et al (2010), Study on the Return on ESF Investment in Human Capital. Commissioned by DG EMPL.

*In **Austria**, the unpaid education leave was modified by reducing the time period an employee has to be with the same employer before using the scheme, and increasing the flexibility on the length of the unpaid education leave. Great emphasis has been put on further education for young people. Additionally the re-employment scheme of young workers seeks to re-integrate young employees aged 15-25 who were laid off by temporary work agencies or SMEs, by offering further training and retraining opportunities.*

*In **Bulgaria** the scheme 'I can' running from the end of 2009 until the end of 2013, provides vouchers for paying vocational training to the employed or for acquiring new skills.*

*In **Spain**, a measure had been implemented aimed at supporting unemployed university graduates who wish to stay in education. The programme was targeted at graduates who were eligible for claiming unemployment benefits and financed their enrolment in a master's degree programme.*

*In **Estonia**, a personalised training voucher system for the unemployed was introduced in September 2009 with an additional option for labour market training. Training vouchers enable the unemployed person to quickly find a suitable additional training course based on individual needs. The responsible institution is the 'Unemployment Insurance Fund'.*

*In the **UK**, funding for training in the form of so-called "service academies" has been increased for those at risk of job loss or recently made redundant. These "service academies" aim to link sector focused training with qualifications and local employment opportunities. The apprenticeship schemes have been reinforced, including provisions introduced by the new government in 2010, by focusing on early school-leavers and in specific sectors such as the care sector. Also, work experience is offered to eligible 18-24 unemployed people for a period of work between two and eight weeks in length, with an optional extension to 12 weeks if the host decides they would like to offer the participant an apprenticeship.*

*In **Portugal**, an internship programme was launched targeting people aged over 35 with primary, secondary or university level education who have been unemployed for over 6 months. Temporary wage subsidies were provided to contracting companies. This measure has been supported by the ESF.*

3.3.4 Measures for increasing access to employment and promoting mobility

The capacity of the PES has been strengthened in AT, BE, EE, ES, FI, IE, IT, LT, NL, SE, UK in order to intensify the assistance to job seekers in the context of the economic crisis. Job search assistance has been targeted particularly at vulnerable groups including young people (e.g. AT) and people in STWA (e.g. BE⁶⁴). This seemed to have worked well in Member States which have modified or strengthened their employment services in response to the crisis.

In some Member States⁶⁵, the PESs have introduced new ways or have modified existing programmes to integrate or re-integrate people into the labour market, especially those unemployed for some time. In fact, although it is difficult to measure the exact effects, PESs appear to have managed to increase the employability of various groups of people thanks to individual counselling and training⁶⁶. Job search assistance had also been intensified in the face of reduced job opportunities.

Box 8: Access to employment and mobility

*In **Spain** the "Social and Economic Agreement" of 2010 foresees structural and temporary emergency measures in relation to active employment policies. Structural measures (legally covered by Real Decreto-ley 3/2011, 18 February) include, inter alia, the strengthening of PES in the context of the National Employment System. This includes measures for improving implementation, management, monitoring and evaluation of employment policies; establishment of a list of basic services for citizens, common to all PES, focusing on the provision of integrated services. Personalised employment itineraries have been introduced and the PES will be in charge of designing and implementing them and will, accordingly, provide adequate customised guidance and training. They target young people, people aged over 45, long-term unemployed as well as people from the construction sector and other sectors affected by the crisis (with a strong emphasis on people with low skill levels).*

⁶⁴ European Commission (2010a), Employment in Europe report 2010, Social Affairs and Equal Opportunities, p.93.

⁶⁵ AT, DE, EE, ES, FI, IE, IT, NL, SE, UK

⁶⁶ Source: assessment of our geographic experts

*In contrast, in **Italy**, it was the role of private rather than public agencies that was expanded to provide additional capacity for labour matching.*

*In the **UK**, new measures introduced to addressing the problems in the labour market included an extra GBP 1.3 billion (€1.5 billion) of funding mainly focused on improving job search and support activities, largely delivered through Jobcentre Plus. Jobcentre Plus is progressing Automated Service Delivery (benefit registration online and greater digital support for jobseekers) through the Transforming Labour Market Services Project in line with improved job search and support.*

*In **Austria**, the change consisted in modifying the “Labour foundation” (“Arbeitsstiftung”), a well established labour market policy instrument that requires cooperation between the PES, employers and employees at an early stage of unemployment or pending unemployment for a large group of workers (staff cuts). The cooperation offers an integrated toolkit which includes career guidance, active job search, training, etc. In response to the crisis, a major change consisted in the fact that companies no longer have to be insolvent or that such foundations can be formed easily by employers’ associations if it concerns a specific sector or branch. The innovations allow the LM authorities to apply the instrument in a broader range of cases making it a better suited instrument to meet the challenges of the crisis.*

*In the **Netherlands**, special centres were put in place to help job seekers. Job search assistance has been intensified through permitting the immediate entry into training or work experience for young people directly upon registering for social assistance.*

*Similarly in **Estonia**, career information centres and career services have been developed. Career counselling was also extended to employed people and the centres being established even at regional offices of the Unemployment Insurance Fund.*

Measures based on “services and sanctions” (including job-matching, counselling, guidance) and private sector employment subsidies are more likely to have positive outcomes⁶⁷. An evaluation study in SE showed that intensive job-matching for long-term unemployed by PES reduced the time for finding a job, where the cost-benefit ratio was also assessed positively. Furthermore recent developments indicate a shift of focus to “service and sanctions” in the pre-crisis period.

Measures such as job search supervision and guidance, especially in combination with potential benefit penalties in case of non-compliance, tend to be effective in employment terms and inexpensive compared to more costly ALMP interventions⁶⁸. Active job matching is effective under conditions of employment growth and labour market mismatch, but the matching task is much more difficult when the number of job vacancies is shrinking. Thus the appropriateness of such measures as immediate crisis-reaction is limited, but coherent with the needs of the recovery phase.

3.3.5 Measures for supporting household incomes

Member States have used passive labour market policies to support those in need or at risk of unemployment or poverty. Overall 10 Member States⁶⁹ have reported support for household incomes by changing the criteria for unemployment benefit support (AT, BE, DK, FI, FR, IE, IT, LU, NL, RO), guaranteeing minimum incomes (FR, IT, LU), supporting households in specific expenses such as support for children or mortgages (BE, IT, LU), or introducing tax rebates (BE, DK, HU, IE, IT, LU).

These measures have been open to criticism on the grounds that supporting household incomes may decrease the incentive to look for work (job search). However, when combined with active labour market measures, such as job search assistance and/or training, they are seen to have had a positive effect in supporting vulnerable groups.

⁶⁷ Eureval et al (2010)

⁶⁸ Eurofound, 2010 quotes Card et al (2010, Active Labour Market Policy evaluations - a meta-analysis), which analysed micro-economic evaluations of nearly one hundred programmes across 26 different countries

⁶⁹ AT, BE, DK, FI, FR, IE, IT, LU, NL, RO

In many cases, changes in taxation for households and companies have also been introduced in order to either maintain employee purchasing power or to provide support for companies in sectors that had been particularly adversely affected by the recession.

All Member States have, however, introduced some sort of passive labour market policy measures. As Figure 24 shows, the share of GDP in EU-15 going to passive labour market measures is significantly higher than in the EU-12 Member States. Such passive labour market measures were not financed by the ESF, since this is not foreseen in the ESF regulations, but they have been combined in cases where the ESF contributed to a training component (see Box 9).

Box 9: Unemployment benefit support

In Austria, unemployment support allowance (Solidarittsprmie) was extended in 2009. Compensatory benefits were paid from the unemployment benefits to those employees who agreed to accept a reduction in their working hours combined with a reduction in their income. The scheme has been widened as to include not only long-term unemployed and older unemployed but also apprentices.

In Belgium, increasing the unemployment benefits during the first year of unemployment and helped those who were temporarily excluded from the labour market to maintain their purchasing power.

For example in SI, LU and unemployment benefits were increasingly linked to other activation schemes.

In Poland, job seekers were denied benefits if they refused to accept a suitable job for no justified reason.

In Ireland, in the government budgets in 2009 additional taxes on income and health levies were introduced to stabilise the public finances. These levies were designed to allow all income earners to contribute in a proportionate manner to the exchequer. In terms of their impact, these measures reduced income inequality by substantially improving the relative incomes of social welfare recipients. This occurred due to the combination of a decrease in wages (due to the increased levies) and an increase in welfare rates by around 3 per cent. The increases in taxation and additional employment-related levies (social insurance, health, pensions) applied to all sections of the population including those on social welfare in order to address the government debt crisis. This was important to achieve an improvement in public finances and was essential in terms of fairer distribution of burden.

3.4 The main findings

Different policy measures were introduced in response to the specific needs of different Member States and their regions. Nevertheless it is possible to identify some general outcomes.

The policy responses of the Member States reflect two general approaches. The first was to mainly concentrate on reducing the budget deficit with a severe austerity policy - as in RO, ES, the Baltic States and GR. The other approach involved a fiscal stimulus in order to maintain purchasing power and dampen the effect of the crisis on employment. The extent to which those contrary approaches have been pursued has influenced the nature and impact of LM policy interventions.

Having introduced labour market measures (often in the form of recovery packages) to counter the effects of the crisis in the first half of 2009, Member States such as DE, FR, IE, ES subsequently modified, or prolonged, those measures. In contrast, states such as HU, LV and SK, who had initially reacted with temporary or emergency measures to preserve jobs and boost short-term demand, subsequently discontinued their actions.

Most of the measures taken were rarely 'stand-alone' and generally combined with some form of training. This included support for, and promotion of, self-employment as well as for business start-ups which are generally seen to need 'individualised' support with a coherent package, including training for business management.

A number of instruments were put in place in order to contain the increase in unemployment and to support companies seeking to retain their employees. Such 'rescue instruments', which have a rather anti-cyclical nature, were STWA (e.g. AT, DE, BE), temporary wage subsidies (e.g. UK, PL, IT) and expanded household income support schemes (e.g. RO, NL, LT).

These schemes were intended to support consumer purchasing power, but were also combined with education/qualification measures. In ES, for example, the recovery package "Plan E" implemented in 2009 combined short-term and long-term measures to mitigate the impact of the crisis on the labour market. This included several capacity building and training measures to increase the employability of disadvantaged groups and to prepare the unemployed for working in other sectors than those where they had worked previously. The Plan was revised through the "Social and Economic Agreement" of 2010 which foresees structural and temporary emergency measures in relation to active employment policies for 2011 and 2012.

Several measures introduced during the crisis were extended beyond the period foreseen initially, particularly in so far as they aimed to **upgrade skills** and provide training to employed people in risk of redundancy or to the self-employed. Similarly, where administrative changes were implemented in order to make specific measures available on a larger scale in response to the crisis, provision was made for such short-term measures to be prolonged.

In DK, an existing scheme provided a **training subsidy to employers** who hired unemployed persons. However, since the eligibility criteria were rather strict and the scheme was little used, the scheme was modified in order to make it more flexible and easier to administer, with the training subsidy targeted at people already unemployed for three months and being unskilled or having out of date qualifications. The duration of the new version of the scheme is three years.

Another measure that was introduced or strengthened during the crisis period, although not necessarily as a direct consequence, was the **restructuring of the PES** (see above) in order to help ensure that the public authorities are better equipped to cope with any future employment and labour market crises.

As noted previously, a significant and unexpected focus during the crisis has been on the situation of employed people – mainly men in the manufacturing and construction industries – who were seen to be particularly affected by the crisis, as it evolved. At the same time, however, the needs of vulnerable groups such as low-skilled people, youth, women, and people with disabilities, continued to be addressed, albeit without the same degree of high profile attention.

The shift in focus away from the long-term needs of vulnerable groups to the short-term needs of those who were normally in a much more comfortable position in the labour market has brought forth some criticisms. In FR and CZ, for example, the main critique was that the recovery package focused more on supporting companies than on improving the employability of job seekers, or maintaining the purchasing power of low income households. The same was true in IT, where experts criticize the measures for not taking greater account of the problems of women, young workers and employees with atypical contracts⁷⁰.

So far, hardly any evaluation results on the impact of the combined measures are available and, in so far as they do become available, it is likely that their effectiveness

⁷⁰ Statement of Metis geographical experts

will be judged against short term rather than long term criteria. Nevertheless their immediate action served the labour market directly. People stay in the labour market, receive additional training and are available for employers when demand improves again. However, in the longer term the rationality of these interventions may be less apparent once account is taken of the likely limited quality of the training support provided.

4 Reaction of ESF to mitigate the crisis

This chapter focuses on the way the ESF has been used to mitigate the effects of the economic crisis on the EU's labour markets. Changes in the use of the ESF are considered in relation to target groups, instruments, financial shifts between types of interventions, and governance. These are tackled at the level of operational programmes (based on a screening of the AIR 2009 and, when relevant, also the AIR 2008). Particular examples that highlight the different approaches followed by Member States to respond through ESF to the crisis are included in boxes and are drawn mainly from case studies.

In order to identify common patterns, Member States have been classified into groups of countries that faced similar economic situations and used the ESF in comparable ways. This grouping of Member States will support the presentation of findings and of hypotheses/scenarios on possible developments in the future use of the ESF.

4.1 ESF in the 2007 to 2013 period: the baseline

The financial and economic crisis began to a substantial degree before the implementation of the current programmes had started. Therefore, the baseline against which crisis-related changes have to be compared is constituted by the operational programmes as approved at the onset of the period.

The aim of the European Social Fund (ESF) is to support the Member States in measures related to growth and employment based on⁷¹ the Broad Economic Policy Guidelines (BEPG), the European Employment Strategy (EES), and Employment Policy Guidelines. More specifically, the ESF has been assigned the task to support Member States at reaching full employment, increasing quality and productivity at work, promoting social inclusion (in particular the access of disadvantaged people to employment), reducing national, regional and local employment disparities⁷². The principal goals⁷³ are:

- To increase adaptability of workers, enterprises and entrepreneurs by improving the anticipation and positive management of economic change ;
- To ensure accessibility to and promote participation in the labour market.
- To prevent social exclusion and combat discrimination by ensuring the access and inclusion of "disadvantaged workers".
- To strengthen the capacity of public institutions to develop and deliver policies and services including the promotion of partnerships between employers, trade unions, NGOs and public administrations to facilitate reforms.
- These are inter-related with the so-called horizontal priorities, namely, fostering gender equality, sustainable development and fighting discrimination.

⁷¹ The 2007 to 2013 programming period is governed by the following regulations and strategic guideline documents:

The regulations 1083/2006 (General regulation), 1828/2006 (on implementation rules) and 1081/2006 (on ESF)

The European Employment Strategy (EES) and the Social Inclusion Strategy cf. Integrated Guidelines for Growth and Jobs (2005 to 2008) (2005/600/EC)

The Community Strategic Guidelines, 2007-2013 - Cohesion Policy in Support of Growth and Jobs (COM(2005) 0299)

⁷² cf. Art. 2 of Reg (EC) 1081/2009)

⁷³ European Commission (2011), European Social Fund - available at <http://ec.europa.eu/esf/main.jsp?catId=35&langId=en> (link valid: 20.09.2011)

Support is focused under the following four priorities⁷⁴ that cover the whole EU-27:

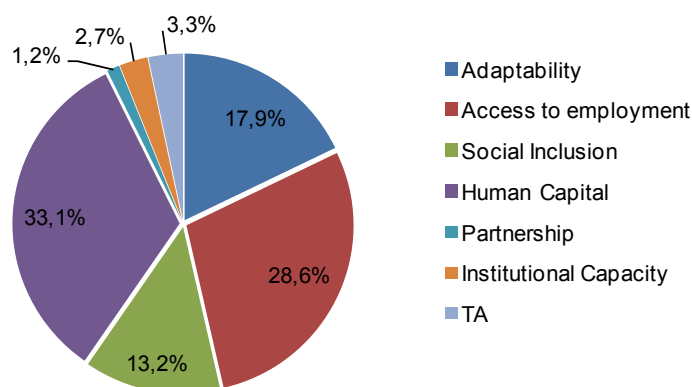
- Increasing the **adaptability** of workers, enterprises and entrepreneurs.
- Enhancing human capital and improving **access to employment** and sustainability of job seekers and inactive people, preventing unemployment, in particular long-term and youth unemployment, as well as encouraging active ageing and participation in labour markets.
- Improving **social inclusion** of less-favoured persons and combating all forms of discrimination.
- Mobilisation of reforms in the fields of employment and social inclusion through promotion of **partnerships**, pacts, networking of relevant stakeholder such as social partners, NGOs, etc at national, regional and local level.

The 'convergence' regions benefit from two additional priorities:

- Expanding and improving investment in **human capital**.
- Strengthening **institutional capacity** at national, regional and local level and the efficiency of public administrations.

In the current period, the ESF will spend over €75bn on creating more and better jobs in Europe. These funds are allocated to the six priorities with a particular emphasis on “**human capital**” (33.1% of funds) and on “**access to employment**” (28.6% of funds). “**Adaptability**” is planned to consume 17.9% of ESF resources, and “**social inclusion**” 13.2%. The smallest allocations are for “**institutional capacity**” (2.7%) and for “**partnership**” (1.2%).

Figure 27: Allocation of funds to the ESF interventions by priority theme⁷⁵ (in %)



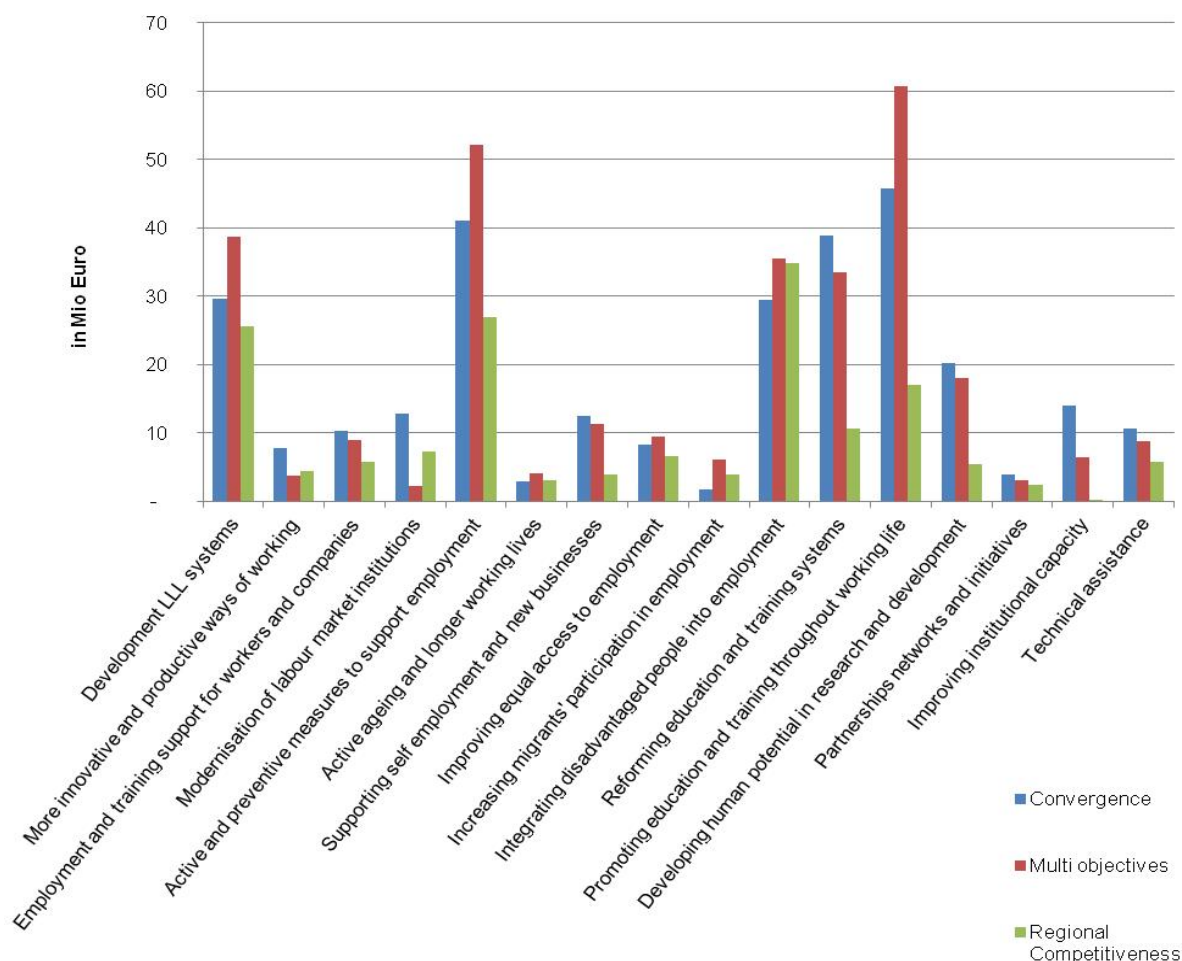
Source: Metis (from DG Employment European Social Fund 2007 – 2013)

⁷⁴ These priorities as laid down within the preamble, para. 9 and 10, of the ESF Regulation are further specified and broken down by Art. 3 - Scope of Intervention - into 11 topics applicable to all 27 MSs (i.e. convergence and competitiveness regions) and into 5 additional ones for convergence regions alone. However, presentations of EU wide figures are often broken down following the systematic categorisation of funds assistance: codes for the priority theme dimension or 'Priority Codes' provided in Annex II, Part A, of the Implementation Regulation (EC) No 1828/2006 (extended version of the one presented in Annex IV of the General Regulation)

⁷⁵ http://ec.europa.eu/employment_social/emplweb/esf_budgets/results.cfm (23.09.2011), based on codes assigned to priority themes

Figure 28 provides a more detailed indication in absolute figures in relation to different interventions in the respective priorities described above.

Figure 28: Allocation of funds to the ESF interventions by priority theme (in €)



Source: DG Employment European Social Fund 2007 - 2013

The ESF has a wide remit. Each year ESF interventions reach some 5 million unemployed or inactive persons, 4.7 million women, 3.2 million persons aged below 25, and 1.4 million persons aged over 54. Nevertheless, the majority of recipients are of middle age (10 million) and are employed with medium-level skills (8 million)⁷⁶. The actual effect on the specific groups, especially the most disadvantaged and those inactive in the labour market cannot be assessed on the basis of the material available nor in the short time-frame. Comparable data which could support such an analysis are mostly not available at European Commission level.

⁷⁶ European Commission (2011), European Social Fund, Who is participating - available at <http://ec.europa.eu/esf/main.jsp?catId=66&langId=en>; based on codes assigned to themes

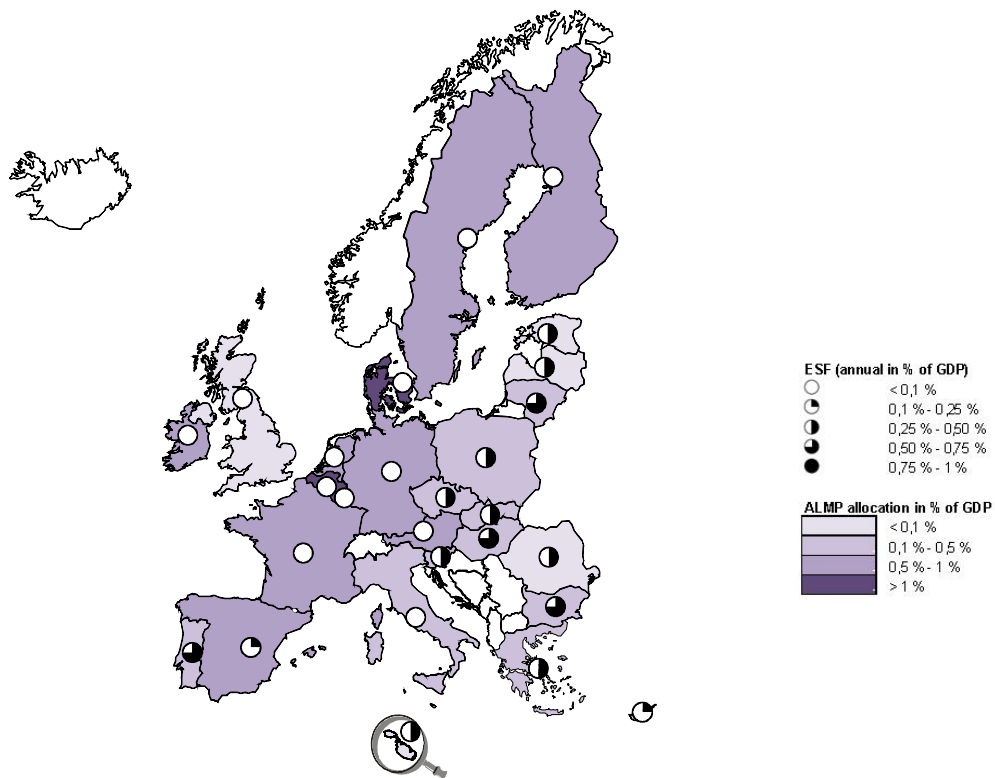
However, in assessing the role that the ESF has played in helping the Member States tackle the effects of the crisis, it is important to understand the differences in volume, approach, role in relation to national active labour market policy measures, the scope of programmes (thematic and/or regional), as well as the effectiveness of their implementation.

ESF funding allocations

Some countries receive comparatively high allocations in absolute terms. The largest ESF contribution in the EU is received by PL (€9.7bn over the entire period), followed by CZ (€9.4bn), DE (€9.3bn), ES (€8bn), IT (€6.9bn) and PT (€6.1bn).

In terms of the average annual ESF allocations per inhabitant for the current programming period, PT has the highest allocation (€89), followed by GR, CZ, HU, SI (slightly above €50). At the other end of the spectrum there are DK, LU, NL, AT (around €7 - €10) with the UK, FR, SE, IE, BE, DE, IT in an intermediate position (€10 - €17).

Figure 29: ALMP and ESF allocation as % of GDP (2009)



Source: EUROSTAT 2009

ESF and national ALMP

The overall ALMP budgets of Member States are much higher in the EU-15 than in the EU-12. They amount to 0.5% or more of GDP in most EU-15 Member States. In EU-12 ALMP budgets are significantly lower, mostly below 0.5% of GDP, but in some cases even less than 0.1% (see Figure 29). So in fact, in these countries ESF often constitutes the most important part of ALMP. In all EU-12 Member States (with the exception of CY) ESF spending on ALMP exceeds national ALMP funding by 50% or more⁷⁷.

Effectiveness in spending and reimbursement

Expenditure rates so far differ considerably between Member States: BG, RO, CZ, HU, MT have submitted up until 2010 reimbursement requests for less than 10% of their ESF funds for the current programming period, while amounts to over 25% have been requested from other countries (UK, FR, DE, ES, PT, LV, EE, AT, IE, SE). Figure 30 shows the average allocation of ESF per inhabitant (i.e. the intensity of ESF funding) and the share of certified expenditure on the total allocations so far. There can be several reasons for these delays: the programme had in some regions a late and slow start – for various reasons; administrative procedures taking place between spending and reimbursement, take time and are sometimes also an issue of concern; finally in some Member States implementation as such is a problem. Some indications for problems in proper and timely spending can be found in Member States with high per capita allocations (CZ, HU, CY) and in some with medium-range allocations (BG, RO). Low rates of absorption bear the risk of losing funds following the rule of automatic de-commitment (also known as n+2 rule).⁷⁸

Convergence and competitiveness

The main difference in the positioning of the ESF across Member States is in terms of its relative weight compared to the national ALMP budgets. This correlates with the programme objectives. Member States with a high share of convergence regions (RO, PL, BG, LT, EE, LV, GR, ES, PT) have considerably higher allocations of ESF in relation to their LM budget, compared with Member States with no, or negligible, convergence regions. The latter have a small amount of ESF compared to the overall ALMP expenditure (e.g. FR, BE, NL, LU, SE, FI, AT, DK).⁷⁹

National and regional operational programmes

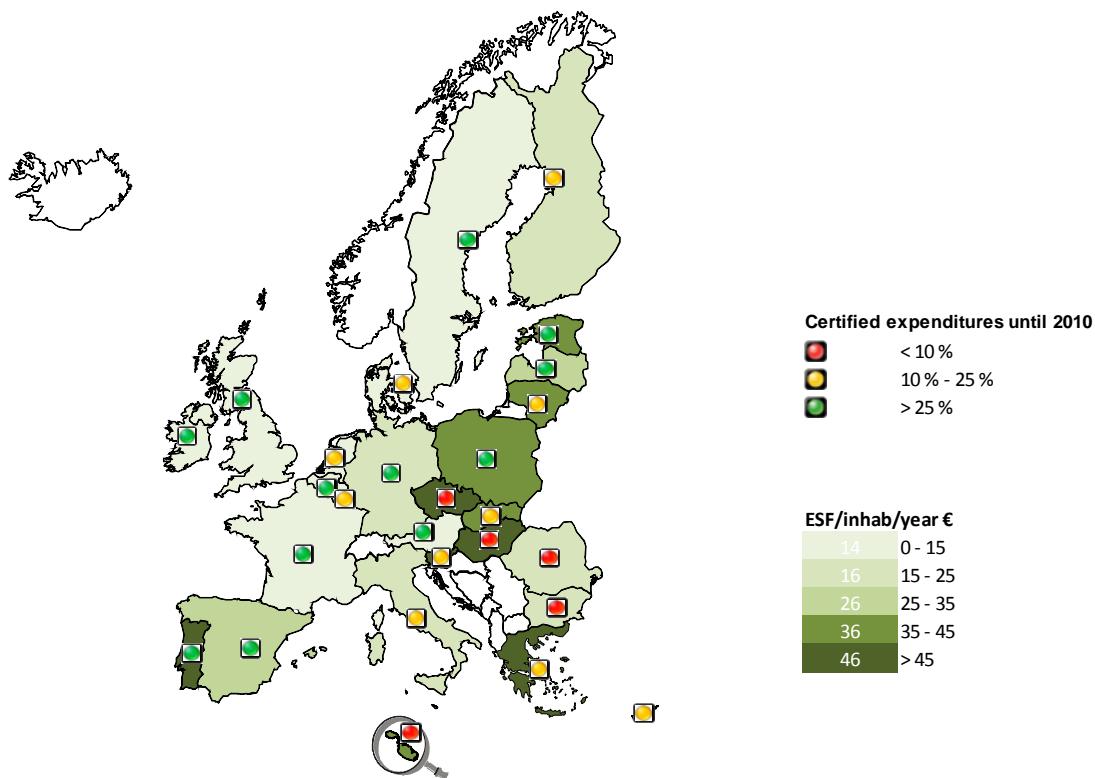
Member States have chosen different approaches towards setting up OPs. Some, such as UK, BE, IT, AT and ES have opted for a number of regional programmes, while others such as PL, FR, RO, BG, have one programme to cover the whole country. DE and IT have regional and country-wide OPs.

⁷⁷ EUROSTAT – data on ALMP 2008 and ESF annual allocations for 2007 to 2013

⁷⁸ The automatic de-commitment rule has been introduced in the previous programming period as an instrument to raise budgetary discipline among MSs. It stipulates, that allocations of EU funds for the year n that are not properly absorbed (i.e. neither reimbursed as certified expenditure from the European Commission nor paid as pre-financing) until the end of the year n+2 (or n+3 for MSs whose GDP from 2001 to 2003 was below 85 % of the EU-25 average in the same period but restricted to the allocations of 2007-2010) will revert to the EC. This rule should prevent large amounts of money from not to having been used as intended by the end of the programming period. (See General Regulation Art 93)

⁷⁹ DE is an exception having substantial convergence regions with the new federal states (former GDR) and nonetheless the ESF provides only a small amount compared to national ALMP budgets.

Figure 30: ESF allocation⁸⁰ and rate of certified expenditures (2007-2010)



Source: DG EMPL Database 2010

This reflects to some extent the degree of decentralisation and autonomous regional government structures in the Member States and institutional arrangements concerning the labour market. While the regionalisation of operational programmes can be an important factor in developing the capacity of delivery systems, national operational programmes are not necessarily any less effective, and centralised operational programmes may provide for regional sub-priorities, as in PL and FR. Box 10 presents examples of different approaches from IT and PL.

⁸⁰ ESF per capita – annual average of the allocation 2007 to 2013

Box 10: Division of tasks and functions between the national and the regional level

In Italy the central level (General Directorate of Labour Market) has a strategic role in ESF programmes. It defines the national priorities, coordinates monitoring and evaluation of the programmes at national and regional level. Governance, Education and "Azioni di sistema" are the 3 OPs at multi-regional level. The General Directorate is responsible for job matching systems, interventions on job placement policies, labour market policies for specific and disadvantaged groups, equal opportunities, family and work conditions, facilitating and promoting local development, youth employment and networking.

There are five regional OPs in convergence and 16 in competitiveness regions (Abruzzo, Emilia-Romagna, etc). The regions are in charge of planning and coordinating the interventions of job-matching to improve employment for specific target groups, planning of socially useful works, and evaluation of training and internships for workers. Provinces and communes have been given the responsibility (by a national decree) to implement active labour market policies. They are in charge of public employment services that have been reorganised to provide services for job-matching.

In Poland there is only one operational programme (Human Capital OP) with a total of € 9.7 billion - by far the largest of all ESF programmes. The programme consists of priorities implemented at the central and the regional levels. About 70% of the funds are dedicated to support regions. This includes support to persons and social groups. Under the central component the funds are mainly used for supporting structures and systems in particular sectors.

4.2 European Union interventions towards the ESF to mitigate the crisis

Cohesion Policy instruments, including the ESF, represent one third of the total EU budget. As such they have been key instruments in relation to the implementation of the EERP. In fact, the ESF is the "European Union's main financial instrument for investing in people" and is seen as a "key part of the 'recovery toolbox'"⁸¹.

The EC has launched a series of suggestions⁸² for the focus of LMP in Europe – where some of it is relevant for ESF. Furthermore, it has offered within the context of EERP a number of mechanisms relevant to the ESF regarding to acceleration of spending, providing additional liquidity, and simplification of procedures (see 4.2.2 below).

Finally Member States have - partly triggered by EC proposals and partly by the increased effort in national policies to mitigate the crisis - modified the focus, the operations and implementation and governance of the ESF to respond to the crisis. We will consider these changes, as well as other complementary changes regarding governance of funds and OPs, under the following four headings (see 4.4 below):

- Adjustments to operational programmes in terms of budget re-allocations between priorities and operations, and of changes to target groups and types of interventions.
- Making use of new options provided by the EC referring to mobilisation of funds and the additional provision of liquidity.
- Making use of new options provided by the EC referring to simplification of rules and procedures for the management and implementation of Structural Funds in general and of ESF in particular.
- Changes to national rules and procedures and institutional arrangements regarding the management and implementation of ESF (governance).

⁸¹ European Commission (2009i), "The European Social Fund: supporting economic recovery, DG Employment, Social Affairs and Equal Opportunities,

⁸² EU Shared Commitment for Employment – see 4.2.1 below

4.2.1 EU Shared Commitment for Employment

The special EU Employment Summit of 7 May 2009 in Prague was a major milestone in the building of a coordinated action. The Troika (CZ, SE and ES), Commission President Barroso, the former Commissioner for Employment, Social Affairs and Equal Opportunities Vladimir Špidla, as well as the social partners, discussed further ways to alleviate the effects of the crisis with relevant stakeholders.

As a follow-up to the summit, the “**EU Shared Commitment for Employment**”⁸³ identified new strategies to preserve jobs, support those facing difficulties, and pave the way for recovery. The priorities and their implementation in the Member States have been described in chapter 3. However, all three measures which are related to active labour market are relevant for ESF:

- Maintaining employment, creating jobs and promoting mobility.
- Upgrading skills and matching labour market needs.
- Increasing access to employment.

This should be reached through a strengthened cooperation between the European Union and its Member States as well as between EU social partners.

The European Commission put forward a series of recommendations related to the use and support of the ESF including the following priority actions:

a) Maintaining employment, creating jobs and promoting mobility

- Better use of **short-time working arrangements** to maintain viable employment and optimise the impact of temporary short-time working arrangements and training while avoiding negative spill-overs.
- Better **anticipation** and management of restructuring through a “practical toolkit”, developed by the EC, to help companies, workers and their representatives better manage and anticipate business restructuring and on this basis, an exchange of experiences between all stakeholders.
- Sectoral **partnerships** established through social partners and regional and local authorities for setting up specific action plans and negotiated agreements.
- Boosting **job creation** through creating an entrepreneurial-friendly environment (e.g. through a sustainable reduction of non wage labour costs including taxation, investing in research and infrastructure, reducing administrative burdens, promoting better regulation and encouraging the development of SMEs, special support for start-up business of unemployed and young people)
- Facilitating **mobility**.

⁸³ European Commission (2009), A shared commitment for employment, Communication from the Commission, Brussels, COM(2009) 257 final,

b) Upgrading skills and matching labour market needs

- Strengthening the capacity of MS to **anticipate and forecast** future skills needs, to better match skills demand and supply in sectors and industries most affected by the crisis, to improve the quality and accessibility of education and training, to promote flexible learning and training pathways.
- Helping young people to find high quality apprenticeship, to develop strategies against early school leavers and improve opportunities for young unemployed.

c) Increasing access to employment

- Reinforcing activation and facilitating access to employment, where MS are asked to devote a significant amount of their ESF resources to improve the efficiency of their **national employment systems and active labour market policies**, and provide incentives to establish a business or become self-employed.
- Member States should step up efforts to actively implement and monitor the EU common principles for **active inclusion**.
- Measures related to combat long-term unemployment, to support employment of vulnerable groups and older workers, low-skilled workers are suggested, including a strengthened cooperation between public and private employment services to increase their capacity to deal with the new and large inflow of jobseekers.

In terms of **mobilisation of funds** the EC:

- Set aside €19bn for the ESF in 2009-2010.
- Introduced a fast-track procedure whenever the adaptation of an ESF programme is required, shortening the process to not more than 1 month.
- Asked Member States to accelerate spending and reduce bottlenecks in national funding systems.
- Stated that Member States will be helped to put in place rapid reaction packages, focusing ESF financial support on measures as listed above.

4.2.2 The ESF in the European Economic Recovery Plan⁸⁴

The European Economic Recovery Plan (EERP) initiated the simplification of the Structural Funds in general which was further supported by the financial commitment made in Prague in May 2009. In April and May 2009 several measures⁸⁵ relevant for the ESF were launched through amendments to the General Regulation⁸⁶, the ESF Regulation⁸⁷ and the Implementation Regulation⁸⁸. Their purpose was to support

⁸⁴ European Commission (2008), A European Economic Recovery Plan, Communication from the Commission to the European Council, COM(2008) 800 final, Brussels 26.11.2008 available at http://ec.europa.eu/economy_finance/publications/publication13504_en.pdf

⁸⁵ European Commission (2009i), The European Social Fund: supporting economic recovery, Communication from the European Commission available at: http://ec.europa.eu/employment_social/esf/discover/esf_library/publications_en.htm

⁸⁶ European Commission (2009c), Regulation No 284/2009 of 7 April 2009 amending Regulation (EC) No 1083/2006

⁸⁷ European Commission (2009b), Regulation No 396/2009 of 6 May 2009 amending Regulation (EC) No 1081/2006 on the European Social Fund to extend the types of costs eligible for a contribution from the ESF

⁸⁸ European Commission (2009d), Regulation No 846/2009 of 1 September 2009 amending Regulation (EC) No 1828/2006

Member States in increasing activation measures. Re-training and skills upgrading, as well as personalised counselling, were cited as key factors in promoting employability, ensuring a rapid re-integration into the labour market, and avoiding people becoming long-term unemployed.

Technically these changes⁸⁹ were targeted at the mobilisation of funds and provision of additional liquidity on one hand, and on the other hand to simplify rules and procedures for managing and implementing Structural Funds in general and the ESF in particular.

Mobilisation of funds and liquidity provisions

A number of measures helped increase the amount of funding available in the immediate crisis period:

- The provision of **additional funding**⁹⁰ by better deploying unused funds from the earlier ESF programming period (2000-2006). Around 10% of funds (€7bn) from the previous programming period were not spent at the end of the regular disbursement period (2008). The EU allowed Member States to make use of these by extending the period for disbursement by an additional 6 months (i.e. until 30.06.2009)⁹¹ and facilitating more investment.
- The provision of **additional liquidity** (frontloading) by increasing the amount of pre-finance from the EC and by allowing reimbursement to be based on 100% of eligible expenditure for the years 2009 and 2010 with no regard to the ESF intervention rates agreed upon.⁹² In the face of national budget constraints this was targeted to increasing the room for manoeuvre of national governments and MAs at providing cash to beneficiaries (referring to advances as well as to reimbursements) and also to support frontloaded investment.
- **Lowering the pressure from the threat of automatic de-commitment** by the aforementioned increased advance payments (pre-financing) and, particularly, by completely taking out the allocations for the year 2007 from the calculation of $n+2/n+3$ and stretching out these equally over the years 2008 to 2013 instead. This should help to maintain the funding once approved for the MS despite problems faced for various reasons in implementing the OPs.

⁸⁹ Later on complemented with a 2nd amendment to the General Regulation: Regulation No 539/2010 of 16 June 2010 amending Council Regulation (EC) No 1083/2006

⁹⁰ Actually the option to reduce potential losses of funds once allocated

⁹¹ This included the modification of guidelines on closure of assistance from Structural Funds for the period 2000-2006 cf. below FN 93.

⁹² The condition is that this is balanced/compensated by the end of the programming period via increased national funding, thus it is a purely liquidity provision. Usually the reimbursement is based on the total certified eligible expenditure to which the EU intervention rates that differ according to the objective regions are applied. The advances have been increased within two steps pursuant to the two amendments to the General Regulation Art. 82(1). A distinction was made between Member States according to their accession dates to the EU (before or after 1 May 2004) with the 1st amendment advances for 2009 increased by 0.5% points (in the case of MSs which acceded after 1 May 2004 the advance payment was raised to 4% instead of 2%). This amounted to €6.25 billion taking the total of advance payments (pre-financing) for 2009 to €8.62 billion including €2.29 billion from the ESF (cf. European Parliament (2010), Review and Assessment of simplification measures in Cohesion 2007 – 2013, Director General for internal policies, policy department B, Structural and Cohesion policies, p.16 and DG Employment, Social Affairs & Equal Opportunities, The European Social Fund: supporting economic recovery, p.3. The 2nd amendment was more selective by choosing MS for additional advances according to the severity of the crisis' impact in the year 2009. Those selected (ET, LV, LT, HU, RO) were provided an additional 4% of ESF (in total 371.3 mn EUR) and an additional 2% of Cohesion Fund (in total 403.8 mn EUR) – cf. Council of the European Union, Council Facilitates access to EU structural funds to counter crisis, 10547/10 Presse 155, 03.06.2010.

The introduction of simplified rules and procedures

Simplification of rules and procedures (reducing administrative burdens) concerns the interaction between EC and MS/MAs in the management and implementation of OPs, as well as the interaction between MAs and beneficiaries regarding applying for and approving of projects and their subsequent implementation.

Simplifications regarding management, implementation and revision of ESF OPs

- In the context of the **extended eligibility period** for the 2000/06 programmes changes were also applied to the “Commission guidelines on 2000-2006 closure”, allowing the final contribution at priority level to exceed by ten percent (instead of two percent) the amounts set in the last Commission decision on the programme.⁹³
- Simplifications regarding the **revision of OPs** were covered by the aforementioned amendments to the General Regulation.⁹⁴ In order to speed up the necessary adaptations of OPs/Priorities to face the crisis the EC no longer required an explicit evaluation of their justification to be carried out but requested an analysis to be provided instead (cf. Art 48(3) of General Regulation).
- The set-up of **financial engineering** instruments (e.g. micro-finance funds) was facilitated by allowing ‘**in-kind contribution**’ to be used as co-finance for these too (cf. Art. 56(2) of General Regulation).
- Likewise, it became simpler to introduce **new eligible activities/expenditures** (cf. Art 56(3) of General Regulation) when compliant with the definitions provided with Annex II, Part A, Table 1 of the Implementation Regulation).
- Calculation of **reimbursements** was **simplified** by applying the respective intervention rate to the total of eligible expenditure certified with no regard to the rate applied to individual grant decisions (cf. Art. 67(2) (b)).
- **Other changes** of rules of relevance to ESF⁹⁵ were more of a general technical character and concerned the treatment of recoveries, the handling of net revenue generating operations (cf. Art 55), the maintenance of investments (cf. Art 57), the evidence to be provided for expenditure paid (Art. 78(1)), etc.

Simplification regarding management of projects

The major aspects of changes relevant for ESF grants were introduced by the amendment to the ESF regulation (cf. Art. 1(b) thereof). They are:

- The expansion of **flat-rate based cost** calculation for indirect cost up to 20% of direct cost.
- The introduction of flat-rate costs based on pre-defined **standard scales of unit costs** – if such are available and clearly justified.
- The introduction of a **lump-sum** based project approval for small projects up to € 50.000.

⁹³ Cohesion policy: response to the economic crisis” European Commission seminar for managing and certifying authorities Brussels, 9 June 2009.

⁹⁴ By consequence these also led to respective amendments to the Implementation Regulation

⁹⁵ Additional aspects of the amendments to the General Regulation, e.g. relating to major projects or cooperation of funds are relevant for ERDF and Cohesion Fund alone

While the lump-sum funding for small projects was intended to ease and support the set-up of small local initiatives by reducing accounting burdens, the simplifications were also following the recommendations of the European Court of Auditors towards simplification and further standardization to speed up check and control procedures.

4.3 OP changes related to the crisis

Member States have reacted in different ways to the financial and economic crisis and, as described in the previous chapter 3, have introduced recovery packages that have varied in scope and nature, with the weight of labour market policy in these plans varying considerably. An optional element of these recovery packages was adjustments to existing ESF OPs.

The relevant regulations provide for adjustments to an OP following substantial changes in the socio-economic context or due to obstacles impeding the implementation of a given strategy or priority. When whole priorities are affected, such changes require the approval of the EC as the priority axis level is part of the OP approval as such (cf. Art 33 and 37 of the General Regulation).

In analysing the detailed changes of operational programmes it is sometimes difficult to distinguish crisis-related changes from changes that have occurred as part of the regular process of programme implementation. In the interviews conducted with the Managing Authorities it turned out that formal requests for changes reported to the Commission were not always directly crisis-related. In some cases, the crisis was cited even though the changes had been planned anyway, while it was also the case that changes initiated as a result of the crisis had not been officially declared as such.

In many other cases, the MA did not need to ask for a formal change in order to adapt a programme to the crisis because:

- It was flexible enough to accommodate the required adaptations, or the changes were within priority axes, or relatively minor.
- It had already foreseen options to dedicate funds for crisis related interventions.

Finally, there were OPs that were not adapted at all, since the ESF continued to follow its pre-crisis policy approach, with national funds being used instead to tackle the labour market impacts of the crisis.

As a result, officially requested crisis-related changes - there were a total of 27 formal requests for OP modification related to the crisis by the end of 2010⁹⁶ - do not provide either a clear or a complete indication of changes to OPs relating to the crisis. In order to obtain a more complete picture of such changes, we have relied on the following two sources:

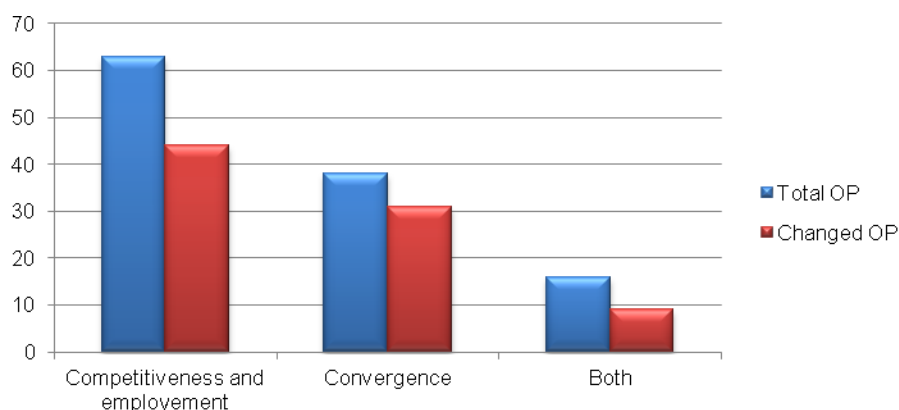
- Changes defined as crisis-related in the AIR.
- Changes characterised as crisis-related by a key interview partner (MA, Implementing Body).

Based on this our assessment is that 84 out of 117 OPs (72% of the total) were adapted in response to the crisis, a large majority of those changes not being subject to formal approval by the European Commission.

⁹⁶ List provided by the European Commission DG Employment,

Figure 31 shows that a larger proportion of Convergence programmes were changed as a response to the crisis than was the case with Competitiveness programmes or with programmes that included both objectives.

Figure 31: Changes of ESF operational programmes



Source: Metis Geographical Experts 2011

Origins of changes

In principle, the changes in the ESF OPs may be initiated by different actors – the government, the relevant ministry, the Public Employment Service, or the social partners in their respective position as members of Monitoring Committees. In practice the changes in the ESF mainly followed national policy changes in that:

- Most changes were initiated by the governments and their ministries.
- The social partners actively initiated changes only in a minority of Member States but of course participated as members of MCs.
- The PESs were involved in initiating changes in very few Member States.

Most programmes were modified in 2009 although in DE and the UK some OPs were modified as early as 2008 or fairly late (in 2010). In these cases, it can probably be assumed that non crisis-related issues played an important role.

By contrast, in RO, IE and EE the changes to the OPs were introduced at the end of 2009 or 2010. These countries had particularly suffered as a result of the economic crisis and, with significant budget deficits, their governments had been obliged to introduce austerity measures (see 3.2.2). As a result, two reasons could be advanced to explain the rather late introduction of changes compared to other countries:

- The changes were introduced in late 2009 and/or 2010 because of the budgetary restrictions and the difficulty of providing co-financing any earlier.
- The changes were implemented to mitigate the effects of the crisis only once these had resulted in highly visible labour market effects.

Exchanging experiences on changes in ESF

Although Member States devolved a wide range of activities to react to the crisis with support of ESF money, and this issue has been intensely discussed in meetings between the EC and Member States, there is little systematic information about the actual measures performed in this respect (except for the information provided in AIRs). Box 11 presents the NET@WORK - an example of a transnational network for the exchange of experiences. However most of such initiatives involve only smaller group of Member States.

Box 11: NET@WORK Transnational Network: a net for employment

Member States have indicated on numerous occasions the importance of transnational cooperation for sharing information and good practices with respect to anti-crisis labour market policies and the flexible use of the structural funds. As a result, a transnational network was launched under the name of "NET@WORK" with just those objectives.

This transnational network was launched to provide a platform for information sharing and debating on a transnational level. Net@work is "a net for employment" which provides a platform for sharing information on the types of anti-crisis measures carried out at national level. Representatives from EU Member State can present the labour market policies carried out in the face of the crisis and debate sessions are organised to review those strategies. The second key objective of the network is to explore how to integrate structural funds into crisis handling.

The first meeting of the network took place on 14th and 15th of April 2011 in Turin. It was organised by the Italian Ministry of Labour and Social Policies and the Piedmont Region in collaboration with Isfol (Research Institute of the Ministry of Labour and Social Policies). The aim was to start the dialogue among the partners of Net@work thematic areas and to set up a plan of activities and events for 2011-2012. Moreover, the meeting aimed to develop a debate on active and passive policies on integration in the context of the review process of the General Regulations on the Structural Funds for the Programming period 2014-2020.

Representatives from Lithuania, Slovakia, Finland and Italy presented national strategies in handling the crisis followed by a debate on national strategies and the role of structural funds in the necessary support of integration. The debate confirmed the key role of integration as a necessary condition for crisis-tackling. The concept of integration was mainly linked to the integration of funds in support of anti-crisis measures, as well as in the delivery of services. The involvement of social partners at all levels of policy implementation was highlighted.

The Net@work welcomed the simplification of implementation and management of operational programmes introduced in part because of anti-crisis experiences.

4.4 Detailed analysis of changes at OP level

There were two related sets of recommendations from the Commission in addressing the impacts of the crisis: to adjust OP objectives and priorities; and to accelerate spending in areas where needs occurred and money could be "absorbed".

Many Member States have adapted the use of the ESF in order to be able to respond more effectively to the crisis or to better support and complement existing national responses. The changes applied can be grouped in relation to the options already available or newly introduced by the Commission, as follows:

- Adjustments of operational programmes in terms of budget re-allocations between priorities and operations, changes to target groups and to types of interventions.
- Making use of new options provided by the EC referring to mobilisation of funds and provision of additional liquidity.
- Making use of new options provided by the EC referring to simplification of rules and procedures for management and implementation of Structural Funds in general and of ESF in particular.

This has to be complemented by a view on changes regarding the governance of funds and OPs as implemented by different MSs and MAs.

4.4.1 Adjustments of the ESF implementation

Operational programmes have been modified in terms of reallocation of funds between and/or within priority axes, and in terms of interventions and target groups. The changes introduced were generally in line with the crisis related policy measures (see Figure 32).

Both types of changes – financial allocations and content adjustments – often go hand in hand. The key distinction is between changes requiring EC approval, which is normally the case for changes at priority level (cf. General Regulation Art 33 and 37) and those which do not.

General reallocation of funds and changes in national contribution

It is nearly impossible to compare on a sufficiently detailed level of policy interventions actual against planned expenditures⁹⁷ in each Member State. However, at least some indications on changes in allocations can be obtained by looking at how financial contributions were modified in response to the crisis in terms of national and EU allocations. A number of findings on this matter are reported below.

In IE, funds were shifted from social inclusion (€100 mn) to interventions for the unemployed and for the restructuring of apprenticeship training. In the German OP Sachsen-Anhalt, funding has been shifted from start-up qualification to employee qualification combined with an increase of national public funding (€28.8 mn) and additional funds from private sources (€3.3 mn).

While there was no reduction in the ESF contribution from the EC, some Member States reduced the national contribution, e.g. LV, IE and ES. In LV the amount of national co-financing has been reduced in all priority axes, thereby raising the intervention rate to its limit of 85%.⁹⁸ In IE some shifts in funding allocations were introduced in the operational programme, with a reduction of the national co-financing by around €440 mn, but with no change to the ESF funding contribution.

Finally, a massive front-loading of funds has been effected in IE when the total ESF budget available was used up in the crisis years.⁹⁹

Explicit changes between priority axes

Improving absorption and the better targeting of groups affected by the crisis were the main objectives of these modifications. Box 12 provides examples of changes between priority axes in ESF OPs. Only a minority of the changes of operational programmes fall into this category, requiring formal approval by the European Commission.

⁹⁷ Budget allocations usually are only published on the level of priority axis but not available – if defined at all – at the level of operations, measures or interventions (i.e. on a level below priority axis).

⁹⁸ Compliant to Art. 53 and the Annex III of the General Regulation

⁹⁹ For this no change in allocation was needed as under Structural Funds it is possible to reimburse at a given moment in time more funding than has been allocated until the respective date, as long as this is underpinned by sufficient eligible and certified expenditure and the respective national co-funding is provided.

Box 12: Changes between priority axes

In France, in the regional competitiveness and employment OP, funds have been transferred between 2009 and 2010 from priority axis 2 ("improved access to employment for the unemployed"), axis 3 ("Strengthen social cohesion, support for social inclusion and anti-discrimination") and axis 4 ("Investing in human capital and networking, innovation and transnational activities") to axis 1 ("Adaptability of employees and enterprises to economic change"). This shift of funds between priority axes related to a greater orientation towards adaptability and preventive measures. The aim was to enhance work transition training and the co-financing of the widening of the experimentation of occupational transition contracts (CTP) in the geographic areas that were most hit by the crisis. This shift of funds was enabled by the adoption in 2009 of a dynamic programming mechanism (mécanisme de programmation dynamique des crédits), with the objective of reallocating credits that were not programmed in the beginning of the period to the most needed interventions. These changes have been planned as open-ended measures, except for the €20 mn allocated to CTP which was restricted to a 2-year period due to its experimental nature. They were not cyclical measures but rather structural ones. The emphasis on axis 1 "Adaptability of employees and enterprises to economic change" corresponds to a new global national trend of focusing on fostering employability, vocational training and transition between jobs, and, therefore, should remain relevant throughout the rest of the recovery period. These changes were perceived favourably by social partners since they championed also new orientations towards vocational training.

In Spain in the OP Andalucía, funds were reallocated from axis 4 (Transnational and interregional cooperation) to axis 2 (Fostering employability, social inclusion and equal opportunities between men and women). Programme managers and Monitoring Committee members realised early on that the funds for axis 4 were not going to be spent entirely. In fact, axis 4 concerns trans-nationality and cooperation projects with other countries which is not a priority in times of crisis. The need was to focus on other more urgent priorities. Hence, a reallocation of between € 32 and € 35 mn is envisaged. Funds are mainly to be shifted to priority axis 2, since it is the one that deals with most acute problems such as youth unemployment, including skilled young people who cannot find employment because they lack professional experience. As unemployment was already high in Andalucía when the programme was originally designed, the OP already included actions to address such problems. In fact, axis 1 (Fostering entrepreneurship and employees', enterprises' and entrepreneurs' adaptability) and axis 3 (Increasing and improving human capital) have progressed quite well and axis 2 which deals with unemployment problems will be strengthened with the reallocation.

Likewise this has been done in the OP Castilla la Mancha where funds were reallocated from priority axis 4 to priority axis 2 in order to maximise the efficiency of the resources for improving employment and human resources. Furthermore, human and financial resources have been shifted within axes on emerging and urgent actions. A specific plan of extraordinary measures to address the crisis has implied changes in the ESF allocations within the programme.

Similar changes between priority axes were undertaken in Hungary, Denmark, Lithuania and the UK. In the UK the West Wales and the Valleys OP shifted €41m from Priority 1 ("Supplying Young People with skills for Learning and Future employment") to Priority 2 ("Increasing Employment and Tackling Economic Inactivity"); also, the Scotland-Highlands & Islands OP shifted funds between Priority 2 (Investing in the Workforce) and Priority 3 (Life-long Learning) to Priority 1 (Increasing the Workforce) and the Scotland-Lowlands & Uplands OP shifted funds to Priority 1 (Progressing into Employment) and a new Priority 5 on skills.

Changes in interventions

Changes were mainly carried out within priorities. They aimed at fine-tuning of operations/interventions including broadening the scope of activities, launching specific calls and including further target groups (see Box 13).

Box 13: Reallocation of funds

In the German OP Brandenburg, funds were increased for 2009 and 2010 for the programme "Einstiegszeit" which started on 01.01.2009 and aims to foster the inclusion of young unemployed people into the labour market with IVT certificates.

In Latvia, within the financial reallocation of €135 mn within the OP, additional funding was allocated to the promotion of employment (€63.5 mn) to provide jobs for the most vulnerable persons in the framework of the emergency employment programme; to support the upgrading of workers' skills; to offer training opportunities for people working part-time in companies encountering difficulties; and to social inclusion (€20 mn) - to develop the mid-term plans by social services in the regions targeting the vulnerable groups (people with disabilities, homeless people and persons at risk of unemployment).

*In **Lithuania** an additional € 43.5 mn was allocated to priority axis 1 (Quality employment and social inclusion). In **Hungary** more funds (€77 mn) were allocated to a measure aiming to assist employees who became unemployed due to crisis and disadvantaged groups.*

*In the **Spanish OP Castilla la Mancha** a change consisted in increasing financial incentives to promote short-term contracting of workers in sectors under crisis. New labour market advisers have been provided. All those actions helped to re-position itineraries for the recently unemployed by tackling employability problems or low income levels. Actions included employment workshops for recently unemployed people and training for the unemployed in new sectors.*

Member States have shifted resources between instruments or introduced new instruments based on the labour market developments during the recession. These measures have mainly been targeted on groups of people most affected by the crisis with a focus on schemes designed to support their maintenance in job or (re)integration, and with some interventions specifically focused on sectors that had been badly affected by the economic crisis (such as manufacturing, construction and textiles).

New measures have been introduced, or there has been a shift of funds in respect of existing measures in the framework of the ESF in BE, CZ, FR, IE, IT, LT, LU, NL, PT, SI, GR and the UK. In some cases, these measures were complementary to the national measures carried out at the same time. For example, in the UK micro-loans were introduced within the ESF Priority 2 (Increasing employment and tackling economic activity) in order to facilitate access to finance and in DE (national OP) training for employees receiving STWA was newly introduced into ESF.

In order to compare ESF interventions with general national labour market interventions the Labour Market Policy Database Classification is used. The classifications are again grouped in relation to the four crisis-related policy types:

- Maintaining employment and creating jobs (special support for apprenticeship, job rotation and job sharing, recruitment incentives (permanent or temporary), employment maintenance).
- Upgrading skills (institutional training, work place training, alternative training).
- Supporting household incomes.
- Increasing access to employment and mobility (supported employment and rehabilitation, direct job creation, start-up incentives¹⁰⁰).

By analysing the types of interventions that were strengthened, it is possible to assess how the ESF contributed to general national policies and what types of intervention have been accorded priority in the context of the crisis.

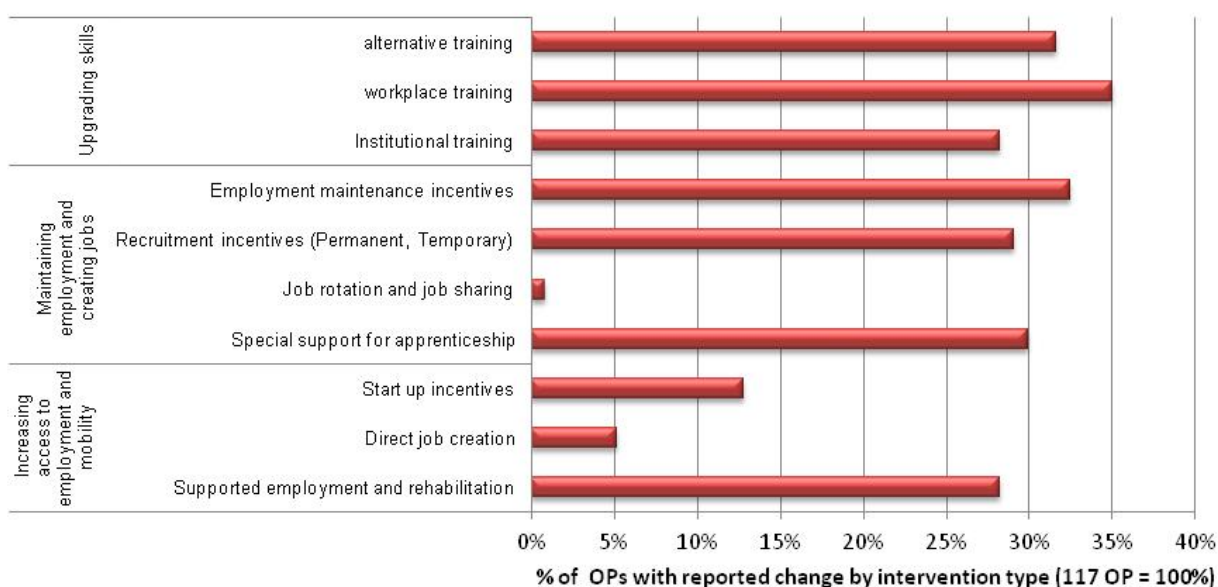
Figure 32 indicates the share of changes by intervention types in response to the crisis and certain trends can be observed. They are illustrated in the examples of Box 14.

Intervention changes have mainly been related to **upgrading skills**. This includes on-the-job training in crisis-affected or “future-oriented” industries, as well as supplementary measures to support short-time work arrangements, which have been used as an anti-crisis measure in a large number of Member States.

¹⁰⁰ European Commission (2006a), Labour market policy database, Methodology, Revision of June 2006, p13

This is in line with the fact that a major part of ESF spending has always been allocated to this type of measures. **The novelty has been the shift between particular interventions and particular target groups.** In many cases the focus has been on target groups in the most affected sectors such as manufacturing, construction, tourism and textiles. This was the case, inter alia, in ES, GR, FR and PT.

Figure 32: Procedural changes in OP by intervention type



Source: Metis Geographical Experts 2011

Box 14: The ESF as a support for upgrading skills

Bulgaria, Training vouchers: In October 2009, by the Decree № 251/21 Oct. 2009 (SJ, #.85 from 27 October 2009) a new mechanism for funding adult training was implemented in Bulgaria, consisting in the introduction of vouchers for unemployed and employed persons. The Employment Agency, through the "Directorate General Employment Services" is the only body authorised to provide vouchers. The type of training and the training provider are chosen by the beneficiaries. Vouchers can be used only for financing vocational training and/or training for acquisition of key competences according to the already adopted legislation in these fields and the list of the key competences in compliance with the European Qualification Framework. In 2010, amendments were introduced in the above-mentioned Decree № 251 to improve the organisation and the quality of the training and the spending efficiency. Approved persons receive a voucher at the start of the training.

The actual application of the training vouchers was launched in 2010 through the following programmes:

- Scheme BG051PO001-2.1.12 "Adaptability": Training for employees in short-time work arrangements
- Scheme BG051PO001-2.1.11: "I can": Increased access to life-long learning for self-employed people and employees. The aim is to ensure direct and equal access of employees to lifelong learning without depending on the initiative of employers.
- Scheme BG051PO001-1.1.03 - "Development". Project: "A new choice": The objective is to increase and improve vocational training for unemployed people registered in the Directorate's "Labour Bureaux".

In Hungary the operational programme for structural renewal implemented training for those with temporary working time reduction ('4 days of work + 1 day of training' concept).

In **Portugal**, new measures for upgrading skills have been implemented including "Qualification-Employment" (targeting workers subject to temporary layoffs due to the crisis impact), "Support to the Insertion of Unemployed People" (targeting unemployed people looking for a seasonal occupational activity) and "Support to Investment in the Area of Social Support Integrated Responses" (targeting children, young people, elderly people, disabled people)

In **Germany** in OP Mecklenburg Vorpommern start-up fees and training vouchers were introduced for the first time but with no special reference to the crisis. In the OP Schleswig-Holstein Continuing Vocational Training (CVT) in service sectors have been introduced emphasising a cluster-oriented approach. Another intervention which has been introduced was pre-start-up counselling for employees and Initial Vocational Training (IVT) - canvassers for increasing of IVT in enterprises. Another intervention has been the installation of regional counsellors/mediators for young people (partly with migrant background).

In **Sweden** increased emphasis was put on skills development, addressing the threat of unemployment in ESF project/ proposal calls by the regional authorities.

The ESF also supported measures aimed at **creating or maintaining employment**. This included the co-funding of apprenticeship schemes, recruitment incentives, employment maintenance programmes and rehabilitation activities. Specific examples are presented in Box 15.

Box 15: Creating employment for the unemployed

France, "Occupational Transition Contracts": The occupational transition contract was a measure dedicated to foster the employability of employees being laid off for economic reasons. It was first launched before the crisis, but the economic downturn led to the expansion of the experimentation phase in combination with an increased allocation of funds. Since the modification of June 2009, the widening of this experiment is funded jointly by the ESF (€20 mn) and the government through the national recovery plan.

This intervention targets workers laid off for economic reasons and offers them a pathway back to work in small firms. This can include a change in occupation, sector, or locality. Occupational transition contracts have 4 main features:

- 1) a substantial allowance equal to 80% of gross or 100% of net earnings;
- 2) a fairly long duration (12 months), during which the beneficiary has the status of vocational trainee;
- 3) high redeployment incentive;
- 4) greater supervision with a view to professional reorientation, with a single contact in the public employment service with responsibility for no more than 30 beneficiaries, and which identifies and manages training that corresponds to the individual's aptitudes and the trades or sectors recruiting.

This measure provided great advantages for people who had been unemployed due to the crisis, i.e. approximately 1 out of 10 newly unemployed. It enabled newly unemployed people to benefit from personalised counselling and training for new jobs in more dynamic sectors. It was restricted to companies with less than 1 000 employees, and was implemented in labour pools particularly affected by the crisis. This change was also directed to older people, as a study on 11 labour pools showed that 44% of beneficiaries were aged over 45 at the time they entered the programme.

Almost half of the participants (45.5%) who ceased being unemployed found a job in a different sector.

Latvia, "Work with a stipend": A new programme under the name of "Work with a stipend" (WWS) was introduced in September 2009. The WWS programme has been introduced due to the bad economic situation Latvia had already been at the start of the programming phase. It was supported by the ESF and technical assistance was provided by the World Bank. The programme was implemented as a major emergency measure by the Latvian authorities to deal with the large numbers of unemployed persons who would lose their entitlement to unemployment benefit from the autumn of 2009 onwards. The aim of the measure was twofold: one was simply to maintain income after unemployment benefit entitlement has ceased and the other has been to enable people to maintain basic work skills through work practice. The jobs have been provided by local authorities and each community job is meant to represent a 'new job' lasting for at least two weeks and up to six months. Participants receive a monthly stipend of 100 LVL (approximately 142 EUR) as well as contributions towards equipment and transport. The original programme was planned to be temporary and last until December 2010 but it has been extended to the end of 2011. As of April 2011 nearly 80.000 people had participated in the programme. The budget (from September 2009 to the end of 2010) amounted to €36 mn, the bulk of which came from the ESF. In April 2011 further funding of just over €7 mn was announced which would finance a further 21.000 jobs on the programme in 2011.

Changes in target groups

Other measures that were adopted by Member States such as DE and ES used ESF co-financing to increase access to employment and to support mobility. Such measures included the services put in place by the PES in order to facilitate access to the labour market as well as to encourage workers to take up jobs offered in other cities or towns.

The economic crisis had a negative impact on groups that may not have been vulnerable in the past (such as middle age male workers in industry) as well as on groups such as young people who were seen as more vulnerable (see 2.1). As a result, many Member States spent more of the ESF resources on additional/new target groups, while others emphasised the existing target groups even more. In general, the examples in Box 16 below suggest that the changes were in favour of those most affected by the crisis.

Box 16: Changes of target groups in particular operational programmes

*In **France** more funds were dedicated to at-risk workers or newly unemployed for economic reasons and those with the most at risk inactive people, to foster their employability.*

*In the **UK** the emphasis lies on the unemployed with greater use of educational sector than employers, e.g. in apprenticeship type actions. For example, in the Scotland - Lowlands & Uplands OP more funds were allocated to greater targeting on most deprived areas. Also, key sectors not eligible for funding under EAFRD were added to the list of those eligible under the ESF programme for vocational training. For the Welsh OP a greater priority to unemployed people (from 30% to 50% in the OP West Wales and the Valleys) and less so to the economically inactive (from 70% to 50%) was accorded.*

*In 2010 in the **Spanish** national operational programme priority was focused on "Support for re-conversion and adaptation to the automobile sector" (SMEs offering auxiliary services to the sector, which has been especially affected by the crisis). Additionally, the programme focused on unemployed people, with the objective to increase capacities and professional qualifications to promote labour market integration.*

In OP Valencia the following groups have been emphasised: immigrants (promoting access to training); workers in sectors in crisis (textile and confection, footwear, leather and leather goods, toys and furniture); productive sectors affected by the crisis; surplus workers in sectors in crisis (e.g. promotion of self-employment). Training actions were also distributed along the different territories and sectors, especially those that undergo a process of modernisation and adaptation to the international situation. In the OP Madrid, the focus was on immigrants (access to specific training). In the OP Galicia (under Axis 1 of entrepreneurship and adaptability) emphasis was put on the support to enterprises in rural areas, as generators of employment for young and women, especially those enterprises that create employment for job seekers coming from sectors related to construction who were most affected by the current crisis. Another focus in this programme lies on the integration of immigrants, ethnic minorities and people with disabilities, and generally all those with difficulties in accessing the labour market. The OP Andalucía has focused on capacity building and provision of basic skills to young people, women and the unemployed. The OP Ceuta focused on operations related to the development of integrated and personalised itineraries for young people and people aged over 45 who are workers in sectors in crisis.

*The **Greek** Employment OP placed particular emphasis on the unemployed from sectors in crisis, i.e. construction and tourism. High priority was accorded to on-going professional training for the unemployed and the under-employed in the construction sector.*

*In **Poland** additional calls for proposal were launched in 2009, that placed more emphasis on groups that were most affected by the crisis. Changes within particular HC OP priorities directed support towards enterprises and were based on introducing changes in regulations concerning "de minimis" support for training in companies. The main emphasis was put on persons who lost their jobs due to knock-on effects of the crisis on companies, without further restricting the target group. However, the group of 45+/50+ is considered as a horizontal issue in the Human Capital Operational Programme. So, in most of calls for proposals this group is a strategic criterion scoring additional points, but this is not connected to the introduction of anti-crisis measures.*

Portugal: In the operational programme *Potencial Humano 2007-2013* (Measure 6.12: "Support to Investment in the area of Social Support Integrated Responses") the main target groups were young people; elderly people and people with disabilities. In the same OP, under measure 5.2 ("Professional Stages") the pool of beneficiaries was enlarged to include unemployed people in July and September 2009. Moreover, in June 2010, a new measure was introduced under the heading "Measure 5.4: Support to the Insertion of Unemployed People". The target group is unemployed people looking for seasonal work. Activities under the measure include increasing the number of education and training courses for unemployed people. Another new measure was adopted under of "Measure 5.5: Qualification-Employment" in June 2010 for workers subject to temporary layoffs due to the crisis impact (Reduction of time worked or suspension of working contracts). Measure 3.1.1 ("Action Training Programme for SMEs") has been modified in October 2009 and in June 2010 for the acquisition, improvement and development of competencies for Managers and Directors of SMEs and micro-enterprises.

Germany: In the OP Saarland one of the measures was originally restricted to coal-miners (restructuring sector) but due to low absorption the 'close-to-job' training was opened to other branches, too.

The massive use of QualiKug in the National OP had a negative side-effect on the strategic goal of the OP to applying 50% percent of ESF (as far as related to supporting individuals) in favour of women. STW is absolutely male-dominated due to the fact that mainly industrial production workers, who are male in large majority, were involved in STW.

In **Austria** the scope of target groups has been expanded to include persons who are particularly excluded from the labour market in response to the crisis. In fact, more EU funds were targeted towards people with disabilities in 2009 and 2010 in order to support their integration on the labour market. Young people were increasingly targeted in response to growing rates of youth unemployment through training, and among this group, the long-term unemployed and those with a migrant background have been especially targeted.

In **Slovakia** the operational programme has been changed to support the formerly excluded private sector with advanced payments in order to support new job creation.

Estonia: Some ESF measures were targeted especially to non-Estonians (the majority of the Russian speaking population) to increase employability. Labour market outcomes have been traditionally worse for the non-Estonians than for the Estonians: e.g. the unemployment rate of non-Estonians has been almost double of that of Estonians and the gap has even widened during the crisis.

Lithuania: ESF measures have been undertaken in enterprises facing economic difficulties. The enterprises were provided with an opportunity to get a subsidy for the employment of the companies' employees that were exposed to lay-offs and part-time working arrangements, regardless of the area of activity. Hence, while the target groups in manufacturing/construction/service sectors were certainly affected by the measures, there were no initiatives which were specially designated for the purposes of a single target group.

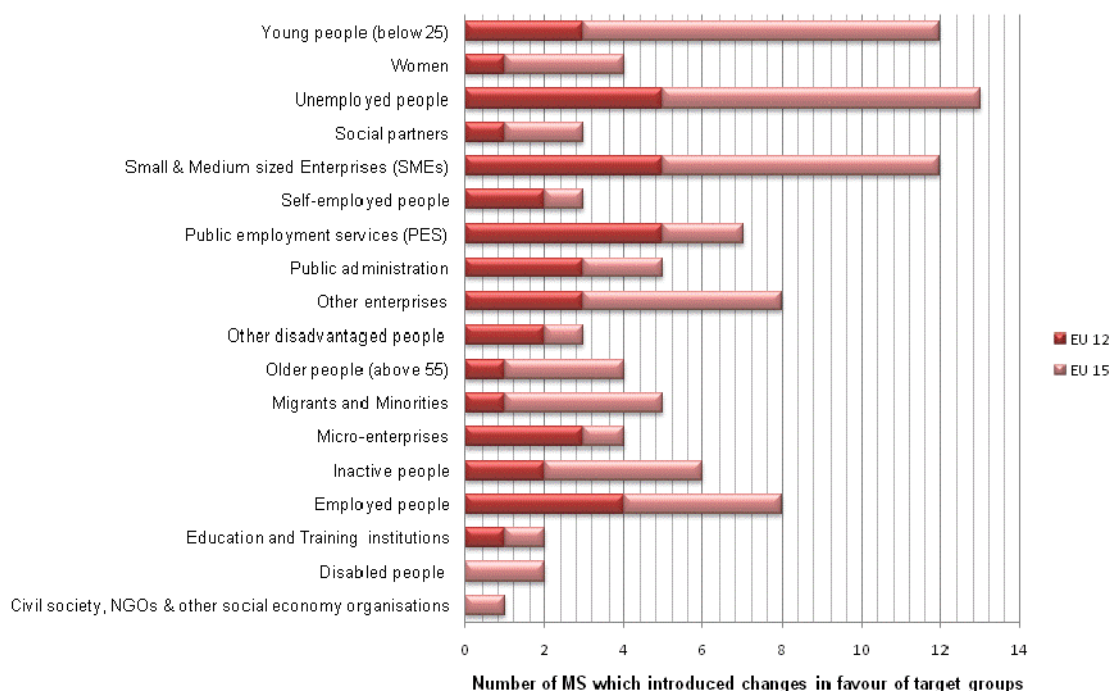
It is important to note that, in the light of the crisis, funds were shifted towards short-term support for those directly affected by the crisis (e.g. lower and medium skilled men). In other words, in order to mitigate the crisis Member States tended to shift funds towards cyclical reactions.

For example, different implementation rules were introduced, such as widening the eligibility criteria, so as to include people affected by the crisis who originally were not amongst the target groups of the particular OP. These actions often included focusing on unemployed people and employed people at risk of redundancy in particular sectors, with more emphasis also being put on young people and on small and medium-sized enterprises.

However, in some cases, the shift was made at the expense of other groups such as young people, immigrants, or the long-term unemployed. Our geographical experts reported that in several Member States (including France and Italy) groups particularly hit by the crisis (e.g. youth) had not been adequately targeted.

Figure 33 below shows the number of Member States in which changes have been initiated in favour of particular target groups.

Figure 33: Changes in target groups



Source: Metis Geographical Experts 2011

4.4.2 Mobilisation of funds

The European Commission offered several possibilities for rapid mobilisation of funds. However, Member States took up these options reluctantly. This is especially true for the **increase of advance payments**. Some Member States did not have the opportunity to take this measure of pre-financing further due to conflicts with national regulations. PT, UK, SI, HU, IE, MT and RO took advantage of this measure. In RO the amount of advanced payment has been increased. However, at the beginning of 2011, the rule was reversed, and advances have been cut back to 10% of the total financing for each project. In some Member States (e.g. DE) the advanced payment was seen to reduce the speed of the next payment and therefore deemed counter-productive.

But even when not using the additional money as advances for beneficiaries the Member States had an automatic benefit by the **cash injection**. Since advances are treated as actual reimbursements in the mechanism of automatic de-commitment this cash injection temporarily reduced the pressure from n+2. Thus, the massive increase of advances in 2009 and again in 2010 had a strong impact; at least as far as n+2 is concerned. Likewise, this holds true for the formal shift of the allocations for 2007 stretching the funds over the 2008-2013 period and thus taking 2007 out of the automatic de-commitment calculation.

The extension of the disbursement period for the 2000-2006 OPs (**upfront liquidity**) required distinct action by the MAs. Although this measure has been widely used across the EU, some MAs preferred not to make use of this option despite the

additional funds to be gained¹⁰¹ in the 2007-2013 period. The reasons were the suspected imbalance between the additional effort /resources required and the expected benefits, and also that some MAs preferred to start implementation of the new OPs and reduce the risks of a delayed start and potential n+2 problems¹⁰². But all-in-all these measures, in particular the “closure flexibility” have been seen as the most important simplification measures¹⁰³. Several Member States (HU, CZ, SK, SI, BE, DE, ES and PT) are reported as having adopted the upfront liquidity measure.

Likewise MAs did not always welcome and use the option of a temporary 100% reimbursement in 2009 and 2010 (known as **front-loading**) as it has to be counterbalanced later in the implementation and disbursement period by additional national funding. Given current economic uncertainties, not many Member States have taken the risk to run up the bill. Nevertheless ES, UK, LV and SI are reported to have implemented this change, though not always in response to the crisis but in order to improve short term liquidity¹⁰⁴.

Box 17: Changes in relation to accelerating spending

In Romania advance payment to beneficiaries have been increased up to 30-40%, calculated as of the total amount of the project financing, instead of the previous 30-40% calculated as per year of implementation. This was introduced with the intention of allowing beneficiaries to have a better start of the project and thus speed up implementation and apply faster for the first reimbursement, although it was found to be ineffective and later revoked.

In Estonia, a R&D innovation measure as well as measures supporting entrepreneurship will be available earlier than planned, with more funds used to support the cooperation between universities, research institutions and enterprises. Funding will be increased to support various measures supporting entrepreneurship.

4.4.3 Simplification of rules and procedures

The simplification of administrative rules and procedures has – reflecting the principle of shared management – overlapped between initiatives fostered by the European Commission and those of Member States themselves (dealt with in 4.4.4 below) and it is often hard if not impossible to distinguish the origin of the changes. Nevertheless, a clear link can be drawn from the amendments to the ESF regulation¹⁰⁵ to MS decisions in the case of specific eligibility of costs (flat-rate costs, standard unit costs, lump-sums). These are rules that the Member States can decide to apply or not; an option that did not exist before the amendment.

So far such simplifications were introduced in the UK, DE¹⁰⁶, AT, BE, FR, MT, LV, IT, NL and SI, PT. In MT flat rates were introduced in 2010 after a period of reflection that had started in February 2008 with the commissioning of a special study. In LV the flat rate for indirect costs has been used within 22 ESF activities. The NL have applied to the EC to use flat rates for indirect costs in all priority axes, SI has introduced flat rates

¹⁰¹ Alternatively, the gain can be seen as a reduced potential loss of funds in the 2000-2006 period

¹⁰² European Parliament (2010), Review and assessment of simplification measures in Cohesion Policy 2007-2013, Directorate-General for internal policies, Policy Department B, Structural and Cohesion policies, p. 14

¹⁰³ Ibid. p. 15

¹⁰⁴ Ibid. p. 15

¹⁰⁵ European Commission (2009), amending Regulation (EC) No 1081/2006 on the European Social Fund to extend the types of costs eligible for a contribution from the ESF, REGULATION (EC) No 396/2009 of the European Parliament and of the Council, of 6 May 2009, Article 1

¹⁰⁶ In the Operational Programme 2007DE051PO003, 2007DE052PO007, 2007DE051PO004, 2007DE051PO005

for indirect costs, standard unit costs and lump sums, and PT introducing standard unit costs.

One of the reasons for the reluctant implementation of these simplification measures is that this type of cost calculation needs to be well prepared within the public administration, standard costs need to be assessed, and reasonable and justifiable rates need to be established (see Box 18). Therefore, a longer preparation is often needed to implement such a solution¹⁰⁷. A recent study indicates that in some Member States the simplification measures are increasing the complexity of the rules by the national managing authority¹⁰⁸. However, the delayed implementation of these simplifications does not allow a proper assessment at this stage.

Box 18: Implementation delays in the Member States

Spain did not implement the simplification measures of the European Commission. The reason for that has been reported by our Geographical Expert, as follows: "The implementation of such changes requires a detailed study to define exhaustively the cost models to apply. This requires time and human resources which haven't been available during the crisis period. Given that, up to 2009 all Spanish OPs were busy with establishing monitoring and control mechanisms and dealing with the n+2 rule, they had no time to deal with any of the EERP simplification options"

Greece is planning to use the new opportunities included in the ERDF and ESF regulations for the use of flat rates, the calculation of overhead costs and the calculation of unit costs. However, the methodology for their application is under development. It is expected that this will give management authorities the capacity to certify expenses faster and reduce significantly the bureaucratic burden. "The activation of this option and the formulation of a proposal for the structure of the evaluation mechanism/system for crisis management for axis 2 are used to accelerate the implementation of the OP".

Lump sum grants (up to €50.000) for small projects have been applied less frequently across Member States. It appears that adjusting arrangements for small projects was not considered worth the trouble by many Member States. In FR, however, this and the flat rate of 20% for indirect costs have been introduced.

4.4.4 ESF governance and the crisis

This chapter considers governance issues concerning the role of the ESF in relation to the mitigation of the effects of the economic and financial crisis. They concern changes introduced to ESF governance as part of the response to the crisis, as well as aspects of ESF governance that have influenced the effectiveness of its response to this crisis, and which could be relevant in future circumstances.

Governance issues are considered under four main aspects:

- The speed of reaction and the ability of the system to adapt.
- The extent to which the implementation of recovery measures triggered simplification in the management of OPs.
- The way in which the Member States managed the interplay between national, regional and local level needs and responses to the crisis.
- Flexibility in responding to challenging new situations.

¹⁰⁷ See e.g. the Survey Results provided by the CRPM (CRPM 2011, p.2)

¹⁰⁸ Conference of Peripheral Maritime Regions of Europe (2011), for a simplification of the ESF, current situation and proposals for the future, summary of the results of the survey, March 2011

Speed of reaction and the ability to adapt

Changes to ESF programmes were mostly initiated by governments or Managing Authorities. Two thirds of the changes took place at Member State level, and one third at regional level. The European Commission has been reported as initiating changes to the programme in some 10% of OPs.

Overall, the national authorities considered their speed of reaction to have been satisfactory, with OPs in the sample reporting, in equal numbers, that the reaction was “timely” or “with some delay”. Three quarters of those who responded also felt that the relevant administrative changes associated with the adaptation of the OP were implemented effectively. However, not all changes were implemented successfully, especially when this required a change of legislation (see Box 22).

In these respects, the Public Employment Services played a major role in the implementation of the crisis-related measures in the majority of OPs, followed by the educational sector and local government.

In terms of adapting the implementation structures and procedures in response to the European Economic Recovery Plan, it has been noted that in 30%¹⁰⁹ of OPs simplified implementation mechanisms were introduced to accelerate the implementation of the OP, as illustrated in the examples presented in Box 19, which point in the direction of greater decentralisation and strengthening the role of intermediaries. In some 10% of OPs these changes were considered significant.

Box 19: Adapting implementation and timing of the response

Portugal: The use of global grants for different types of intermediary bodies (“competencies delegation”) was introduced in the ESF programme in 2008 and was extended considerably. By the first semester of 2010, it applied to 24 IBs managing €190.8 mn, mostly in crisis-related measures.

Romania: Delegating monitoring and supervision, including for strategic projects to regional (intermediate) management bodies/agencies. Starting with mid-2010 (July) monitoring and supervision of implementation has been delegated, including for strategic projects to intermediate bodies. Previously, all strategic projects were monitored by the national management authority with only so-called “grant” projects being monitored by IBs. (Human Resources Development).

Sweden: Speeding up approval of projects by simplifying the process (tele-conferencing and e-mails instead of meetings).

Hungary: The extension of “automatic” applications to the crisis-measure introduced for support for various enterprises meant that anyone eligible for support according to the specific criteria was automatically supported. The main criterion for selection was that the crisis had a negative impact on the applicant enterprise. There were no additional selection criteria and, therefore, applications did not go through a complex assessment process. This simplified procedure speeded up the whole assessment process and made calls for proposals quicker and more efficient.

In **Poland** changes in the public assistance regulations were introduced with a view to making the support more accessible, as well as reinforcing the “training instead of redundancies” programme. This programme required legislative changes in regulation concerning public assistance. The mechanism involved the utilisation of “de minimis” support for training in companies and introduced a new form of assistance for enterprises suffering from the crisis. However, successful implementation failed due to the long process of changes in legislation (at national and EU level). So, the permitted period finished before the legislative changes were accepted. The set of measures designed and presented in the anti-crisis package has been clearly crisis driven. Most of them are temporary, some have already expired and some will be active to the end of 2011 or to the end of this programming period.

¹⁰⁹ This was further confirmed by the analysis of sample OP questionnaires (Q3c) which shows that, in 35% of OP, changes were made to delivery structures and procedures

*In **Latvia** the response was quite fast: a decision to form a high level working group (HLWG) was made on 22 December 2008 to assess how the Structural Funds programmes could best respond to the crisis. The HLWG was formed on 16 January 2009 and reported with a menu of proposals in March 2009 and based on this the Cabinet of Ministers adopted the changes on April 22nd. For the ESF this meant reallocation of 135 mn EUR across priorities and activities. Since the changes involved reallocation of funding across priorities EC approval was needed and this came in August 2009.*

Simplification of OP management triggered by recovery measures

Some of the changes concerning aspects of ESF governance were triggered by the implementation of crisis-related measures, including a simplification of categories of eligible expenditure (flat rate, lump sums etc) and financing (advances, intervention rates, etc).

In the light of the crisis, several Member States reduced national administrative burdens in order to allow a faster and better targeted reaction. A large number of examples are available involving specific changes, as illustrated in Box 20.

Box 20: Simplifications at Member State level

*In **France** (National operational programme): introduction of a dynamic programming mechanism, which allows the reallocation of non-programmed credits.*

*In the **Netherlands** procedures in treating and evaluating projects were deemed too lengthy and are shortened in 2009 with a more strict approach.*

*In **Spain** programmes such as the OP Castilla la Mancha made changes in selection criteria in order to better address the impacts of the crisis. In the OP Andalucía the public authorities intensified the resources in the certification procedures.*

*In **Estonia** such measures included broadening the eligibility of different measures, simplifying and increasing the application and selection procedures, simplifying the expenditure rules.*

*In **Greece**, under the National Strategic Framework for Greece, the process for project selection has been accelerated for all programmes by adopting where possible the "first-in first-out" selection method."*

*In **Italy** many regions have adopted Standard Unit Costs for the provision of active policies (training).*

There are also cases where large packages of changes have been put into effect by national authorities. The fact that all the examples in Box 21 are from EU-12 indicates that the implementation of the recovery measures has triggered domestic simplifications in the newer Member States which had inadequate governance arrangements before. The effect of the simplification measures has yet to be evaluated.

Box 21: Large packages of changes

***Latvia** introduced a number of governance related changes in the ESF in response to the crisis with the aim of promoting flexibility, which was distinctly lacking in the original state of the OP, and accessibility, as well as speeding up processes, including:*

- Shortening of procedures (Reduction of time span for project amendments from 30 to 15 working days, if the decision about the project is taken without conditions, and 15 days after fulfilment of conditions; amendments to a project after approval from 25 to 20 working days).
- Advance payments for state aid projects;
- Approval of Project progress report is no longer a precondition for receipt of payments,
- Shorter terms for review of payment claims (from 40 working days to 20 working days in the responsible or cooperation institution, and from 15 working days to 5 working days in the paying authority);
- Shortening of the time allowed for the review of statements of expenditure (from 23 working days to 18 working days).
- Possibility to sign a contract in cases, when institutions have no funding, but the beneficiary can implement the project with its own funds.
- Simplified and accelerated statement of expenditure preparation procedure (monthly (before quarterly)).
- Use Euro in payments: an option has been introduced to enable all beneficiaries to submit payment claims in Euro.

The entrepreneurs open an account for advance payments in a commercial bank. As a result the administrative burden for entrepreneurs has been reduced and this facilitates faster funding and earlier receipt of advance payments.

Preparation of the expenditure declaration is now the sole responsibility of the Certifying Authority.

Flat rate fees and unit cost methodology introduced.

The net results have been: more flexible implementation; the initial financial burden on beneficiaries has been reduced; an improved payment flow in projects and thus absorption has improved.

Hungary: In order to simplify and accelerate the application system a review on the utilisation of funds was launched with the aim to ease the burdens on the applicants and their access to funds.

Improved monitoring and evaluation regulations, which provide: 1) Improvement in the content and structure of Project monitoring reports, makes the reports more focused and avoids the doubling of information which is available in Monitoring information system (MIS); 2) the reporting frequency has been reduced (from quarterly to half a year); 3) unified requirements for project progress reports have been set up; 4) the procedure of the submission, examination, harmonization and publishing of the monitoring reports in internet has been simplified; 5) improved reporting on the implementation of horizontal priorities; 6) update of the procedure of EU Funds implementation evaluation regarding to the implementation of recommendations; 7) improved procedure for carrying out on the spot controls. The administrative burden in risk assessment of on the spot controls relaxed thus optimizing working practices, as well as easing control requirements for final beneficiaries.

The following amendments in regulations on the EU funds management have been made: 1) risk assessment at least once a year; 2) In the case of detection serious deficiencies to carry out controls no later than in the second year after the last payment to the final beneficiary, as well as additional control in this case; 3) The control observation of publicity requirements in the controls that takes place after last payment to the final beneficiary.

Slovenia: Large package of simplifications including: flat-rate for indirect costs; standard unit costs; lump sum; pre-financing; VAT considered as eligible; changes in guidelines on eligible costs. It also included rationalisation in performance of controls – administrative controls are now performed 100% by Agent, while Intermediary Body carries out administrative control on approximately 5% of a sample.

Poland: An extensive package of crisis related changes to procedures, special calls for proposals, financial requirements, etc. The introduction of new eligibility criteria in 2009 was linked to other mechanisms in the anti-crisis package. Additional changes were introduced with effect from 2010 allowing for the lessening of the impact of the economic slowdown started. Intermediate Bodies, responsible for projects selection process, planned new criteria favouring support for target groups who were most exposed to the negative impact of the crisis. These criteria put emphasis on:

- ensuring comprehensive support;
- implementation of projects in partnership with enterprises going through restructuring process and whose employees are threatened with unemployment;
- indicating specific branches the most threatened with restructuring process;
- local differences in the situation of target groups (e.g. support for people from regions with the highest unemployment rate)."

Vertical/horizontal interaction and partnership

Vertical and horizontal partnership arrangements appeared to work well in responding to the crisis, with almost 85% of OPs reporting that the national, regional and local interaction "was constructive and facilitated the response". This is illustrated by the experience of IT, PL and SE, which also included a high degree of 'regional/local tailoring' including the active involvement of the social partners (see Box 22). Only in a minority of programmes the interaction was described as "with difficulties/delaying the response".

Box 22: Involvement of social partners

Italy: The need to tackle the crisis has introduced significant changes in the governance of the interventions related to the implementation of the ESF. Many public and private stakeholders were involved and were given more responsibility to contribute to overcoming the crisis: Region, National Institute for Social Security, Provinces, Social Partners, Regional Agency for Labour, VET accredited centres.

A major change was jointly initiated by the State and the Conference of the Regions and Autonomous Provinces signing an Agreement on 12th February 2009 aimed at facing the crisis and at undertaking measures, also using ESF funds, to tackle the employment crisis. This Agreement provides that national funds have to cover the expenditure for SaiDs ("Shock Absorbers in Derogation" covering those categories of workers normally excluded from the protection system) while regional contribution (coming from Priority 1 and Priority 2 of the ESF OPs) covers composite measures of both active policies and integration of income support. On the financial side, the main innovation is the mechanism of joint contribution between national resources (70%) and regional resources (for 30% to be paid only if the supported workers participate to active policies projects).

In Lombardia, there was a prompt response due to the existence of a financial instrument (known as the "DOTE") and consolidated governance (relations with the territory) that has proved to be functional to implement flexible and effective measures. It is a mix of financial resources and services assigned to the citizens through a targeted voucher system. The "DOTE" is based on the integration of different funds and legislation instruments that converge on one process of booking, resource allocation and control of results. The model of "DOTE" has been adapted to the crisis through the setting up of the DOTE SaiDs (DOTE AMMORTIZZATORI SOCIALI IN DEROGA). Cooperation between the Region and INPS (National Institute for Social Security) was a main challenge because the two administrations had never before worked together and INPS was not previously involved in ESF programming. It has been necessary to coordinate the flow of information relating to the processing of income support and its consistency with the regional information system that oversees the management of the DOTE AMMORTIZZATORI SOCIALI IN DEROGA.

Poland: The "ESF anti-crisis package" in Poland was worked out as a response to the crisis by the Ministry of Regional Development in co-operation with social partners, as well as 1st and 2nd level Intermediate Bodies (local governments and labour offices). The measures were connected to the HC OP regional component, to Priorities 6 and 8, so Intermediate Bodies were responsible for their introduction. They also decided which of the measures should be introduced in their region.

Sweden: From a governance perspective, ESF was aligned to National Government responses to the crisis, together with regions being active in making proposals. The main emphasis was on maintaining jobs and upgrading skills. Several regional calls for proposals, emphasising skills development with broad regional cooperation and rapid processing of project applications were used. Actions against the financial crisis took place in the framework of the programme without any need for negotiations about official changes. The Swedish programme has a special objective in having skill development for persons working in highly sensitive sectors and when the crisis struck they could continue the actions as before but aiming them towards sectors most acutely affected by the crisis, among others the car industry. The most important example of the response, containing also many elements of governance, is the set of 'crisis projects' ('varselprojekten', projects dealing with the threat of redundancies), around the country, where over 100 projects (amounting to some € 5.6 m) were launched to address the impact of the crisis, especially in terms of keeping people in jobs by enhancing their skills and to better their position in the labour market in the case of lay-offs.

Flexibility in responding to challenging new situations

A flexible programme made it much easier to respond to a crisis, as demonstrated by the OPs for FI and UK (notably the OP England and Gibraltar and OP Northern Ireland). However, 'flexibility' by itself may not be sufficient to achieve results, and will depend on both the 'delivery model' of the OP and the details of the measures, as in the case of the employer-based STW schemes and the results-oriented model in the England and Gibraltar OP (see Box 23).

Nevertheless while in theory operational programmes were reported to be provided with flexibility, the actual budget absorption in the current programming period, particularly in the EU-12 Member States, is below 10% on average in 2010. This fact indicates that the actual implementation has been poorly managed¹¹⁰ and that

¹¹⁰ See also: Bruegel (2011) a European fund for economic revival in crisis countries, Benedicta Marzinotto, Research Fellow, Bruegel, February 2011, p..2

administrative simplifications were not reflected on improvements to the process, particularly in the EU-12 (e.g. RO).

Box 23: Flexibility of operational programmes

Finland: When the crisis suddenly hit Finland, the ESF was aligned to the national response to the crisis. This was quite easily done without any official changes, because the programme was flexible enough, written in broad terms, and had large funding categories within which changes of focus could be made. The changes could be directed and implemented quite effectively through the management structure of the OP.

UK - England and Gibraltar OP: The delivery model reflects the fact that government policy is moving towards a "black box" approach, so that the end result is specified - for example sustainable employment, but the means of achieving the result is down to the provider. A funding model that pays for results rather than process is intended to ensure that providers stay focused on achieving results for the participants. In this logic output related funding models should make it easier to have good quality management information to see if OP targets are being achieved. It is claimed that "it is not just the OP design that has given us flexibility, but also the delivery model - results orientated and demand not supplier led. One could have a wonderfully flexible OP, but a cumbersome delivery model - the two have to be seen together".

4.5 Pattern of labour market and ESF responses in groups of Member States

The reaction of Member States on how to use ESF in dealing with the crisis largely depended on a series of factors, that actually were outside the immediate ESF framework:

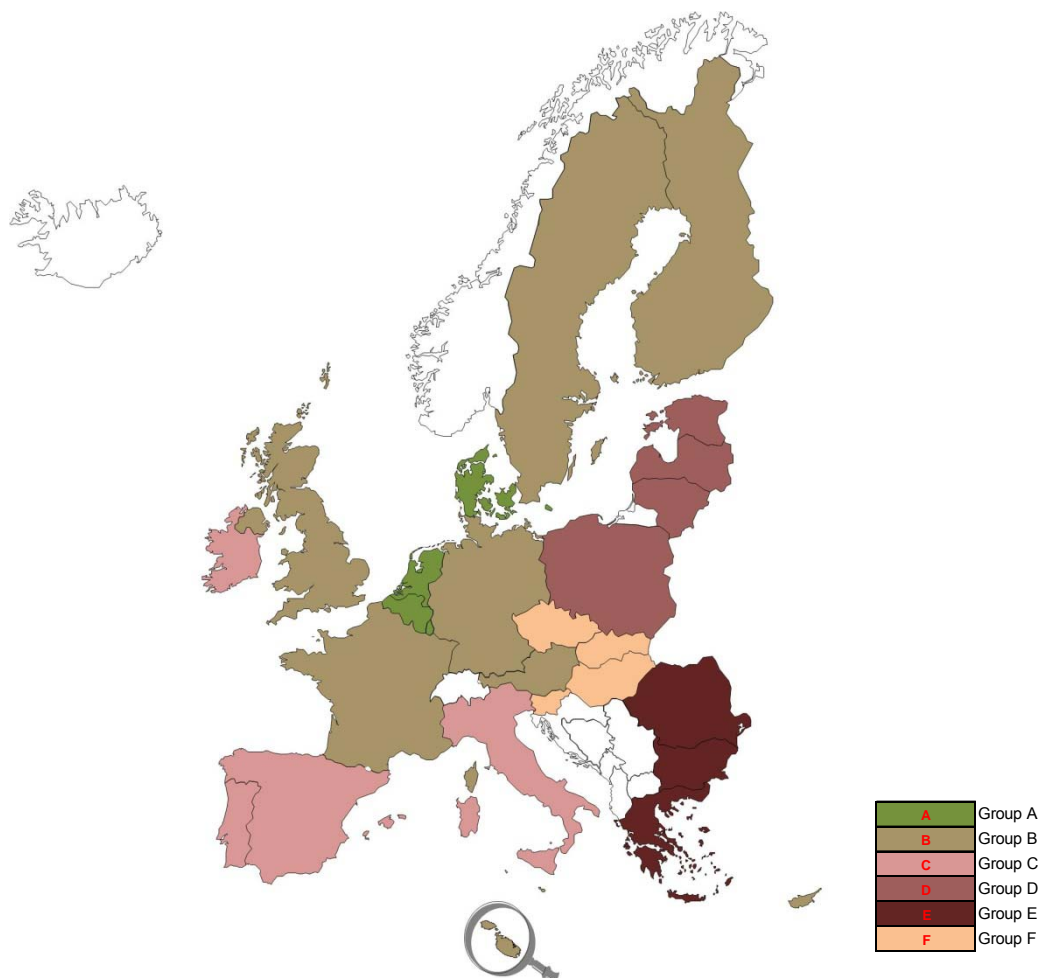
- strength of the economy (GDP/capita, competitiveness – coherence);
- impact of crisis on economy & labour market;
- changes to labour market policy;
- changes to ESF;
- governance issues.

The result of the interplay between these factors is that in some Member States the ESF OPs have been the only ALMP instruments available to respond to the crisis (e.g. LT, LV, EE, RO, BG), while in others the role of the ESF had not been changed and remained focused on traditional interventions (e.g. NL, BE, LU).

The patterns that can be identified among Member States are quite complex and depend on the specific criteria and data that can be used and applied. For presentation purposes, **six groups of Member States have been identified** based on a number of criteria reflecting, principally, the severity of the crisis, labour market policy response and the volume and use of ESF. Annex 4 presents the table with the criteria and ratings on which the grouping of Member States is mainly based¹¹¹. Recognising that no system of categorisation can be fully consistent or comprehensive given the diversity of national situations, the evidence would support a grouping of Member States as outlined in Figure 34. The following section highlights the major findings related to the overall use of ESF for each group of Member States, with boxes providing information on approaches of individual Member States in the use ESF. Section 5.2 presents conclusions and recommendations for different groups of Member States.

¹¹¹ This grouping was undertaken with the objective of establishing groups of Member States with similar patterns. It has used the criteria presented in the table of Annex 4 as the initial basis but the actual grouping is ultimately based on plausibility of similarity among the Member States allocated to each group.

Figure 34: Grouping of MSs according to severity of the crisis, policy response and use of ESF



Source: Metis 2011

Group A: MS with a strong economy where the crisis has had an average impact and where no significant labour market actions were taken

Group B: Member States where the crisis has had an average impact and reactions were largely taken by national labour market policies

Group C: Member States where the crisis had a high impact on labour market and the use of ESF was considerable

Group D: Member States with Convergence regions that were affected by the crisis and had the capacity to use the ESF as a main active labour market instrument

Group E: Member States that were severely hit by the crisis and faced various difficulties in implementing the ESF

Group F: Member States with a previously recovered economy, some experience in programme management but with low absorption rates in the current programming period.

Group A: Member States with a strong economy where the crisis has had an average impact and no significant labour market actions were taken.

BE, LU, DK and NL represent very strong economies and the crisis had a relatively moderate impact compared to other Member States. All the countries concerned had extensive experience in using the ESF and adapting its use. Furthermore, these countries have almost no Convergence regions, a very small proportion of national ALMP being backed up by the ESF, but have comparatively high shares of national ALMP (as % in GDP).

In these Member States the national recovery packages were mainly concentrated on particular sectors and target groups, or focused on fiscal stimuli to support purchasing power. As an instrument for active labour market support, the ESF was not compatible with these new policy measures and was therefore used in the same way as before the crisis. As a result there were few changes in the ESF operation and most of these not generally related to the crisis. In none of these countries the necessity to use ESF to combat the crisis occurred. It rather served as catalyst to introduce changes to labour market policy enhancing its long-term rationality – like targeting youth unemployment, supporting STWA through training, emphasising regional strategies and maintaining the focus on vulnerable groups, that may have received less attention through the short-term measures.

Box 24. Group A - Keeping the structural approach in BE, NL, DK

*The **Belgian** OP for cooperation between the Walloon Region underwent no significant changes during the crisis. The OP originally targeted specific groups such as the unemployed and employees needing further education. The ESF was considered adequate for helping the same target groups also during the crisis. This might be the reason why there has not been any necessity to modify the use of the ESF during the crisis. The ESF projects in fact only cover a small part of a broader regional and federal labour market policy. The small size of the ESF budget relative to the general labour market policy budgets means that in any case the ESF could only contribute to the general labour market policy by implementing projects for very specific target groups. In this way the ESF could be used to counter some aspects of the crisis, but as long as its initial focus is both broad enough in terms of instruments, but specific enough in terms of target groups, no changes are needed because most of the time these target groups remain relevant.*

*The OP of the **Netherlands** has undergone several changes set in motion by the crisis. The major change was the addition of a new theme 'Youth' in the first priority axe which concerns enhancing the labour supply, implemented in 2009. In the period October - December 2009 a new call was launched to local communities and sectoral funds (O&O) to apply for projects combating youth unemployment. This call was the result of a change in the ESF OP and in line with the youth action plan that was launched by the Dutch government in June 2009. The new theme youth was financed by bringing upfront a part of the budget from the first priority axe, for the first calls a total budget of € 75 mn was foreseen in 2009.*

The ESF theme fits into a wider governmental youth action plan which aims at combating youth unemployment. Part of the ESF intervention in the programme – providing training and guidance to low skilled young people or those without qualification – will remain as a structural feature as it was already included in the OP in a different way. The budget actually reinforces the cyclical nature of the measure by bringing the budgets upfront, thus raising spending in times of crisis, and automatically reducing it in the future as no additional budget is available. The stakeholders' response is mainly positive, because the administrative changes simplify procedures (flat rates, standardized pricing – implemented from 2010 onwards). The new theme youth is also positive for local communities and sectoral funds that can expand the application field for existing programs. It is clear that young unemployed are a correct new target group during the crisis, apart from those already included. Since the integration of a new theme into a national strategy to combat youth unemployment, the change of the OP could count on broad political support.

*The **Danish** OP was clearly designed to deal the mid-to-long-term challenges of the Danish society, namely shortage of labour, need to upgrade skills and to enhance productivity. The Danish flexicurity model contains strong mechanisms to deal with employment challenges. The role of ESF, although supportive, is quite small in the totality of the responses, so changes within the already small resource cannot be expected to make a great difference. There was a response, however small, in terms of more focus on priority 2 (more jobs). This change was introduced upon initiative of the regional growth that deals with ERDF and ESF.*

They requested an intensified effort towards unemployed and vulnerable groups in order to counteract a structural unemployment for the affected groups, highlighted the need to continue the efforts towards retaining and recruiting highly skilled foreign workers to the region as in the longer term a shortage of trained manpower was still expected. They also claimed a need for an increased entrepreneurial effort in order to promote entrepreneurship and hence create jobs, and there is a need for access to venture capital to support new businesses including creating new jobs, also in remote areas. This was filed to the EC as a minor request for a change in the OP. Furthermore management of the programme was simplified and streamlined to some extent (flat rates, charts of accounts, budget modules...), but these were introduced also irrespective of the crisis.

Group B: Member States where the crisis has had an average impact and reactions were largely taken by national labour market policies

The group covers the following Member States: AT, FR, DE, SE, FI, UK and in addition the North of IT¹¹², the ESF budget of these Member States was consequently small in relation to GDP.

However, while the impact of the crisis was moderate in FI, AT, DE and SE with a relatively quick recovery due in part to a substantial and effective ALMP, the UK experienced relatively bad labour market conditions with a smaller share of ALMP in GDP and a comparatively small increase in national labour market funds between 2008 and 2009. In the North of IT the ESF was seen to make a major contribution to tackling the crisis because it allowed complementary actions to be financed. Moreover, the crisis effectively forced the Italian authorities to cooperate more closely and to improve the efficiency of the programme implementation.

Member States in this group had substantial experience in using the ESF and, despite the relatively small budgets, were able to adjust the ESF in order to address the needs of those most affected by the crisis. The Member States choose very specific approaches each to deal with ESF throughout the crisis. All countries made substantial use of ESF, but mainly addressed measures with an alleged high structural impact, in particular:

- DE, AT with the introduction of training to complement STWA and a focus on disadvantaged groups.
- FR with the emphasis on employability and the introduction of occupational transition contracts – an innovative measure - in geographic areas most affected by the crisis.
- All MSs with a stronger emphasis on regions specifically hit by the crisis (in AT through territorial employment pacts, in FI through regionally tailored project calls, in DE through small adaptations of individual regional OP and in SE calls focused at affected industries, especially the automotive industry, which was regionally concentrated; in the UK through the different OPs);
- The emphasis on vulnerable target groups was also part of crisis-related measures (however for the UK West Wales and the Valleys OP a shift from economically inactive to unemployed was initiated);
- Youth unemployment was a specific target in SE, AT and in some UK OPs.
- In IT the main change was a new governance model with a cooperation of various national and regional institutions (see below).

¹¹² In the case of IT we decided to deviate from a strict grouping by MS due to the strong structural differences between North and South Italy whereby the North was specifically hit by the crisis. Moreover, this separation is programmatically supported by the regionalisation of ESF implementation via regional OPs.

Thus for this group of Member States it can be concluded, that ESF was used to tackle the negative impact of the crisis and the use of ESF was coherent with crisis-related problems. The availability of ESF funds to complement the national labour market measures with an additional focus on affected target groups (especially to train not only those with “high-potential”, but also those that are much less covered by training programmes) constitutes the value added of European funds. Another change was the regional targeting of ESF measures through specific calls or territorial employment pacts. Most of the measures taken can be said to be rational in respect to the structural requirements of labour markets. In particular the incentives for including low-skilled and older employees into the training and approaching the problem of young people clearly demonstrate a perspective beyond a temporary solution and reflect a more strategic thinking. The following box demonstrates these approaches in more detail.

Box 25. Group B: ESF adjustments in FI, SE, AT, DE, UK and IT

In Finland the ESF had originally not been so clearly aligned to government initiatives. The ESF played a positive role as a part of the government response to the crisis, but because the Finnish ESF is not substantial compared to national resources, its role cannot be described as highly significant. The recent evaluation of the strategic implementation of ESF (Tempo Economics and Ramboll Management Consulting 3.5.2011) state that positive results have been reached in Priority 1 for business creation and in Priority 2 for employment. The results were especially positive for tackling youth unemployment, which is an indication that ESF has been on the right track. It is however difficult to judge to what extent this resulted in actual job creation.

In Sweden, the ESF was quite clearly aligned to the government response, but it can hardly be labelled as highly significant, because it constitutes only a small part of the traditionally comprehensive “Swedish flexicurity and ALMP”. The crisis receded quite rapidly, so some measures like those targeted at the automotive industry (funded also by the Global Adjustment Fund) were in fact scaled down. Nevertheless, the “Varsel-project” response, which was run in conjunction with the ESF, with a comprehensive set of projects and broad cooperation of stakeholders, seems to indicate a positive track of responses, and was also well received.

In Germany, changes were concentrated in the national OP, as the priorities there correspond closely to the measures relevant in the crisis. The focus of changes laid on introducing training to complement STW. At the peak there were about 1.4 million people involved in STW in June 2009 (1.1 million annual average) and in 2009 the corresponding high number of QualiKug ultimate beneficiaries entering the scheme was more than 112.000 i.e. nearly 10% of all STW. Despite the relatively small ESF budget, the simple fact of availability and flexibility of ESF to contribute to extending job-maintenance despite a heavy drop of GNP can be considered a success. Moreover, using the crisis and temporary redundancy of workforce to offer further training makes a clear difference compared to the usual way of HRD-investment. These changes could possibly contribute to a paradigmatic change with regard to investing into people. Given this long-standing flexibility, the ESF will certainly be able to tackle the after-crisis challenges just as it was able to tackle the pre-crisis challenges.

In Austria the changes implemented in the OP correspond to the overall LM policy changes. In fact, the target groups have been expanded as to include those who are most vulnerable or disadvantaged in the context of the crisis. Moreover, the OP now strongly focuses on employees in STW arrangements, which is completely in line with the overall national policy responses to the crisis. In fact, many firms have increased the number of STW contracts in order to avoid or limit lay-offs. STW arrangements are generally combined with training.

In the UK the ESF was used in all OPs - to varying degrees - to co-finance and supplement national policy responses to the crisis. Only 3 out of the 6 OPs were subject to formal modifications triggered by the crisis (OP West Wales and the Valleys, OP Scotland - Lowlands and Uplands, OP Scotland - Highlands and Islands). These changes strengthened support to recently made redundant workers (job seeking, training, improved PES capacity, etc - e.g “Job Seekers Allowance “ and “Train to Gain / Response to Redundancy” schemes in England), and to younger people (e.g strengthening the careers services and broadening the support in favour of undergraduates and postgraduates still in education in West Wales). Although the overall emphasis on active measures in ESF did not change there have been other noteworthy changes, such as a greater priority accorded to unemployed people (from 30% to 50% in the OP West Wales and the Valleys) and less so to the economically inactive (from 70% to 50%).

In France, the main change applied to the French national OP was a transfer of funds between 2009 and 2010 from Axis 2, 3 and 4 to Axis 1 "Adaptability of employees and enterprises to economic change". These funds went mainly to a fund to secure professional career, in order to enhance work transition training and also co-finance of the widening of the experimentation of occupational transition contracts (CTP) in the geographic areas mostly struck by the crisis. These changes have been planned as open-ended measures, except for the €20 mn allocated to CTP which was restricted to a 2-year period due to its experimental nature. They were not cyclical measures but rather structural ones. The emphasis on Axis 1 "Adaptability of employees and enterprises to economic change" corresponds to a new global national trend to focus on fostering employability, vocational training and transition between jobs. Therefore, these changes will remain relevant throughout the rest of the recovery period. These changes were perceived favourably by social partners since they championed also new orientations towards vocational training. The vertical interaction between national and regional level was more complicated as the new programming mechanism allowed the reallocation of credits from regional level to central level (€60 mn).

In Italy the most striking reaction to the crisis was the rapid and efficient cooperation between the Region, National Institute for Social Security, Provinces, Social Partners, Regional Agency for Labour, VET accredited centres. The change has been jointly initiated by the State and the Conference of the Regions and Autonomous Provinces. Their Agreement provides that national funds have to cover the expenditure for SAiDs (Shock Absorbers in derogation covering those categories of workers normally excluded from the protection system), while regional contribution (coming from Priority 1 and Priority 2 of the ESF Operational Programmes) covers composite measures of both active policies and integration of income support. On the financial side, the main innovation was the joint contribution between national resources (70%) and regional resources (for 30% to be paid only if the supported workers participate to active policies projects). In many regions this was realised with the "Dote" model.

Group C: Member States where the crisis had a high impact on labour market and the use of ESF was considerable

This group of MS includes PT, ES, IE and the south of IT. The southern EU Member States and regions cover mostly Convergence regions, whilst IE stands apart based on its previously strong economy. The ALMP has a medium share of the GDP but ESF serves as a certain contribution to it. All four Member States have long experience with ESF.

Labour markets in these countries were severely affected and figures do not present a very positive development, in particular unemployment rates have been increasing even in the "recovery" period. The economy has not only been hit hard by the global economic crisis but is also subject to spending cuts and other fiscal tightening measures undertaken by the government – applicable also at regional level. Hence, changes to the ESF have been very relevant and are expected to be relevant during the "recovery" period and longer.

All these countries have reacted with a comparatively high increase of labour market measures, especially IE and ES (less so with PT and IT; the latter focused on governance issues).

ESF interventions in these Member States were larger in scale (around €1bn p.a. in IT, PT and ES each, €0.35bn in IE), but covered only small parts of ALMP (4% in ES, 5% in IT, 1% in IE) with the exception of PT (where ESF amounts to 39% of ALMP).

The ESF has been used as an additional source to national labour market policies partially compensating the introduction of austerity measures and subsequent constraints in implementing labour market policies. In ES the regional OPs were used to support labour market needs related to region-specific problems like maintaining employment in sectors specifically affected (e.g. Galicia, Valencia, Catalonia), to vulnerable groups and immigrants (e.g. Galicia, Madrid). National programmes (on adaptability and on fighting discrimination) focused more on training, improving professional qualifications of unemployed, supporting SME, improving employability of women and matching processes related to disadvantaged groups.

In ES and PT¹¹³ ESF was seen as an additional financial source that could be focused on the most pressing labour market needs by supporting new active labour market policies and modifying existing ones. In PT comparably high amounts of funding (the highest per capita allocation from all MS) are available. Nevertheless ESF implementation could have been more effective in PT if administrative laybacks would have been eliminated.

IE must be seen, however, as a special case within this group. IE also faced severe economic difficulties and introduced harsh austerity measures to counter the effects of the crisis. While PT and ES cover mostly Convergence regions and therefore do have a large share of ESF combined with a higher intervention rate, IE has a lower share of ESF budget in GDP terms (and lower intervention rates).

Nevertheless, in IE, the ESF was used to reinforce education initiatives and increased support for job search and matching. Emphasis was put on better adaptation towards producing the skills of the future (i.e. higher level skills and educational qualification). The reforms in terms of broadening the range of activation measures and better linkages between them are more in line with best practice in activation measures. This includes improved connections between activation (labour market information and referral services, training, work experience, education) and social protection services.

In the south of IT, the impact of the crisis has also been severe but, thanks to a higher share of ESF, more substantial ALMP measures could be implemented. Measures focused on training of people that were affected by the crisis, increased counselling and income support. The major achievement of the Italian OPs seems to be that cooperation between national and regional stakeholder in labour market policies has been induced through the crisis-related changes, an improvement of governance.

In general the MS used ESF to support anti-cyclical measures, that were tailored to those most affected by the crisis, but also to young people (PT), women (ES), disabled persons, immigrants (ES). In PT training and activation for young people have been slightly increased. The types of measures seem to have a mix of purely short term remedy (income support in some OPs in Southern IT), but often show a longer term rationality (job matching, skill development).

Box 26. Group C - ESF interventions of larger scales in IE, ES and PT

In Ireland there were changes in ESF in terms of funding re-allocations (out of social inclusion and equality-related interventions) in order to respond to the large increases in unemployment; there were also changes in the types of specific activities co-funded. Some of these changes were defined as temporary measures including the suspension of the funding of disability projects. Initiatives such as short-time working, redundant apprenticeship initiative, graduate internship, part-time post graduate education initiatives are designed as cyclical measures. However, support for skills development for unemployed people formerly employed in sectors particularly affected by the crisis (e.g. construction) are more structural in nature and require a structural response (re-training in skills in demand in the labour market in future). Accelerated spending favoured cyclical measures. There were large increases in numbers of participants in education and training programmes, which by the end of 2009 well exceeded targets set. The changes are in response to the crisis. However, some changes were necessary in any event. Most recent reviews of labour market and related policies show poor effectiveness in terms of performance. Further major reforms have just been announced and are taking shape at present. It is too early to state whether the changes have proved to be beneficial. However, it is expected that the reforms have enhanced capacity to respond to changing labour market.

In Spain ESF has widely been used to tackle the crisis and also to anticipate its impact. As there is a large number of ROP. The ROP for Valencia has been selected to illustrate the type of changes: The ROP for Valencia, has worked as a mechanism to respond to the crisis. The changes may not have been substantial,

¹¹³ According to the summary assessment given by the geographic experts based on interviews with managing authorities and intermediate bodies.

as many actions already foreseen in the original programme were appropriate for tackling a crisis-like situation.

In fact, in September 2008 a “Valencian Pact for Employment Growth” had been signed. Initially a programme modification was not considered necessary, since the Pact included the development and implementation of a “Plan for the Promotion of Employment” with a direct contribution from ESF. The Plan should be developed through SERVEF (the Valencia Employment and Training Service). However, given the difficulties for reaching the required implementation levels at the end of 2009, it was decided to ask for a modification of the EU intervention rate for the OP. This involved an increase from the original 50% to 80% which was approved by Commission Decision (2009) 10400 of 16 December 2009 and corrected by Commission Decision (2010) 2087 of 6 April 2010. The changes undertaken in the OP were adequate and necessary. Moreover, they demonstrate an awareness of the actors directly involved in programme management and implementation of the use that can be made of the ESF. The ESF is a key instrument for directing resources /focusing actions towards the sectors and target groups that are most affected by the crisis.

On the negative side, ESF responses are considered not to be fast as procedures are complex, long and bureaucratic. Often e.g. the regional government in **Andalusia** has had to respond with its own funds for speeding up the reaction to the crisis. This further reinforces the above statement that ESF is a key, and possibly more useful given its complexities, instrument for anticipating rather than responding to crisis in a timely manner.

In **Portugal**, the large size of the OP created some challenges for implementation. Contracts were concluded with 23 IB's in order to release the management “burden” (more than 35 000 applications received by March 2010 and 17 500 approved). Changes in the OP have been relatively small compared to the size of the OP and its financial importance and did not have any budgetary implications. ESF interventions are strongly focused on improving the population's qualifications, one of the country's most fragile competitive factors. In the future and due to rigorous budgetary constraints, Portuguese authorities will only have limited flexibility to mitigate crisis effects by developing public LM policies.

Group D: Member States with Convergence regions that were affected by the crisis and had the capacity to use the ESF as a main active labour market instrument

This group includes PL and the three Baltic States LT, LV and EE. The Baltic States were hit by the crisis very hard with the highest GDP and employment losses in EU-27. Compared to that PL was in a particular economic situation, as only playing a limited role in international trade, and its banking system being only little affected by the banking crisis. Moreover, having a currency of its own PL could devalue to increase its relative competitiveness. All four countries consist mainly of Convergence regions with a high share of ESF in GDP and the experience gained during the crisis has guided them all to implement ESF more efficiently.

In the case of LV, EE and LT the role of labour market measures has been very low-profile in the national recovery packages. Still, the increase in funds for national LMP was quite high in EE (more than 1.2 pp of GDP), and somehow lower in LV and LT. ESF plays a significant role, as it exceeds national ALMP up to 80%. PL is a special case, as it has the highest share of ALMP budget within national LM expenses, which is due to a restructuring of labour market policies since the early years of this century. Although the overall employment and GDP growth was still positive, crisis-related measures were taken.

For the Baltic States ESF has played a very important role in tackling the crisis, first of all due to the absolute financial volume and second as ESF is the major instrument of ALMP. EE has been successful in combining short term coherence and rationality of the crisis-related measures, LT and LV both implemented a mixed set, but both MS are turning their crisis-related measures towards more strategically adapted interventions. No evidence has been found that funds were shifted away from vulnerable groups. Rather the opposite: in LV funds were shifted from administrative capacity to employment promotion and social inclusion.

Monitoring and review of crisis-related interventions was quite elaborate in these Member States. However, no evaluation results are available yet. Some Member States have somehow improved delivery of the funds, partly through restructuring of procedures (LV) and partly through involvement of further relevant partners and taking a stronger regionally targeted approach (PL).

Box 27. Group D – ESF anti-crisis packages in Poland and the Baltic states

In Poland, there have been two anti-crisis packages, one national and one ESF anti-crisis package launched by the Ministry of Regional Development. Both packages complemented each other through implementing different measures to tackle the crisis. Changes related to increasing funds for enterprises and employment, implementing new forms of assistance for occupational training and changes in the public assistance regulations. The latter failed due to the long time the necessary change in legislation took. Most of the crisis-related measures were temporary, some have already expired and some will be active till the end of 2011 or this programming period. There were no additional funds for any of the priorities. All the measures proposed in the anti-crisis package were financed within the financial allocation planned for individual measures and sub-measures. Some changes were introduced in annual allocation (i.e. in 2009 additional calls for proposals were organised and funds for these calls could be shift from 2010).

Since 60% of the programme is implemented regionally and this regional component concentrates on individuals and enterprises in regions, most of the measures were designed for regional priorities. It allowed choosing the most adequate for regional needs measures and decisions were made by regional governments and labour offices.

In Estonia the objectives of the ESF OP still have been relevant throughout the crisis (according to an evaluation carried out in 2009) and the changes introduced during the years of crisis are more oriented to the future development of Estonia and its economy. Some of the changes – broadening the target groups of different active labour market measures, simplified conditions for application of start-up and micro loans programme, development grants, etc. – have most probably anti-cyclical character, but all these measures are coherent with the priorities set in the Estonian Strategy for Competitiveness 2009-2011. Different innovative measures have been developed to increase the flexibility of labour (different training courses for specific target groups, possibilities to continue the disrupted studies, etc), boost entrepreneurship through specific support for start-ups and for business expansion, fostering research and development activities in companies (innovation and science), starting with export (internationalisation). Also different risk groups are eligible for support. These changes were not just responses to the crisis but the majority of the changes proposed do have a long term perspective in the restructuring process of Estonian economy. One survey has shown that there is a relatively low proportion of people with higher education (41% in 2009), and a need to increase the awareness and participation of the people with lower education. Also women are over-represented amongst those who need a better education (67% in 2009).

Latvia, the MS worst hit by the crisis, made intense use of ESF. The total reallocation of €135 mn (towards employment, social inclusion, vocational education and upgrading the competitiveness of trainers) represents approximately 25% of total ESF spending over 2007-13. The above proposal involved reducing the funding under Priority 1 “Higher Education and Science” and Priority 2 “Education and Skills”, affecting the institutions responsible for education and research and the development of professional career guidance. The changes implemented can be put into three categories: changes in activities/measures, delivery and governance. The changes in measures on the whole are likely to be temporary and will be discontinued when the need no longer exists: e.g. the ‘Work with a stipend’ (WWS) programme was developed to meet an urgent need arising from the rapid rise in both the amount of unemployment and its duration, and in its current form it will be phased out, though it may be continued in a modified form. The most important change in delivery methods has been the introduction of vouchers to promote competition among suppliers of training. This is being extended and is likely to be a permanent change. There have been many changes in governance involving procedures along the entire project cycle and lead to more elastic implementation, the initial financial burden on beneficiaries has been reduced, an improved payment flow in projects and with it absorption has improved. Apart from beneficiary surveys which in general are positive there is little evidence on the impact of the changes implemented, especially on quantitative impact. However, the continuing popularity of say the WWS testifies to the need for such a programme. An evaluation of the WWS programme is under elaboration.

In Lithuania, the ESF, too was a major support for active labour market policies. Over a third of the budget for the 1st priority "High-Quality Employment and Social Inclusion" of Human Resources Development Programme 2007-2013 is dedicated to the integration of job-seekers into the labour market. Actions under this measure include the motivation of the unemployed and economically inactive people to return to the labour market, support (vocational) training, support social enterprises and public works in municipalities, temporary jobs and many more. Priority axis 1 was supported with an additional €43.5 mn. the Ministry of Social Security and Labour assumes that the crisis-related ESF interventions will still remain for a while, more emphasis will eventually be placed on the implementation of measures with a narrower scope and a longer time-frame, meaning that the currently applied short-term, wide-scope measures, such as short-time work arrangements, will gradually be phased out. An example of an area which will receive more resources in the future, is the scope and amount of vocational training measures which will gradually replace the now dominant short-term measures. The available beneficiaries' feedback collected by the Labour Exchange of Lithuania (as outlined by the interviewed MA Official) suggests that "the absolute majority of the jobseekers had a positive view on the services provided to them", however improvements could be made to the service if the scope and amount of the training provided to them were expanded. The MA concludes that such opinions are entirely plausible, given that the amount and scope of training was substantially reduced during the crisis in relation to the the pervieved falling demand for certain skills and qualifications. In the future, it is expected that scope and amount of training will grow in line with the increased demand for more specific qualification and skill needs

Group E: Member States that were severely hit by the crisis and faced various difficulties in implementing the ESF

This group includes RO, BG and GR - countries whose economies were somewhat fragile and, in some cases, still in the economic development phase (albeit some of them having experienced relatively strong growth in the period preceding the crisis) which left them very vulnerable when the crisis hit.

All these Member States are dominated by Convergence regions with a relatively high share of ESF in GDP and a limited national ALMP allocation. Hence the ESF serves, as the major active labour market policy instrument: in BG and RO - both falling exclusively under Convergence - national ALMP in 2009 are equal to the average ESF allocation in this period, while in GR (that is not exclusively under Convergence) the ESF reaches close to 40% of national expenditure.

For RO and BG, the ESF was a new programme which they had only started using in the current programme period 2007-2013 and this had an adverse effect on the efficiency of its use. Moreover tight budgetary restrictions meant that the national governments were unable to provide the finance to support labour market policies. Thus, while the ESF had the potential to play a key role in labour market support, the countries failed in making proper use of it.

Although GR should have had substantial experience in implementing the ESF, the slow reaction of the government in using the instrument also hampered effective implementation. GR is currently facing difficulties in overcoming the impacts of both the crisis and the austerity measures. Austerity measures have not yet been accompanied by development measures. Consequently demand is constantly falling, as are incomes and employment, which further limit available funds for co-financing.

Therefore the major conclusion for these countries is, that although ESF would have had the capacity to support crisis-related labour market support, the actual capacity to utilise these funds was seriously hampering the use of ESF.

Box 28. Group E – Limited ESF-reactions in Romania, Bulgaria and Greece

In Romania, no fiscal stimuli have been available to the Government due to the stand-by agreement concluded with the IMF in 2009. LM policies had to restrict their actions in accordance with the limited budgetary resources. Unemployment benefit duration has been increased in 2009, so as to reach for a majority of recipients for at least 12 months, but have been cut by 15% in mid-2010, as a part of a drastic internal devaluation process. Accordingly, ESF-financed measures have also concentrated on improving the absorption and trying to facilitate implementation at most. Re-allocations were not possible. Therefore, the increase in pre-financing was seen also as a way of complementing the lack of fiscal stimulus, although even this in only a limited way. Although ESF-financing was by far the only available labour market support in a time of severe budgetary restraints, rules for pre-financing have been altered twice within a few months.

The regulatory framework is far too rigid to allow for a proper and appropriate use of the Structural Funds. Heavy administrative procedures, often put in place to prevent alleged incorrect use of funds, impede the actual implementation of ESF. The rules introduced for the advance payment were also poorly designed as they did not take account of ongoing projects and failed to provide a proper assessment of financial needs of new projects. There seems to be an imbalance in allocations, with some projects hardly able to use the entire funding and others suffering from very low allocations. This points to the lack of administrative capacity that hampers proper ESF interventions of even the small amounts of funding, apart from the restrictions of the macro-economic conditions.

In Bulgaria the level of absorption of the funds is very low. Until 1 February 2011 Bulgaria received only 12.62% of the entire allocation (i.e. 1.19 billion Euro). In the social sphere, where the financial resources are allocated mainly for projects on promotion of employment and integration of disadvantaged people, the progress is even lower - 3.62%.

According to recent surveys the main problems related to the absorption of EU funds consists in the heavy and bureaucratic application procedures and the low capacity level of the administration. Other problems in the execution of public procurement contracts reveal deficiencies in legislation, particularly when an appealing procedure on a decision on selection of a contractor stops the overall financing of a project.

Greece: The efforts to correct the dramatic fiscal imbalance through an exceptional activation of ESF did not materialise in practice. Although in 2009 a "National Contingency Reserve" programme was built, it had not yet been activated by 2011! This programme was conceived as an instrument to rapidly respond to crises and the current experience demonstrates the rather slow reaction of the government to use this instrument effectively. When the programme was designed, the reality was dominated by the dramatic destruction of natural and cultural heritage, housing, infrastructure and human resources from forest fires. Therefore, one of the two priorities of the programme was the reaction to crisis as a result of natural disasters. The other one was related to the response to economic and social crises. The reality has now changed and despite the outbreak and the impacts of the economic crisis, the programme focuses on both priorities by undertaking a study under each of them. It might have been more appropriate to focus on the second priority that deals with economic crises and progress faster on this front.

Group F: Member States with a growing economy before the crisis that were hit by the crisis and faced various difficulties in implementing the ESF

SI, HU, CZ and SK had a positive and progressive economic growth within the last years but were hit by the crisis to varying degrees. CZ had begun to recover in 2010 (see 2.1.3) while SI and SK are still fighting rising unemployment. All four countries gathered experience in managing ESF during the previous - albeit shortened - period (2004 – 2006). The allocation of ESF per inhabitant is relatively high, whereas the shares of national ALMP in GDP are relatively low. Thus ESF forms a substantial or even dominant part of ALMP (between 42% in SI and 90% in HU). All four Member States appear to have had difficulties in spending their ESF budget according to the EC expenditure rates for the current funding period (2007-2013). For instance, in 2010 in both HU and CZ only limited expenditure rates (CZ 6.2%, HU 8.4%) have been reported to the EC. Although for SK and SI expenditure rates are above 15% there were still significant problems in absorbing current funds. However, one of the underlying reasons for that was also that Member States still have been involved in spending the funds from the previous period¹¹⁴.

¹¹⁴ See also: Bruegel (2011) a European fund for economic revival in crisis countries, Benedicta Marzinotto, Research Fellow, Bruegel, February 2011, p.7-

In all of four countries, the ESF has been mainly used to support or put in place active labour market policy measures in response to the crisis, because national budgets were limited and therefore solely used for supporting affected groups with passive instruments. Thus the ESF clearly has the potential to play a major role in active labour market measures to mitigate the crisis or tackle other employment difficulties. The measures introduced had a focus on training in SME (CZ, SI, HU), job creation (SI), vulnerable groups (SK, SI) and inactive groups (HU).

Simplification was a major issue in all these Member States, though not necessarily induced by the crisis. In terms of organising crisis-related interventions CZ and SK launched specific calls targeted at SME and enterprises and tried to remove barriers to apply for ESF funding (HU). Thus these measures were coherent with the needs of the labour market, and over all also rational related to longer term labour market needs. However the timing and the speed of reaction seem to have slowed due to overloaded bureaucratic procedures.

Box 29. The use of ESF in CZ, SK, HU and SI

*In the **Czech Republic** anti-crisis measures supporting the labour market, such as cuts in social security contributions and short-time working schemes were expected to help to partially mitigate the adverse effects of the crisis on the labour market. The main focus of activities carried out was job retention through short-time working arrangements in combination with investment in skills and training supported by the ESF (by the OP Human Resources and Employment) with three projects. One of these was the "Get Trained" project, which was implemented throughout the country, including Prague, and focused on enterprises in difficulty. ESF provided support to salaries - "contribution to salary" corresponding to a part of the salary of (typically) low-skilled employees, and contribution to the training. However the Geographical Expert critically noted that most of the funding was allocated to large enterprises which used up the money for training, that often was of poor quality and little interest to the trainees. In parallel, the PES complained about "not having anything to offer to unemployed people". The major bottleneck in the Czech Republic were lacking capacities of managing the funds. First the OP started late, second a large number of small projects were submitted, which caused high workloads. The procedure of financial management is very complicated and time consuming. Third the previous period has been delayed and the previous programme not concluded before 2010.*

*In **Slovakia** only a small part of the anti-crisis measures was funded from ESF and in general ESF did not play a major role. None of ESF financed measures reached their defined target values by the end 2010. Moreover, only one ESF financed measure visibly contributed to addressing the crisis (support to new job creation), while the other two measures were only marginally used by the target groups. The most successful measure was focused on employers. They could receive financial contribution to cover a part of labour costs of created job for a period of 12 months. The requirement was to employ a job seeker registered by an employment office for at least three months and to sustain the job for 12 months. By using the financial support, employers were able to create 9.967 jobs. The annual target value set for the measure (2.500 jobs) was significantly exceeded.*

Other two measures had very limited effect of intended target groups. They were both designed for unemployed persons. One supported motivation of job seekers to find and retain a job with a low salary. In the period March 2008 – December 2010, creation of 363 jobs was supported while the target was to create 14.000 jobs in 2009-2010. Second one provided incentives for self-employment by covering health and social insurance costs for certain period of time. According to the official data, 3 job seekers decided to for self-employment and benefited from the contribution (the target was 10.000).

Furthermore the geographic expert reported significant inadequacies in the implementation systems and the control of MA and Intermediate Bodies. Gaps in assessing the eligibility of applicants and their capacity to implement projects were some of the major issues. Moreover, the measures for financing social enterprises from the programme do not respect the eligibility and state aid rules. Additionally, there were problems with the procurement of services and goods at project level since they were often overpriced. The budgets of some "national" projects were cut down since they did not reflect the outputs of the projects.

*In **Hungary** the OP for Social Renewal reacted fast to the crisis and the Geographic expert assessed that this would most probably have a beneficial effect in terms of alleviating the negative impact of the crisis. The measures are a combination of active and passive labour market interventions. However, the role of active measures (i.e. training support) are likely to be weaker than the role of passive measures (wage-support). Generally, it may be argued that during short-term shocks, active measures are not necessarily the most useful ways of interventions and in this sense ESF made the right interventions.*

*The **Slovenian** OP was prepared as a programme broad enough to allow adjustments without prior approval of the EC. Changes related to an increased focus on training, job creation and vulnerable groups. Changes in the Slovenian ESF administrative/implementation system were not driven by the financial crisis nor are a consequence of the financial crisis. They were initiated due to the complexity of the implementation system, which was regularly criticised by recipients of ESF support or even by managers of ESF themselves (intermediary bodies or agents).*

5 Conclusions and recommendations

This chapter combines the findings of the previous chapters, with an emphasis on the ESF and draws conclusions on the use of the ESF in the crisis - within the framework of labour market development and national labour market policies. Recommendations for the future concern the content of ESF funded policies and governance of the ESF, both to support economic recovery and to be better equipped for handling critical situations.

5.1 Labour market developments

5.1.1 Labour market developments: main findings and conclusions

The labour market impact of the crisis varies significantly between Member States. The most striking features are:

- The speed at which the crisis unfolded which was primarily a consequence of an inter-related group of financial failures that spread rapidly throughout much of the global economy.
- The EU as a whole was badly hit, individual Member States were affected differently depending on their domestic financial positions (indebtedness of governments, banks, companies and the public) and their degree of exposure to others (trade dependence, foreign debts and loans, exchange rate flexibility or not). The Baltic States, RO and IE faced large reductions in GDP, whereas FR, DE, PT, SE, AT, SK, BE and some of the very small Member States (LU, MT, CY) saw hardly any shrinkage of GDP, while PL's GDP grew between 2008 and 2010 (Q3 each).
- Initially some of the strongest EU economies were hit hardest, especially investment sectors such as engineering and construction. Parts of these sectors - notably high value extra-EU export oriented manufacturing of cars and equipment - are now recovering rather well.
- Significant changes were seen in the most affected labour market groups: young people and marginalised groups were as badly affected as ever. Unusually, women and older workers were much less badly affected (at least at the beginning of the crisis) than middle-aged male employees in the sectors most directly hit by the crisis. Whether these changes persist will only become apparent as the EU economy recovers further.
- Elasticity of labour market responses to the initial effects of the economic crisis varied enormously across Member States, which reflects the sectoral impacts of the crisis as well as labour market structures and policy responses (especially STWA and other measures to keep people in employment). In BE, UK, IT, LU and SI the effect of the decline in GDP on employment was below the EU-27 average, while ES, BG, PT, SK and IE saw the highest employment reactions.
- In total 5.1 million jobs were lost in the EU-27 between the 3rd quarters of 2008 and 2009. Particularly in ES where the response was dramatic (large scale layoffs rather than reductions in salaries and working time) with 28% of the total EU job losses, but also in DE (690.000 jobs lost), UK (540.000), IT (460.000), FR (276.000), IE (200.000) and PT (170.000).
- Likewise in the recovery period there are differences between Member States with positive economic growth (BE, HU, DE, SE, MT) and those in continuous decline (BG, DK, GR, EE).

Despite the different ways the crisis unfolded and progressed, there remains one common pattern: the crisis affected core groups of employees in the sectors most hit at its onset and thus sectors such as manufacturing, construction, and textiles attracted most of the policy responses. Young people were also highly affected in some MS (IE, ES, PT, IT, EE, LV, LI, SK, SI, GR, HU).

The implications of the crisis and its aftermath for traditionally disadvantaged groups on the labour market depends on a variety of factors: the speed of the economic recovery; the extent to which structural economic changes affect the demand for different skills; and the extent to which governments address the skill needs of disadvantaged groups together with the factors behind growing labour market segmentation (atypical, precarious, temporary, flexible employment relationships). The main affected groups are, as follows:

- Young people have been one of the most exposed groups and chances for entry into the labour market have deteriorated substantially.
- Women, though less affected from the immediate crisis, also seem to face negative impacts of slow – if any – recovery.
- Vulnerable groups, like people with disabilities, migrants, long-term unemployed and persons with very low incomes, appear to be affected by the contracting labour market, though appropriate data is not yet available.
- Finally, there is an increase in part-time work which may lead to a growing poverty threat for low-income people in the medium and long term.

Considering the longer-term perspective, a fast and constant recovery seems to be the least likely development path. Rather a dispersed, irregular pattern of growth and decline lies ahead. As GDP levels have dropped much faster than employment the necessary restructuring of labour markets has shifted to the future. Thus the threat ahead is that low – and irregular – rates of economic growth, together with limited new employment possibilities, will transform short-term cyclical into long-term structural unemployment. Furthermore labour markets face a long-term polarisation of job growth within the highest and lowest paid and qualified segments, with a consequent hollowing out of the middle. This exacerbates the job-skill mismatch as it limits the possibilities for upward mobility from the lower end, and leads to skill gaps at the upper end.

An important conclusion for labour market policies is that the groups of employees initially hit by the crisis will not necessarily be as badly affected over the longer term. National labour market policies might be tempted to first serve those that are able to articulate the threat and whose needs are most pronounced, and to seek to secure existing jobs. However, there is also a need to maintain the focus on vulnerable groups, on measures to improve their employability and measures to help young people enter the labour market.

5.1.2 National policy response: main findings and conclusions

When the crisis unfolded the European Commission, together with the Member States, announced a European Economic Recovery Plan that included recommendations for labour market policy measures, which served as guidelines for the Member States.

A majority of Member States quickly introduced recovery packages to counter the effects of the crisis. The form of the policy response depended on:

- The actual impact of the crisis
- The fiscal situation of the Member State, and
- The capacity of the Member State to manage appropriate economic and labour market policy responses.

Across the 27 Member States public expenditure on labour market policy was increased from €201bn to €256bn (i.e. by 28%). On average 80% of the increase, in labour market expenditure, was devoted to income support for unemployed persons (passive measures), 7% to increased labour market services and 13% to increased ALMP measures.

In terms of active labour market policy, several measures have been introduced such as short-time working arrangements, temporary wage subsidies, reduction in non-wage costs, public sector employment, upgrading skills and promoting mobility. Of the increased ALMP budget expenditure, a third was spent on upgrading skills, a quarter on employment initiatives, and smaller amounts on supporting employment, direct job creation and start-ups.

As the majority of the measures were implemented within a short time and were mainly targeted at the most pressing needs, one can expect that the structural dimension of the policy responses has taken second place to short-term goals. But given the slump in economic growth, the high number of job losses and jobs threatened by the economic crisis, the speedy reaction and - in some Member States - the substantial allocation of additional funds towards securing income and jobs in the short term and stabilising income for those becoming unemployed, have been highly coherent with the principles of social cohesion and solidarity.

Without such a substantial reaction of European labour market policies – both active and passive – the strain on income and employment would have been much higher, with negative impacts from the slump in demand, future transaction costs for returning people to employment and additional social costs. Of course, being a short-term strategy this does not improve the employability and income perspective of the beneficiaries in the longer term.

5.2 Policy responses and the role of ESF

5.2.1 ESF and the national labour market policy measures

The aim of the ESF is to support the Member States in measures related to growth and employment based on the Broad Economic Policy Guidelines, the European Employment Strategy and the Employment Policy guidelines. The principal goals are to: increase adaptability of workers; promote participation in the labour market; prevent social exclusion; strengthen the capacity of public institutions and the implementation of horizontal priorities such as gender equality, sustainable development and fighting discrimination.

As such the ESF serves as a structural instrument supporting ALMP at national and regional level in the Member States. When the crisis unfolded the ESF had just begun to be fully implemented in the Member States. However immediate changes have been

undertaken, in order for the ESF to most effectively reduce the impact of the crisis on the labour market.

One of the main interventions supported by the ESF throughout the crisis was training. Many examples in this study show, that the ESF supplemented STWA with the upgrading of skills and training. STWA helped avoid laying off workers, which is coherent with crisis related issues. Furthermore training became accessible to persons who might not have normally been in the core of company training measures. However it is hard to judge if these training programmes, established in a very short time and with much higher capacities than usual, were appropriate to improving employability, job quality and income over a longer period.

ESF supported measures aimed at creating or maintaining employment included: the co-funding of apprenticeship schemes; recruitment incentives; employment maintenance programmes and rehabilitation activities. Other measures adopted by Member States used ESF co-financing to increase access to employment and to support mobility, they included the services put in place by the PES to facilitate access to the labour market as well as to encourage workers to take up jobs in other cities or regions.

Thus – related to STWA and training – one can argue, that the ESF has added a structural feature to the rather short-term reactions of national labour market policy responses. But in general the ESF has largely supported the measures taken at Member State level to combat the crisis.

Interventions targeted at structural adjustments and improvements in the functioning of labour markets, through flexicurity policies and improved job quality and working conditions, did not receive much attention during the crisis. This is understandable since the crisis was a period of largely unforeseen developments, for which most of the Member States were relatively poorly prepared, and there was an inevitable focus on actions responding to deteriorating situations, rather than on actions that might enable them to be better prepared in the future.

In summary the reactions of the ESF, in terms of supporting crisis related ALMP, seem to have been rational given the immediate needs of the crisis. Clearly the longer-term perspective was not an immediate concern. In this the ESF was clearly in line with the overall ALMP measures adopted during the crisis (see chapter 4).

The ESF is traditionally focused on structural measures. This has changed in the sense that the ESF has been used for immediate short term actions to mitigate the crisis. However it was still used in its original focus on skill development. Still, most of the measures related to up-grading skills have been combined with short-time working arrangements. This leads to the initial discussion about the assessment of labour market measures in terms of coherence and rationality (see chapter 1).

It indicates that activities related to upgrading skills and increasing access to employment are both coherent and rational for long-term labour market strategies. However during the crisis the ESF has been used for training linked to other measures such as STWA. This combination is coherent with the immediate reaction to a crisis by supporting enterprises to maintain jobs, but there is limited knowledge about the long-term value of such combined measures.

The following general **recommendations** relate to potential adjustments to the ESF regarding the immediate future of labour markets:

- Supporting crisis-relevant activities of national policies in a timely way is rational and recommended for critical situations in the future. In circumstances of immediate and substantial job losses the remedial actions are appropriate and timely reaction should be prioritised against well targeted and tailor-made measures that need more time to be implemented.
- This study argues that the ESF added a structural component to STWA through financing supplementary training. This is coherent with the problems occurring during the crisis and is rational in the longer term but it might not always be useful to accompany every STWA with training.
- Training should be tailor-made: One possibility is to base the training on an assessment of the needs of either the company or the individuals. Another is to enlarge the scope of accompanying measures, with a view to improving professional skills or working conditions (e.g. taking temporary leave to finish a university degree, engaging in some job rotation, working on firm-intern projects to improve job quality and flexibility, etc).
- Demonstrating the ability react quickly and offering “smart changes” to a crisis enhances the visibility of the ESF. Through these “smart changes” existing instruments should be adapted and expanded to better suit the immediate need and to speed up procedures for providing funds.
- However, crisis-related measures focused on groups initially affected need to be phased out in a timely fashion as they might impede labour reallocation. ALMP (to fight high and long lasting unemployment and damp hysteresis effects¹¹⁵) will be far more relevant in employment strategies, at EU and national level, than before. ESF interventions should support and enforce these long term strategies.
- Guarding against further crises it is important to support “anticipative” measures in order to be in a position to combat critical situations in national or regional labour markets. The “old” tried and tested ALMP measures, like improving skill levels, adaptation, matching and flexicurity, are the best suited to protect against further shocks.
- The focus of the ESF on structural measures and vulnerable groups should be strengthened, especially as during the crisis funds were often diverted towards the most affected core groups in the labour market.
- During this period of fragile recovery, the ESF should emphasise the need to focus on the challenges of increasing labour market polarisation and to integrate affected people following the crisis.
- The ESF should also support reforms in national ALMP, fostering recovery by improving, upgrading and anticipating future skill demands. This includes establishing and promoting interventions to help young people, increasing training capacity for improved employability of vulnerable groups and improving labour market measures for women.
- Furthermore the ESF should support pilot projects, where adaptation strategies in firms (or groups of firms) or regions are supported, aimed at finding more flexible forms of working and responding to challenges relating to

¹¹⁵ OECD (2010): OECD Employment Outlook 2010: Moving beyond the job crisis.

skills, qualifications and experience. This should better equip firms and workers to deal with the rather abstract concept of “new skills for the future” and “flexicurity”.

- It can be assumed that firms and regions involved in such prospective pilot projects – and implementing them effectively – will be better prepared for further crisis to come

5.2.2 Adaptations and modifications of ESF programmes

ESF co-funded programmes showed distinct and clear results in mitigating the crisis. This study has considered actions relevant to the crisis such as financial re-allocation, modification of existing instruments by shifts or extension to new target groups, and the introduction of new instruments, as well as changes in implementation rules and governance arrangements.

A large number of changes related to adaptations between or within priority axes, with resources shifted between interventions or new instruments introduced in response to the crisis. These measures were mainly targeted towards the groups of people most affected by the crisis, with a focus on schemes designed to help them maintain their jobs or improve their re-integration.

Some interventions specifically focused on sectors that were badly affected by the economic crisis (such as manufacturing, construction and textiles). The changes included broadening the scope, launching specific calls, and including further target groups. These changes have been implemented without using major additional funds and without substantial changes in the OPs, but still targeted crisis-related labour market problems in a reasonable way. We will therefore refer to these changes as “smart changes”.

Taking such a wide approach, it was found that 84 out of 117 OPs (72% of the total) were changed in response to the crisis. A larger proportion of OPs were changed among Convergence OPs than Competitiveness OPs. Only 27 cases required a formal modification of the OP.

Scale and scope of ESF support in response to the crisis varied according to the initial role of the ESF in national labour market policies.

- Member States with a (relatively) small share of the ESF budget, in relation to national ALMP, either did not change the ESF OPs or used the ESF as a supplementary instrument to focus on immediate concerns.
- Member States with Convergence regions and a significant ESF budget often used the opportunity to adapt the ESF, although some of the Member States, with less experience in implementing EU funds, had difficulties in adopting simplifications and some Member States had to reduce the ESF co-financing budget because of austerity measures.

All in all the ESF changes were put in place quickly, either in 2009 or 2010, which was coherent with the speed in which the crisis hit labour markets.

One factor influencing the amount of changes within OP was the set up of the programmes. Flexible programmes which could be easily adapted (without legislative changes) were able to respond rapidly to the crisis and in a comprehensive way (e.g. PL, ES, IE and the North of IT), whereas rigid and inflexible OP were less suited to crisis related actions (e.g. LV).

However the unique example of the Greek 'Contingency OP', - the only OP explicitly foreseen for tackling extraordinary developments - could not be mobilised due to a lack of political and administrative capacities. This underlines the need for an appropriate OP design, but administrative capacities and political will are also needed to take advantage of it.

However, the absence of changes in an OP does not automatically indicate that it was unsuitable, or unsuccessful, in responding to the crisis. Firstly, the programme might have foreseen measures directed at some form of crisis or emergencies and, secondly, it might already have targeted those groups most affected by the crisis.

Thus no clear conclusions can be drawn on flexibility. Rigid programmes, where legislative changes are needed for even small adjustments are definitely not suitable when reacting to a crisis. On the other hand, very flexible programmes, where support is given to "whatever need occurs" are not appropriate to focussing on European strategies and to assessing the final outcomes. Flexibility is also determined by the procedures and timing required for gaining EC approval. This has been limited to three months, but the low number of submissions rather indicates that these procedures are deemed heavy by Member States.

The following **recommendations** can be drawn:

- Using smart changes to react to temporary crises is a strategy that should be used in similar situations, if they occur in future. This study provides a comprehensive overview of how MSs and OPs have dealt with the crisis. Depending on the specific context of an OP and the problem, approaches taken during this crisis are recommended for future use. The most important condition is that such measures should be launched rapidly and applied on a temporary basis.
- This leads to the question of how flexible OPs should be. There is no blueprint for this. The recommendation is to not make them so rigid that any change needs legislative changes, nor to make them so flexible that the strategic focus is lost. The EC can contribute to the flexibility through speeding up procedures relating to programme changes. Approval of changes should be based on the criteria that the interventions are targeting a crisis-related problem in a timely fashion, and that they are temporary.
- One option for allowing such flexibility in a focused way is to devote a small part of the OP to a crisis-related mechanism that can be activated for unforeseen events that disturb the labour market. Another possibility is to foresee a mechanism for adapting existing instruments (e.g. through extending target groups, accelerating spending and payment procedures, rapid approval by the EC of requests to change OP and focusing on affected regions or industries) for a limited time period in response to a crisis. These options are not exclusive and could be combined.
- Part of this flexibility could be pilot projects implemented to respond to a crisis in a temporary way. Ongoing assessment and establishing a learning design (with involvement of the relevant actors) and peer review would be helpful to stimulate change through this approach. This might be more efficient than changing entire schemes or parts of OPs.
- Evaluation studies should investigate the short and longer term impact of crisis related measures, to establish a more comprehensive understanding of the effectiveness of specific types of measures (in the given institutional, economic and social context).

- For the recovery period – or any period following the peak of the crisis, the ESF should return to “business as usual” and support those interventions that relate to employability and social inclusion. In particular the ESF should focus more on anticipating changes, in line with the EES, through, for example:
 - Supporting improvements in the design of lifelong learning concepts and of ALMP measures.
 - Investing in appropriate forms of forecasting and anticipation, not on a purely national level but on a more regionalised level and in the development of skills, qualifications and competences for the future.
 - Developing concepts of more innovative forms of work organisation that can be activated in emergency situations (e.g. sabbaticals for improving qualification).
 - Better provision of supplementary training, e.g. by developing training modules for specific target groups and industries to be activated if a crisis occurs requiring fast action. The modules can be used flexibly according to the specific needs of the labour market.

5.2.3 Changes in target groups

The crisis has raised awareness and concerns about the effects of a severe economic downturn on employment in major sectors of the economy, notably manufacturing and construction. At the same time the most vulnerable groups in the labour market and, more generally, society are also affected, if less directly, by deteriorating employment prospects and the consequences of cut-backs in social expenditure on which they may partly rely for support.

One aspect of this experience appears to be the pulling together of employment and social inclusion concerns into one policy framework¹¹⁶ of the EU, therefore focusing more clearly on the needs, challenges and opportunities of people of working age who have difficulties obtaining a sustainable income-giving employment. This is particularly visible, and indeed measurable, at the level of households, where members of ‘low-intensity work’ households¹¹⁷ are at risk of poverty.

This study has also highlighted the diverse pattern of ESF use throughout the Member States, and demonstrated that those patterns – which go way beyond any simple distinction between Convergence and Competitiveness – need to be taken into account when considering the future use and direction of the ESF.

¹¹⁶ As reflected also in the European Commission’s decision to merge its annual Employment in Europe report and its Social Situation report

¹¹⁷ Those households in which nobody is in work, or where the hours and weeks of work in a year are low, because any work is only part-time, temporary or casual

Recommendations in this respect are:

- The ESF remains an instrument targeted at improving the structural dimensions of labour markets, and at addressing the needs of those facing the greatest difficulties, and there is no question of seeking to convert the ESF into a crisis-combating instrument.
- The groups of employed initially hit by the crisis will not necessarily be equally affected in the longer term. National labour market policies might be tempted to first serve those that are able to articulate the threat and their needs and to seek to secure existing jobs. However, there is a need to maintain a focus on vulnerable groups, on measures to improve their employability and on measures to help young people enter the labour market.
- Immediate crisis related measures such as short term working schemes should be phased out, as they impede labour reallocation, as do job subsidies that carry the risk of deadweight losses if granted for too long. Furthermore, a Europe-wide longer term strengthening of ALMP (in order to fight high and longer lasting unemployment and damp hysteresis effects) should be covered by long-term employment strategies at EU and national level. ESF interventions should be aligned with these long-term strategies. Special effort of ESF should be made to support the establishment of ALMP (especially through building structures) in those countries where ALMP expenditures are very low.
- Targeting young people is one of the main future challenges of the EU where a European approach and active support are necessary and useful.
- In the recovery period policy emphasis on social inclusion, gender equality and prevention of poverty has fallen short in some Member States. The ESF should focus on the return to these strategies.
- As targeted in the new ESF regulations, which have been proposed for 2014-2020, those aims should be supported more directly via explicit interventions. In order to ensure that the targeted 20% of ESF will be directly linked to social inclusion and combating poverty a set of specific eligibility criteria and more importantly result indicators have to be developed. This should assure the most focused use of ESF in this respect.

5.2.4 Innovative actions

During the crisis the Member States mainly relied on proven measures, with little experimentation and innovation found in the measures introduced to mitigate the crisis. Given the circumstances this is easy to understand. Nevertheless, some innovative approaches have been identified, like the transitional employment contracts in FR, and various measures to increase the flexibility of labour put in place in EE (training courses for different target groups, possibility to continue studying for a degree, fostering R&D in companies, start-up incentives etc). Also, the close cooperation between regional and national partners and inclusion of social partners and the social insurance in IT was a new model developed to combat the crisis.

Social innovation has already been included in the proposal for the new programming period 2014 – 2020 as a focus for ESF.

The following **recommendations** can be drawn:

Innovation in ALMP should be emphasised in countries where ALMP is embedded in national systems. Member States with very low levels of ALMP should focus on establishing the appropriate institutional and financial background for ALMP.

5.2.5 Financial reallocation and management

Mobilisation of funds

Member States responded, albeit somewhat reluctantly, to the changes in financial management offered by the EC. The extension of the disbursement period for 2000-2006 was considered to be particularly important and was introduced in HU, CZ, SK, SI, BE, DE, ES and PT. This partly explains why absorption rates of the current funding period are still very low in some Member States.

On the other hand ES, UK, LV and SI used the option of a 100% temporary reimbursement of project costs 2009 and 2010 (i.e. front loading). However most Member States were reluctant to use this possibility of accelerated spending as it simply pushes the problem of national co-financing needs to future years of implementation (when increased national co-finance has to be raised in compensation).

Simplified cost calculation

The EC has proposed a number of simplified methods of cost calculation including flat rates, standard unit costs, and lump sums for smaller projects, such possibilities were introduced in the UK, DE (some OP), AT, BE, FR, MT, LV, IT, NL and SI, PT, MT. However not all Member States were willing or able to cope with the administrative provisions to be taken in order to implement these changes.

Nevertheless measures proposed by the EC have been appreciated by those who have implemented them. However the experience of the crisis has highlighted some of the difficulties in seeking to introduce new measures in the short term. Where Member States had the administrative capacity and know-how to implement them, they were able to take advantage of the changes. Simplification efforts can only be taken up by the Member States whose administrative process is adequately designed to do so. In other words, the apparent reluctance of Member States to adopt such measures was not always due just to lack of interest – their lack of administrative capability was important as well.

In this particular case it seems that there was a dividing line between ‘old’ and ‘new’ Member States¹¹⁸. While most of EU15 (with the exception of GR) were able to use the ESF by adapting it in line with crisis-related needs, some EU12 countries faced significant difficulties in absorbing the available funding. The main reasons for this appear to be the delay in closing the previous period and difficulties in some Member States with adapting their systems (e.g. CZ, RO, BG).

Some Member States increased the complexity and administrative burden by introducing several additional national and regional control mechanisms and management levels (CZ, SK, RO). This is clearly linked to the fact that the national

¹¹⁸ See also: Bruegel (2011) a European fund for economic revival in crisis countries, Benedicta Marzinotto, Research Fellow, Bruegel, February 2011, p.8-

regulations do not fully match with EU regulations and MS systems are still in the process of adaptation. This had significant impact on absorption rates in some Member States such as CZ and HU but also other Member States such as GR and IT where insufficient coherence between national and EC regulations caused unnecessary administrative delays and ineffective use of the funds.

Simplified cost calculations are still in the inception or early stages of implementation, so no serious assessment of their impact could be undertaken. But from the experiences of the MAs and the examples that were examined by this study and from reports specifically addressing this issue¹¹⁹ it emerges that, in general, the Member States have incorporated such simplifications.

The following **recommendations** can be drawn:

- Shifting funds from future years to the crisis period (i.e. front loading) seems to be an inadequate reaction as this only defers problems of either starting a programme in due time or having sufficient funds available, until the labour markets normalise from the peak of the crisis. Thus in crisis situations it would be useful to allocate additional funds (e.g. from previous periods) – to support crisis related measures, but not simply to shift budgets between programmes from different periods or between current and future periods. Providing additional funding to boost crisis-related measures is useful for the immediate crisis, however, this should not merely defer problems to the future. This would mean that funds not spent in the previous period should be allocated as specific crisis-allocations instead of postponing the closure of the previous period.
- Simplification measures need capacity and time to be implemented and take effect, but it is one of the most important measures to make the ESF more efficient and effective. This again improves capacity to anticipate change and react to future crisis-situations. Thus simplification and improving capacities of managing and implementing bodies are important tasks in normal times. During a crisis, when urgency and immediate actions are the main requirements, simplification can only be useful if put in place with due diligence and reasonable preparation. The example of the standard unit costs has shown that the ability to implement varies greatly between Member States. As it seems virtually impossible to introduce all reforms at the beginning of a programming period, it is more appropriate that the EC launches pilot reforms to test the implementation in a few MAs or MSs, before rolling it out across the EU27. A step-by-step approach to introducing simplification measures would be more appropriate for the various administrative settings of the programmes.
- The new proposals for 2014-2020 again introduce changes in ESF management, e.g. new payment regulations, clearance procedure. These changes will firstly require time for implementation and secondly in-depth training of less experienced public authorities. Again, supervised pilot projects would be useful to test these changes before the roll-out.

¹¹⁹ European Parliament (2010), Review and assessment of simplification measures in Cohesion Policy 2007-2013, Directorate-General for internal policies, Policy Department B, Structural and Cohesion policies

5.2.6 Governance of ESF

The simplification of rules and procedures offered and introduced by the EC overlapped with the simplification efforts of the Member States. Several Member States reviewed their implementation systems and management processes in particular the project generation phase (from dissemination of information to financial management) to speed up the generation and implementation of projects. Although some of this might have happened anyway the crisis seems to have accelerated these efforts.

However it became clear that such simplifications and reduced national administrative burdens need to be implemented in the wider context of general public administration (i.e. covering both legislation and administrative practice). Member States who were not prepared did not succeed.

This gives some indication of a fundamental problem related to programme implementation; complicated, time consuming programme and project implementation procedures are often the result of mismatches between European, national and, sometimes, regional regulations, as well as overly bureaucratic procedures.

Still, large and comprehensive packages of changes were put into effect – mainly by national authorities from EU-12, of which EU10 are now in their second SF period and have tried to improve governance arrangements that proved to be inflexible and unnecessarily complicated. However it has to be acknowledged that EU-12 did not have the opportunity to substantially gain experience in the previous period. The previous period only started in 2004 and finished in 2006, so only two years were available for implementing the ESF programme.

Experience gained in the pre-accession period was not useful since pre-accession instruments followed different procedures and rules. While the majority of Member States used the ESF as part of their policy responses to the crisis, in only a third of the OPs were changes to administrative or financial arrangements necessary. Highly prescribed programmes where high-level decisions were required to make even relatively small changes (as in the case of the original LV OP) were only able to respond to a change of policy direction after extensive and lengthy decision making processes.

Changes to ESF OPs were mostly initiated by governments through their ministries and implementing bodies. There were also some instances where the EC was first to suggest changes to OPs.

As the ESF is strongly linked with national labour market policies and has a dedicated focus on ALMP, supporting vulnerable groups and pursuing long-term strategies related to improving employability and integration, a good cooperation with relevant stakeholders and social partners in employment and social inclusion policy is very important. The crisis showed that fast and flexible reactions are important for implementing “smart” changes, i.e. changes that extend measures to affected target groups or help to accelerate project generation and implementation.

Good governance in implementation, and reliable well functioning partnership agreements on implementation are of utmost importance. Indeed, in some Member States (e.g. IT) the crisis has triggered improvements in such cooperation.

Experience from this crisis supports a number of **recommendations** on how the ESF should be used in similar situations:

- Overall, improving the governance of OP is one of the most relevant issues for implementing programmes in an efficient way, which is a prerequisite to reacting to a crisis through adapting the existing stock of instruments and keeping the focus on vulnerable groups and structural measures.
- Crisis related changes should stay within the objectives set out for the ESF programmes and not divert funds from structural to cyclical measure. Only very limited exceptions with a clearly limited life-cycle, should be used.
- Such changes are only useful if performed without legislative changes or specific approval procedures. Thus an OP should indicate in what way (i.e. under which priority and with what type of changes) interventions might be targeted towards combating a future crisis situation. The most appropriate ways have been specific additional calls for projects and the inclusion of additionally affected groups into specific interventions.
- A governance model that allows for flexibility is a prerequisite for tackling unexpected events and crises.
- Simplification is the most widely and unanimously requested feature of any reform. Experience with the recent EC proposals on simplification of financial management has shown very mixed results on willingness and capacity to adopt these changes. If implemented at the wrong time, this may result in more cumbersome procedures. Hence any simplification needs to take into account the entire delivery chain of the ESF intervention – starting from programme management until the intervention has reached the final recipient, including monitoring, evaluation and control.
- In times of crisis, it has been very useful to involve the social partners and especially the relevant regional actors.

5.2.7 Documentation, evaluation of crisis related measures, exchange of experience and mutual learning

The EC and the Member States exchanged a wide range of information on the crisis, and the measures that were taken. However, little systematic information is available on what use was actually made of the ESF. In fact, the formal requests for approval of a change represent only a very small fraction of what actually happened.

The structure and figures required for the Annual Implementation Reports (AIR) do not allow for specific conclusions about crisis related measures. Most AIRs have provided some information but this tends to be exemplified evidence rather than consistent and comparable information on target groups, financial re-allocations between measures, etc. Further information – especially on the combination of adapting existing instruments or introducing new ones, and simplifications and speeding up of procedures within the delivery chain – have only been found in case studies of individual measures on the basis of interviews with implementing bodies and managing authorities. In fact, our experts reported that very little written information is available.

A large number of changes have been adopted – most of them small in scale and difficult to separate in impact from the planned interventions. Also, a number of new instruments were introduced. However, it should be noted that evaluations are not yet available on who actually benefited from the measures and their impact in terms of

keeping people in employment or improving the employability of those who have been trained, to back up these conclusions.

It is important to enrich the information exchange started on the crisis-related measures through the exchange of experiences with the result and impacts of crisis related measures.

Questions relevant to this issue are whether:

- the supplementary training was based on a needs assessment, had some appropriate quality measure and helped to improve employment and income prospects and job quality in the medium term
- measures set to combat youth unemployment improved the employability of the recipients
- measures targeted at vulnerable groups through the crisis helped to improve their employment situation.

The following **recommendations** can be drawn:

Changes related to operational programmes should be described in the annual implementation report. At present the quality of the descriptions differs widely. In many cases changes which have not been officially approved are not described at all. In this matter the recommendation covers a certain quality control system in reporting. The reporting system does not need to be expanded but improved in quality in order to provide more consistent and comparable information for all Member States. Quality aspects have to be defined by the European Commission and proposed to all operational programmes. Extraordinary shifts within operational programmes should be reported as well as formal shifts between operational programmes. In both cases the reason for changes should be described exhaustively.

5.3 Specific conclusions and recommendations for groups of Member States

The importance of the ESF in fighting the crisis depended on the role of the ESF within national LMP. For newer Member States badly hit by the crisis but with the capacity to respond, the ESF has been the main support for active labour market policies. It can, in fact, be assumed that changes relating to active labour market policies (maintaining employment and creating jobs, upgrading skills, increasing access to employment) relate to the central role played by the ESF resources.

The ESF has, in effect, been the instrument to introduce or strengthen active labour market policies in the Member States that were facing budgetary restrictions, and where, historically, there had been a tendency to support the labour market through mainly passive measures (unemployment subsidies). In these countries, changes in the OPs were directly linked to changes in labour market policies.

Nevertheless, the subsequent negative, and often divergent, developments in European labour markets appear to underline the need to better integrate (anti-)cyclical and structural policy measures in a multi-period perspective (embracing the short, medium and longer term within a common framework) and to likewise ensure that the ESF, as a policy instrument, is able to adapt and respond effectively to whichever of those time horizons takes on the greatest importance at any point in time.

The reaction of Member States on how to use the ESF in dealing with the crisis depended largely on a series of factors that were outside the immediate ESF framework:

- strength of the economy (GDP/capita, competitiveness)
- impact of crisis on economy and labour market
- changes to labour market policy
- changes to the ESF
- governance issues

The following groups of Member States were identified in chapter 4:

Group A: Member States with a strong economy where the crisis has had an average impact and no significant labour market actions were taken. BE, LU, DK and NL represent very strong economies and the crisis had a relatively moderate impact compared to other Member States. All the countries concerned had extensive experience in using the ESF and adapting its use.

Group B: Member States where the crisis has had an average impact and reactions were largely taken by national labour market policies. The group covers the following Member States: AT, FR, DE, SE, FI, UK and in addition the North of IT¹²⁰. The ESF budget of these Member States was consequently small in relation to GDP.

Group C: Member States where the crisis had a high impact on labour market and the use of the ESF was considerable. This group includes PT, ES, IE and the south of IT. The southern EU Member States and regions cover mostly Convergence regions, whilst IE stands apart based on its previously strong economy. The ALMP has a medium share of the GDP but the ESF serves as a major contribution to it. All four Member States have long experience with the ESF.

Group D: Member States with Convergence regions that were affected by the crisis and had the capacity to use the ESF as the main active labour market instrument. This group includes PL and the three Baltic States LT, LV and EE. The Baltic States were hit by the crisis very hard with the highest GDP and employment losses of EU27.

Group E: Member States that were severely hit by the crisis and faced various difficulties in implementing the ESF. This group includes RO, BG and GR - countries whose economies were somewhat fragile and, in some cases, in an economic development phase (albeit some of them experienced relatively strong growth in the period preceding the crisis) which left them very vulnerable when the crisis hit.

Group F: Member States with a growing economy before the crisis that were hit by the crisis and faced various difficulties in implementing the ESF. SI, HU, CZ and SK had a positive and progressive economic growth within the last years but were hit by the crisis to varying degrees. All four countries gathered some experience in managing ESF during the previous - albeit shortened - period (2004 – 2006).

¹²⁰ In the case of IT we decided to deviate from a strict grouping by MS due to the strong structural differences between North and South Italy whereby the North was specifically hit by the crisis. Moreover, this separation is programmatically supported by the regionalisation of ESF implementation via regional OPs.

A number of **recommendations** for the different groups of Member States can be drawn:

- Member States in **Group A** have comprehensive ALMP policies in place. In these MSs future crisis-related measures lie in prevention. Prospective studies of future labour market development, on useful measures for tackling critical situations in the labour market, and on future qualification needs should be used more widely to better meet future challenges. Pilot projects for innovative work arrangements, combinations of measures to support vulnerable groups and measures targeted at regional or local needs should be supported by the ESF.
- Member States in **Groups A and B** have the capacity and strength to implement more innovative new labour market instruments. The possibility of flexible innovative actions will be improved with the new ESF programming period. Measures already implemented should be assessed for their potential use in a wider context. Know-how exchange on successful innovative measures could be enhanced over the ESF period.
- Responsiveness to labour market needs and enhancing the capacity of the ESF to react to changing labour market needs in the future is the major recommendation for **Group C**, where significant amounts of funds are allocated. PT needs to find smoother implementation mechanisms throughout the entire delivery chain. Also ES programmes need to review their delivery mechanism to make OP more responsive to labour market needs. To make best use of the funds available in crisis periods and to ensure absorption in general, a systematic analysis of the bottlenecks in management and implementation systems, and of the legal and governance context in general is highly recommended for PT and ES. The case of IE, where substantial crisis related measures have been taken, but their performance seems to be low – according to recent evaluations – there is a need to assess the effectiveness and impact of the measures taken during the crisis. In the future these MSs should all place increased ESF emphasis on youth unemployment and combatting long-term unemployment.
- Member States in **Group D** have taken the opportunities offered by the ESF and implemented them in a very coherent way. Programme implementation during the next funding period should be based on MS evaluations of the current programming period. Special attention should be paid to the effectiveness of regional implementation in Poland and the results of ALMP measures. In Member States of Group D the active labour market measures depend highly on ESF budget and activities. National ALMP structures should be established in the long run to remove the dependency on ESF for ALMP.
- In **Group E** future implementation of ESF OPs needs to be accompanied by intensive capacity improvement at national and regional level. Improvements should be related, on one hand, to adjustment of EU and national regulations and, on the other hand, the effectiveness of public authorities. The latter could be achieved with training and experience sharing. Technical assistance budgets should be used for specific assessments of programme management cycles, at national and regional level, and to establish proper national and regional support structures outside of the public administration but under the auspices of the Member States as has been successfully demonstrated as a good practise in 'older' Member States.

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- **Group F** has gained experience in managing ESF funds. Nevertheless Member States in this group have difficulties in achieving the planned expenditure rates due to over-bureaucratic management structures which affect ESF management. A review of the delivery chain and simplification measures should be focused on administrative adjustments and should clearly be initiated prior to or at the very beginning of the next programming period.

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Annex 1. Labour market data

Table A 1: Employment rates in EU27, in %

					Change in percentage points		
	2007	2008	2009	2010	2008/2007	2009/2008	2010/2009
Total	66.0	66.4	64.8	64.6	0.4	-1.6	-0.2
Gender							
Male	73.2	73.3	71.0	70.7	0.1	-2.3	-0.3
Female	58.8	59.4	58.7	58.5	0.6	-0.7	-0.2
Age							
Total							
15-24	38.7	38.7	35.9	35.2	0.0	-2.8	-0.7
25-54	79.4	79.9	78.2	77.9	0.0	-1.7	-0.3
55-64	45.1	46	46.1	46.6	0.9	0.1	0.5
Males							
15-24	41.9	41.9	38.2	37.6	0.0	-3.7	-0.6
25-54	87.2	87.2	84.7	84.4	0.0	-2.5	-0.3
55-64	54.5	55.3	54.9	54.7	0.8	-0.4	-0.2
Females							
15-24	35.4	35.5	33.5	32.8	0.1	-2	-0.7
25-54	71.7	72.5	71.7	71.3	0.8	-0.8	-0.4
55-64	36.2	37.2	37.9	39	1.0	0.7	1.1
Education							
Low	49.7	48.9	46.6	45.9	-0.8	-2.3	-0.7
Medium	70.7	71	69.2	68.7	0.3	-1.8	-0.5
High	83.5	83.6	82.3	82	0.1	-1.3	-0.3
Males							
Low	59.6	58.8	55.5	54.4	-0.8	-3.3	-1.1
Medium	77.1	77.5	75	74.6	0.4	-2.5	-0.4
High	87.0	87.3	85.9	85.7	0.3	-1.4	-0.2
Females							
Low	40.1	39.3	38	37.6	-0.8	-1.3	-0.4
Medium	63.9	64.2	63.2	62.5	0.3	-1.0	-0.7
High	80.1	80.1	79.1	78.6	0.0	-1.0	-0.5

Source: Eurostat

Table A 2: Employment rates, in %

	2007Q3	2008Q3	2009Q3	2010Q3
AT	72.5	72.8	72.3	72.6
BE	62.1	62.6	61.4	62.0
BG	62.7	65.0	63.1	60.6
CY	71.3	71.0	70.0	70.0
CZ	66.3	66.7	65.2	65.4
DE	69.9	71.3	71.0	71.5
DK	77.1	78.5	76.3	73.8
EE	70.2	70.4	63.4	62.1
ES	66.0	64.5	59.7	58.9
FI	71.7	72.1	69.3	69.3
FR	64.9	65.3	64.4	64.4
GR	61.8	62.2	61.7	59.7
HU	57.7	57.3	55.5	56.0
IE	70.0	68.0	61.8	60.3
IT	59.1	59.0	57.5	56.7
LT	66.1	65.0	60.4	58.5
LU	64.7	63.9	65.8	66.1
LV	69.0	69.0	59.8	60.6
MT	54.9	56.1	55.1	56.8
NL	76.5	77.5	77.0	74.9
PL	57.8	60.0	59.9	60.0
PT	68.1	68.1	65.8	65.5
RO	60.5	60.5	60.4	60.2
SE	75.7	75.7	72.9	74.1
SI	69.0	70.1	68.3	66.3
SK	60.7	63.1	60.1	59.2
UK	71.6	71.5	69.8	70.0
EU27	66.0	66.4	64.8	64.6

Table A 3: Employment rates by gender, in %

	Female				Male			
	2007Q3	2008Q3	2008Q3	2010Q3	2007Q3	2008Q3	2008Q3	2010Q3
AT	65.3	66.3	66.9	67.1	79.7	79.5	77.8	78.2
BE	55.3	56.6	55.8	56.3	68.9	68.5	67.0	67.6
BG	58.6	60.4	58.9	57.2	66.8	69.6	67.4	64.1
CY	62.4	62.4	62.3	62.8	80.8	80.0	78.0	77.5
CZ	57.3	57.6	56.5	56.4	75.2	75.7	73.7	74.3
DE	64.3	65.7	66.1	66.3	75.3	76.8	75.8	76.5
DK	73.3	74.1	73.7	71.3	80.9	82.9	78.9	76.2
EE	66.7	67.5	61.8	59.9	74.0	73.6	65.1	64.5
ES	55.0	55.1	53.0	52.4	76.7	73.6	66.4	65.2
FI	69.2	69.6	68.0	67.5	74.2	74.6	70.5	71.1
FR	60.1	60.7	60.3	60.2	69.9	70.1	68.7	68.7
GR	48.2	49.1	49.3	48.4	75.4	75.3	74.0	71.1
HU	51.0	51.0	49.9	51.0	64.7	63.9	61.2	61.2
IE	61.5	60.7	57.5	56.1	78.3	75.4	66.1	64.5
IT	46.9	47.2	46.1	45.8	71.3	70.7	68.9	67.6
LT	62.9	62.7	61.2	59.0	69.4	67.5	59.6	58.0
LU	56.2	55.1	57.5	57.6	73.4	72.5	73.8	74.7
LV	64.7	65.4	58.8	60.1	73.6	72.9	60.9	61.1
MT	36.0	38.6	37.9	40.7	73.2	72.9	71.6	72.2
NL	70.1	71.5	71.5	69.5	82.8	83.5	82.4	80.3
PL	51.5	53.0	53.0	53.6	64.3	67.2	66.9	66.5
PT	62.3	62.5	61.1	60.9	74.1	73.9	70.5	70.1
RO	54.5	54.3	53.5	53.6	66.5	66.7	67.2	67.0
SE	73.3	73.2	70.8	71.6	78.1	78.2	75.0	76.6
SI	63.6	65.5	64.6	62.0	74.2	74.4	71.9	70.3
SK	52.7	55.4	52.8	52.8	68.9	70.8	67.4	65.5
UK	65.6	65.8	65.0	64.8	77.8	77.4	74.7	75.3
EU27	58.8	59.4	58.7	58.5	73.2	73.3	71.0	70.7

Table A 4: Employment rates by age groups, in %

	Age 15-24				Age 25-54				Age 55-64			
	2007 Q3	2008 Q3	2008 Q3	2010 Q3	2007 Q3	2008 Q3	2008 Q3	2010 Q3	2007 Q3	2008 Q3	2008 Q3	2010 Q3
AT	58.0	58.4	56.7	55.8	84.8	84.8	84.5	84.8	39.4	41.2	41.2	43.1
BE	27.5	27.3	25.5	26.9	79.8	80.5	79.2	79.4	34.5	35.6	35.9	37.5
BG	24.8	27.5	25.1	24.2	80.4	82.1	79.8	76.9	43.8	47.3	46.7	43.0
CY	37.5	38.5	33.6	34.7	84.0	83.6	82.8	82.6	56.6	55.1	57.3	57.4
CZ	28.6	28.5	26.9	26.4	83.6	84.0	82.3	82.5	46.4	47.5	46.4	46.5
DE	45.7	47.0	46.7	46.7	81.3	82.5	81.6	81.9	51.9	54.2	55.9	57.8
DK	63.6	68.2	64.2	57.6	86.3	88.2	85.4	83.6	59.9	57.3	59.0	58.7
EE	36.6	37.7	30.8	28.2	85.7	84.5	76.1	75.9	58.5	61.9	58.5	52.9
ES	41.2	37.9	28.7	26.2	76.9	75.1	70.5	69.7	44.5	45.6	43.7	43.8
FI	51.0	48.9	41.7	43.6	83.7	84.6	82.6	81.9	55.1	57.0	55.8	56.6
FR	34.0	33.9	32.7	32.0	82.2	83.1	81.9	82.0	38.2	38.2	39.1	40.2
GR	24.4	23.9	23.7	20.6	76.0	76.6	75.8	73.5	42.7	42.8	42.6	42.6
HU	21.3	20.8	18.5	18.6	75.0	75.0	72.8	73.2	33.2	32.0	32.8	34.9
IE	54.1	48.5	35.9	31.7	78.6	77.2	71.7	70.2	54.0	53.8	50.8	50.6
IT	25.8	25.1	22.3	20.5	73.7	73.5	71.7	70.8	34.2	34.9	35.8	36.6
LT	26.4	28.1	20.3	19.8	83.4	81.6	77.4	74.9	55.4	53.7	51.1	48.3
LU	22.4	22.0	28.1	24.0	82.1	80.6	82.0	83.4	34.8	36.5	37.6	38.4
LV	38.5	39.4	28.9	28.8	83.3	82.2	73.8	74.8	57.7	59.9	48.0	47.4
MT	48.0	46.6	45.2	47.8	65.6	68.4	68.5	68.6	29.5	29.6	26.1	30.5
NL	70.4	70.5	68.7	64.3	85.6	86.8	86.0	84.7	51.4	53.5	55.5	53.9
PL	27.0	28.4	27.0	27.5	75.6	78.2	78.1	77.7	30.3	32.0	33.2	34.9
PT	35.6	34.7	31.6	27.9	81.1	81.4	78.9	79.2	51.6	51.2	49.2	49.0
RO	25.9	26.4	26.1	25.5	75.9	75.4	75.4	75.7	45.1	45.9	44.8	43.1
SE	47.9	47.3	41.3	43.7	86.6	87.0	84.6	85.6	70.6	70.3	70.0	70.8
SI	43.0	44.9	41.4	36.5	85.4	87.2	84.4	82.9	35.1	33.4	37.3	35.7
SK	27.7	26.0	23.0	20.9	77.9	81.2	77.4	76.2	36.4	40.8	40.2	40.9
UK	53.8	53.4	48.8	49.5	81.4	81.2	80.0	80.0	57.3	57.8	57.4	57.2
EU 27	38.7	38.7	35.9	35.2	79.4	79.9	78.2	77.9	45.1	46.0	46.1	46.6

Table A 5: Employment rates by educational attainment, in %

	ISCED 0-2				ISCED 3-4				ISCED 5-6			
	2007 Q3	2008 Q3	2008 Q3	2010 Q3	2007 Q3	2008 Q3	2008 Q3	2010 Q3	2007 Q3	2008 Q3	2008 Q3	2010 Q3
AT	54.4	52.6	50.5	51.2	76.6	77.6	77.0	77.4	86.5	85.9	86.0	84.7
BE	40.5	40.5	38.0	39.8	66.1	66.9	65.1	65.5	82.0	81.4	80.5	81.7
BG	33.6	35.5	33.3	30.3	71.0	73.0	70.3	66.7	83.8	86.5	85.6	82.9
CY	55.5	53.0	54.8	54.6	72.6	73.5	71.1	70.8	85.3	85.2	83.7	82.3
CZ	25.1	24.7	23.4	23.0	72.6	73.1	70.8	70.5	83.3	82.1	81.3	80.8
DE	45.5	45.8	45.4	45.7	74.3	75.3	74.7	75.0	85.7	86.7	86.7	86.6
DK	64.7	66.9	62.7	58.1	82.3	82.5	79.4	78.4	87.3	89.1	86.9	85.8
EE	34.9	34.8	30.2	27.6	75.4	76.4	66.4	65.2	87.3	85.5	79.8	78.1
ES	57.9	55.3	49.6	48.6	68.7	68.3	62.8	61.1	82.4	81.6	78.5	77.3
FI	48.5	48.2	43.9	43.4	75.8	76.7	72.8	72.7	85.1	85.2	84.0	83.7
FR	48.4	48.0	46.6	46.1	69.6	69.5	68.4	68.3	79.3	80.6	79.4	80.0
GR	53.1	53.3	52.9	50.9	61.0	61.2	60.8	58.6	81.6	81.9	81.0	78.0
HU	28.3	28.3	26.3	27.0	64.9	63.8	61.3	61.6	79.6	79.5	77.7	77.2
IE	50.9	47.3	39.7	37.4	75.1	72.7	64.1	61.3	85.4	84.3	80.3	79.5
IT	47.7	46.8	44.7	43.9	67.7	67.7	66.3	65.2	76.6	77.2	76.0	74.9
LT	27.4	21.5	18.5	14.8	69.5	68.4	62.2	58.2	88.2	87.8	85.2	85.5
LU	50.9	48.7	45.3	42.8	67.9	65.4	67.8	68.6	82.8	84.0	81.9	84.2
LV	39.5	39.1	31.5	30.4	74.8	74.5	62.4	62.1	87.9	85.8	79.9	81.4
MT	46.0	47.7	46.2	48.3	72.4	71.3	72.3	70.9	85.3	85.5	84.1	82.3
NL	62.1	63.7	62.3	59.6	80.1	81.0	80.9	78.7	87.4	87.8	87.2	86.6
PL	26.4	27.2	26.4	25.4	61.6	63.8	63.0	62.4	82.1	82.9	82.4	82.3
PT	66.4	65.9	62.5	62.1	64.9	66.3	66.2	65.4	83.3	82.9	82.2	81.7
RO	43.4	44.0	45.4	46.2	65.0	64.1	63.2	63.1	85.8	85.8	84.6	81.5
SE	60.6	59.2	53.4	49.1	82.6	82.9	79.6	80.3	88.3	88.7	87.4	87.8
SI	47.5	44.3	44.7	40.5	71.5	73.4	69.7	68.4	86.5	87.9	88.0	86.6
SK	15.2	18.4	15.2	15.9	68.7	70.3	66.8	65.1	81.8	83.3	78.6	77.2
UK	60.4	55.9	53.8	52.6	77.3	75.5	72.7	72.4	86.7	84.8	83.7	83.9
EU 27	49.7	48.9	46.6	45.9	70.7	71.0	69.2	68.7	83.5	83.6	82.3	82.0

Annex 2. ESF Operational Programmes changes

MS	OP code	OP title	OP objective	F. M. ¹²¹	Adjustments and changes in operational programmes
AT	2007AT051PO001	OP Burgenland : Convergence/Phasing out	Converg	x	<ul style="list-style-type: none"> - More funds targeted towards supporting people with disabilities and LT unemployed. - Training for employees in STW. - Additional measures targeted at young people. - Introduction of FBB+ programme to offer counselling to firms facing financial difficulties.
AT	2007AT052PO001	OP Employment Austria	Compet	x	<ul style="list-style-type: none"> - More funds targeted towards supporting people with disabilities. - Training for employees in STW. - Additional measures targeted at young people. - Introduction of FBB+ programme to offer counselling to firms facing financial difficulties.
BE	2007BE051PO001	PO 'Convergence' Hainaut	Converg		shift of funds or timing within the flexibility that the OP already provides, more specific focus on innovation and investment;
BE	2007BE052PO001	OP ESF 2007 - 2013, German speaking Community Belgium	Compet	x	
BE	2007BE052PO002	PO Regional Competitiveness and Employment - Wallonie	Compet		Adjustments of measures towards individuals and employed people
BE	2007BE052PO003	PO Regional Competitiveness and Employment - Federal	Compet	x	focus on vulnerable groups
BE	2007BE052PO004	PO Regional Competitiveness and Employment Brussels Regions	Compet		<ul style="list-style-type: none"> - project on jobloss - funds from 2000-06 period used

¹²¹ Formal modification according to the DG EMPL

MS	OP code	OP title	OP objective	F. M. ¹²¹	Adjustments and changes in operational programmes
BE	2007BE052PO005	OP Regional Competitiveness and Employment Flanders	Compet		<ul style="list-style-type: none"> - using the remaining funds of the 2000-2006 program until 2009 - focus on job rotation and job sharing
BG	2007BG051PO001	OP Human Resources Development	Converg		Shifts of funds towards measures focusing on: <ul style="list-style-type: none"> - training vouchers - vacancies in public administration - more training for young people
BG	2007BG051PO002	OP Administrative Capacity	Converg		Shifts of funds towards measures focusing on: <ul style="list-style-type: none"> - training of public administration and regional offices
CY	2007CY052PO001	OP Employment, Human Capital and Social Cohesion	Compet		<ul style="list-style-type: none"> - 2-speed action plans to activate OP and respond to crisis - full activation of specific crisis-related measures - amendment of selection criteria
CZ	2007CZ05UPO001	OP HR&Employment	Both		<ul style="list-style-type: none"> - two calls specifically addressed at SMEs and enterprises - simplification of administration
CZ	2007CZ05UPO002	OP Education for Competitiveness	Both		<ul style="list-style-type: none"> - extended scope of eligibility for grants
CZ	2007CZ052PO001	OP Praha Adaptability	Compet		
DE	2007DE051PO001	OP ESF Brandenburg 2007-2013	Converg		<ul style="list-style-type: none"> - enforcing the measure which is fostering the inclusion into work of young unemployed with an IVT certificate got budgets increased - In funding guideline "Kompetenzentwicklungsrichtlinie" on training of employees the own contribution of enterprises got reduced from 30 to 20% - the system of applications was changed from fixed periods for applications to an ongoing open procedure.
DE	2007DE051PO002	OP ESF Mecklenburg-Vorpommern 2007-2013	Converg		<ul style="list-style-type: none"> - start-up fees and training vouchers were introduced for the 1st time but with no special reference to crisis - in particular regarding transfer-company set-up in favour of employees of failed ship-yards a direct OP-funding outside of existing funding guidelines was used - decision directly taken by MA based on Priority goals and project selection criteria of that

MS	OP code	OP title	OP objective	F. M. ¹²¹	Adjustments and changes in operational programmes
					priority - the failure of the ship-yard was related to the crisis (2009/30)
DE	2007DE051PO003	OP ESF Niedersachsen - Region Lüneburg 2007-2013	Converg		<ul style="list-style-type: none"> - creation of additional IVT places for underprivileged youth - measures supporting basic education certificate got mainstreamed into national law and thus suspended within OP - introduction of flat rate for indirect cost to reduce workload at check & control use made of facilities provided by REG 1081/2006 Art 11(3)b /planned to be expanded in 2010 according to Reg 396/2009
DE	2007DE051PO004	OP ESF Sachsen 2007-2013	Converg		<ul style="list-style-type: none"> - improvement of support to start-ups out of unemployment (raised grant per month & extended support period) - showed positive effects on output - simplification in measure/funding guideline job-promotion (AIR 2009/104) regarding additionality, sustainability request for jobs created, time-restricted contracts, restriction to SME - no effects so far (2009/104) - flat rate for indirect cost already used - flat rate approach shall be expanded following to facilities provided by COM EC REG 396/2009 (AIR 2009/50)
DE	2007DE051PO005	OP ESF Sachsen-Anhalt 2007-2013	Converg		<ul style="list-style-type: none"> - shift of funding inside PA A from start-up qualification to employee qualification plus increase of national public funding (+28,8 mn €) and of private means (+3,3 mn) - in reaction to a competing federal gov under PA B support to creation of additional IVT places for underprivileged youth suspended - introduction of flat rate for indirect cost prepared for 2010 according to facilities provided by COM EC REG 396/2009 (AIR 2009/25/37)
DE	2007DE051PO006	OP ESF Thüringen 2007-2013	Converg		<ul style="list-style-type: none"> - some funding lines had to be adjusted /skipped due to labour market needs or new and competing national actions in the context of labour market policy reforms - focus was left on the specific goals but with changed operations
DE	2007DE052PO001	OP ESF Baden-Württemberg 2007-2013	Compet		<ul style="list-style-type: none"> - related to employees measures were introduced for external coaching of employees at risk (age, migrant, low skilled) plus support to enterprises at developing qualification & training schemes (e.g. for times of short-term work)
DE	2007DE052PO002	OP ESF Bayern 2007-2013	Compet	x	<ul style="list-style-type: none"> - due to competitive measures on national level activities were hampered (e.g. measures for migrants and qualification voucher for employees) or had even to be dropped - e.g. for basic education certificate in PA B

MS	OP code	OP title	OP objective	F. M. ¹²¹	Adjustments and changes in operational programmes
					- change in Management & Controlsystem regarding retention rate: lowered from 20% to 10% starting with 2010
DE	2007DE052PO003	OP ESF Berlin 2007-2013	Compet		
DE	2007DE052PO004	OP ESF Bremen 2007-2013	Compet		
DE	2007DE052PO005	OP ESF Hamburg 2007-2013	Compet		- speed-up of selection plus additional publicity to support policy action 'Hamburger Konjunkturoffensive' PA A fighting negative effects of Financial- and economic crisis but also to compensate for slow implementation in PA A
DE	2007DE052PO006	OP ESF Hessen 2007-2013	Compet		
DE	2007DE052PO007	OP ESF Niedersachsen (ohne Region Lüneburg) 2007-2013	Compet		<ul style="list-style-type: none"> - drop of measures because of changed policy frame and additionality measures supporting basic education certificate got mainstreamed into national law - PA B support suspended to creation of additional IVT places for underprivileged youth and likewise funding of IVT for apprentices from failed enterprises - introduction of flat rate for indirect cost to reduce workload at check & control -use made of facilities provided by REG 1081/2006 Art 11(3)b /planned to be expanded in 2010 according to Reg 396/2009
DE	2007DE052PO008	OP ESF Nordrhein-Westfalen 2007-2013	Compet		
DE	2007DE052PO009	OP ESF Rheinland-Pfalz 2007-2013	Compet		
DE	2007DE052PO010	OP ESF Saarland 2007-2013	Compet		<ul style="list-style-type: none"> - due to low absorption the 'close-to-job' training (PA C) originally restricted to coal-miners (restructuring sector) was opened for other branches too - basic education certificate for underprivileged youth skipped due to competing national activities
DE	2007DE052PO011	OP ESF Schleswig-Holstein 2007-2013	Compet		<ul style="list-style-type: none"> - CVT in service sector introduced - in context of business cluster-strategy - emphasising cluster-oriented approach - - implemented by competition on ideas

MS	OP code	OP title	OP objective	F. M. ¹²¹	Adjustments and changes in operational programmes
					<ul style="list-style-type: none"> - pre-start-up counselling for employees introduced - IVT-canvassers were funded to create mor IVT in enterprises - regional counsellors/mediators funded for young people (partic. migrant background) at workplace /IVT - IVT for underprivileged youth was skipped due to competing national activities introduced
DE	2007DE05UPO001	OP ESF Bund 2007-2013	Both		<ul style="list-style-type: none"> - qualification while in short-term work introduced also for regular short-term work i.e. expanded from people in 'transfer companies' to regular employed short term-workers (seasonal and cyclical stw) - number of eligible regions increased (+22) due to absorption/implementation problems - covers LTU
DK	2007DK052PO001	OP More and better job	Compet		<ul style="list-style-type: none"> - more emphasis on PA2 (employment) and on creating jobs.
EE	2007EE051PO001	OP for Human Resource Development	Converg		<ul style="list-style-type: none"> - retraining for vulnerable groups - more attention on early school leavers through LLL - ALMP programmes for enterprises and the unemployed - support of start-ups
ES	2007ES051PO002	PO Castilla La Mancha	Converg		<ul style="list-style-type: none"> - Reallocation from axis 4 to axis 2 to with a view to maximise the efficiency of the resources for improving employment and human resources. <p>Also reallocation of human and financial resources within axes on emerging and urgent actions.</p> <ul style="list-style-type: none"> - A plan of extraordinary measures to address the crisis (not necessarily ESF funded) has implied changes in the ESF allocations within the programme. - Increased financial incentives to promote indefinite contacting of workers in sectors under crisis. Reinforcement of orientation actions (new labour market advisers). <p>These reinforced the follow-up of re-positioning itineraries for the recently unemployed or with grave employability problems or low income levels.</p> <ul style="list-style-type: none"> - Employment workshops to recently unemployed. Training of unemployed in new, quality generator, sectors. - Closure support to self employed provided they undertake training.

MS	OP code	OP title	OP objective	F. M. ¹²¹	Adjustments and changes in operational programmes
ES	2007ES051PO003	PO EXTREMADURA	Converg		
ES	2007ES051PO004	PO GALICIA	Converg		<ul style="list-style-type: none"> - Axis 1 (entrepreneurship and adaptability) gives emphasis on the support to enterprises in rural areas, as generators of employment for young and women. Especially those enterprises that create employment for job seekers coming from sectors related to construction who were most affected by the current crisis. - Better focus on enterprise creation in rural areas as generators of employment for young and women, esp for those people coming from the construction sector which is most affected by the crisis. <p>Also, given the current crisis, focus of active employment policies on the integration of immigrants, ethnic minorities and disabled, and generally all those with difficulties in accessing the labour market.</p>
ES	2007ES051PO005	PO ANDALUCIA	Converg		<ul style="list-style-type: none"> - € 32-35 mn to be reallocated to axis 2 (employability) - More focused operations on capacity building and provision of basic skills to young, women, unemployed. - More focus on training for young, women and specific sectors. - Intensification of resources in certification procedures.
ES	2007ES051PO006	PO ASTURIAS	Converg		
ES	2007ES051PO007	PO CEUTA	Converg		<ul style="list-style-type: none"> - Focused targetting of the operations related to the development of integrated and personalised itineraries for social and employment inclusion for young people and over 45 who are workers in sectors under crisis. - Interventions about social and employment inclusion (personalised itineraries) for people in risk of exclusion, including young people and over 45 who are workers in sectors under crisis.
ES	2007ES051PO008	PO MELILLA	Converg		
ES	2007ES051PO009	PO REGION DE MURCIA	Converg		
ES	2007ES052PO001	PO CANARIAS	Compet		
ES	2007ES052PO002	PO CASTILLA Y LEON	Compet		<ul style="list-style-type: none"> - As a result of the crisis there has been a shift towards active employment measures, without the need to re-programme.

MS	OP code	OP title	OP objective	F. M. ¹²¹	Adjustments and changes in operational programmes
					- Small adjustments in the selection criteria (no further specification).
ES	2007ES052PO003	PO COMUNIDAD VALENCIANA	Compet	x	<ul style="list-style-type: none"> - Change in the co-finance rate of the OP approved by the Commission (from 50% to 80%) - Focus on immigrants: access to training and adaptation of its content to their circumstances. - Support to workers in sectors under crisis, esp. textile and confection, footwear, leather and leather goods, toys and furniture.
ES	2007ES052PO004	PO ARAGON	Compet		
ES	2007ES052PO005	PO BALEARES	Compet		<ul style="list-style-type: none"> - Focus on inactive and unemployed people. - Identification of capacity building needs of cooperatives through a study.
ES	2007ES052PO006	PO CANTABRIA	Compet		
ES	2007ES052PO007	PO CATALUÑA	Compet		<ul style="list-style-type: none"> - Encourage labour market integration of unemployed in the construction sector (basic building reforms). - Professional occupation of unemployed in building reforms.
ES	2007ES052PO008	PO MADRID	Compet		- Specific measures adopted in 2009-2010 to facilitate access to training for immigrants and content adapted to their circumstances: training specialisation of short duration; training for afternoon/night shifts and weekends; training in sectors with high demand and index of job offers, planning of training actions for repositioning immigrants in higher qualifications posts (technology competences and professional capacities).
ES	2007ES052PO009	PO NAVARRA	Compet	x	
ES	2007ES052PO010	PO PAIS VASCO	Compet		
ES	2007ES052PO011	PO LA RIOJA	Compet		
ES	2007ES052UPO001	PO Adaptability and Employment	Both		<ul style="list-style-type: none"> - In 2010, there was a proposal for reallocation of funds in order to promote employability of the unemployed and reducing the actions for the improvement of human capital addressed to employed - Support for reconversion and adaptation to the automobile sector (SMEs offering auxiliary services to the sector) which has been especially affected by the crisis. - Orientation of co-financed operations towards unemployed people, with the objective to increase capacities and professional qualifications to promote labour market

MS	OP code	OP title	OP objective	F. M. ¹²¹	Adjustments and changes in operational programmes
					<p>integration.</p> <ul style="list-style-type: none"> - Increase of training itineraries addressed to disadvantaged target groups. - Support SMEs, heavily affected by the crisis, in a search for new client sectors and supporting their reconversion and adaptation to these new sectors.
ES	2007ES05UPO002	PO Fighting discrimination	Both		<ul style="list-style-type: none"> - More focus on training, women, disabled, intermediation services. Offering entrepreneurs best candidates (matching profiles) while supporting entrepreneurs with selection processes. <p>Also, given the precarious employment conditions for women, it was decided to focus on training to improve their employability.</p> <ul style="list-style-type: none"> - Special efforts to inform and advise entrepreneurs in order to find out possible jobs offers for disabled people.
ES	2007ES05UPO003	PO Technical Assistance	Both		
FI	2007FI052PO001	Mainland OP	Compet	x	<ul style="list-style-type: none"> - focus on projects that have direct effects of job creation - start-up incentives - labour market services
FI	2007FI052PO002	OP for Åland Islands	Compet		
FR	2007FR052PO001	PO national	Compet	x	<ul style="list-style-type: none"> - shifts of funding and additional funds to focus on vocational training - adoption of a dynamic programming mechanism to focus on essential interventions
FR	2007FR051PO004	PO Réunion	Converg		
FR	2007FR051PO001	PO Martinique	Converg	x	
FR	2007FR051PO002	PO Guadeloupe	Converg		
FR	2007FR051PO003	PO Guyane	Converg		
GR	2007GR05UPO003	Reform of Public administration OP	Both		
GR	2007GR05UPO001	Employment OP	Both		
GR	2007GR05UPO002	Education OP	Both		

MS	OP code	OP title	OP objective	F. M. ¹²¹	Adjustments and changes in operational programmes
GR	2007GR051RV001	OP Contingency Reserve	Converg		<ul style="list-style-type: none"> - acceleration through faster activation: 2 measures for increasing employment implemented by June 2011 - Support employment by subsidising training for the unemployed or semi-employed in private construction for the energy upgrading/rehabilitation of buildings.
HU	2007HU05UPO001	OP for Social Renewal	Both	x	<ul style="list-style-type: none"> - decrease barriers in the application process and facilitate access to funds - measures to improve the employment situation of the unemployed and inactive - Ensuring the job-retention capacity of enterprises through vocational training
HU	2007HU05UPO002	OP for State Reform	Both		
IE	2007IE052PO001	Human Capital Investment OP	Compet	x	<ul style="list-style-type: none"> - training, e.g. Back to Education Initiative (BTEI) eligibility criteria amended to allow free tuition to any adult with less than upper second level education (unemployed, inactive, in employment) - increased job search - more job experience placements
IT	2007IT051PO001	POR Campania	Converg		<ul style="list-style-type: none"> - increased training to people at risk - increased counselling and guidance to people at risk and the unemployed
IT	2007IT051PO002	POR Calabria 2007 - 2013	Converg		<ul style="list-style-type: none"> - income support provided by National Institute for social security
IT	2007IT051PO003	POR Sicilia per il Fondo Sociale Europeo 2007-2013	Converg		<ul style="list-style-type: none"> - Support to income and training (active labour policies) - Continuing training for employed, fix term workers
IT	2007IT051PO004	POR Basilicata	Converg		<ul style="list-style-type: none"> - financial support for enterprises that change fixed term contracts and atypical contracts in non fixed term contracts - training, counselling, support - Individuals /Young people (25-)
IT	2007IT051PO005	POP Puglia FSE	Converg		<ul style="list-style-type: none"> - increased training to people at risk - increased counselling and guidance to people at risk and the unemployed
IT	2007IT051PO006	PON Governance e Azioni di Sistema	Converg		<ul style="list-style-type: none"> - support to regions and other administration to set up procedures and plan against the crisis

MS	OP code	OP title	OP objective	F. M. ¹²¹	Adjustments and changes in operational programmes
IT	2007IT051PO007	Competence for development	Converg		
IT	2007IT052PO001	POR Abruzzo	Compet		- more national funds and modified workplan to increase anti-crisis measures
IT	2007IT052PO002	POR Emilia Romagna	Compet		- specific training and skills assessment and updating of skills for people affected by the crisis - increased guidance and counselling capacities to the unemployed
IT	2007IT052PO003	POP Friuli Venezia Giulia	Compet		- Central role played by provincial labour offices in guidance, counselling and information - change in the workplan: the budget of the Priority 1 - Adaptability and Priority 2 - Employability has been largely assigned to anticrisis operations - increased training measures for people affected by the crisis
IT	2007IT052PO004	POR Lazio	Compet		- Change in the workplan: the budget of the Priority 1 - Adaptability and Priority 2 Employability has been largely assigned to anticrisis operations - training and labour market insertion of people affected by the crisis - new informative systems for transferring data among enterprises, MA and Social Security Institute
IT	2007IT052PO005	POR Liguria	Compet		- Change in the workplan: the budget of the Priority 1 - Adaptability and Priority 2 Employability largely assigned to anticrisis operations. Biannual Plan facing the crisis - Training for workers, unemployed, excluded from shock absorbers together with guidance, counselling - support also to atypical contracts and other new beneficiaries
IT	2007IT052PO006	POR Lombardia	Compet		- Change in the workplan: the budget of the PA1 - Adaptability and PA 2 Employability has been largely assigned to anticrisis operations - Training for workers receiving social support to income in derogation using the system of dowry (training, counselling, guidance, information etc) - Introduction of the Job for Shock absorbers in derogation
IT	2007IT052PO007	POR Marche	Compet	x	- Change in the workplan: the budget of the PA 1 - Adaptability and PA 2 Employability assigned to anticrisis operations

MS	OP code	OP title	OP objective	F. M. ¹²¹	Adjustments and changes in operational programmes
					<ul style="list-style-type: none"> - Support extended to workers not addressed to shock absorbers (e.g. SMEs with less than 15 workers) - training (e.g. to workers receiving social security)
IT	2007IT052PO008	POR - Regione Molise	Compet		<ul style="list-style-type: none"> - Change in the workplan: the budget of the PA 1 - Adaptability and PA 2 Employability assigned to anticrisis operations - Training for workers, unemployed, excluded from shock absorbers together with guidance, counselling Labour market services
IT	2007IT052PO009	POR P.A. Bolzano	Compet		<ul style="list-style-type: none"> - change in the workplan: the budget of the Priority 1 - Adaptability and Priority 2 - Employability has been largely assigned to anticrisis operations - upgrading skills to avoid crisis and maintain competitiveness
IT	2007IT052PO010	POR P.A. Trento	Compet		<ul style="list-style-type: none"> - Change in the workplan: the budget of the PA1 - Adaptability and PA2 Employability has been assigned to anticrisis operations - Training for workers, unemployed, excluded from shock absorbers together with guidance, counselling
IT	2007IT052PO011	POR Regione Piemonte	Compet		<ul style="list-style-type: none"> - Change in the workplan: the budget of the PA1- Adaptability and PA2 Employability has been largely assigned to anticrisis operations - training and other ALM policies for unemployed people and older people - Support also to workers not addressed to shock absorbers (e.g. SMEs with less than 15 workers).
IT	2007IT052PO012	POR Toscana	Compet		<ul style="list-style-type: none"> - Training for atypical workers, unemployed, excluded from shock absorbers together with guidance, counselling - modification of the workplan in order to implement operations aimed at facing the crisis
IT	2007IT052PO013	POR Umbria	Compet		<ul style="list-style-type: none"> - modification of the workplan in order to implement operations aimed at facing the crisis
IT	2007IT052PO014	PO Employment	Compet		<ul style="list-style-type: none"> - More funds to SMEs that hire young researchers for the development of innovation projects
IT	2007IT052PO015	POR Veneto	Compet		<ul style="list-style-type: none"> - reintegration / readaptation for workers supported by social shock absorbers in

MS	OP code	OP title	OP objective	F. M. ¹²¹	Adjustments and changes in operational programmes
					derogation - support to companies implementing projects aimed at keeping or hiring workers - More coordination with social services, provincial labour offices in order for training and guidance
IT	2007IT052PO016	POR Sardegna	Compet		- modification of the workplan in order to implement operations aimed at facing the crisis - guidance and counselling; - training for basic skills; vocational training; traineeships
IT	2007IT052PO017	PO Governance and System Actions	Compet		- Almost all the priorities have been addressed to the crisis - support to regions and other administration to set up procedures and plan against the crisis
LT	2007LT051PO001	Human Resources Development OP	Converg		- funds were made accessible to a wider range of SMEs, self-employed, and social enterprises. - Focus on the measure "Integration of Jobseekers into Labour market": new professional qualifications for jobseekers - new voucher scheme esp for young people
LT	2007LT051PO002	Technical Assistance	Converg	x	
LU	2007LU052PO001	PO Luxembourg	Compet		- accelerated procedure to approve projects faster than normal - The ESF had to be aligned with the national programs to counter the crisis, but apart from priorities, this does not seem to have caused any change in the OP.
LV	2007LV051PO001	Human Resources and Employment	Converg	x	- resources were reallocated towards the promotion of employment and social inclusion and away from administrative capacity building. - vocational training to STW employees - the mid-term plans by social services in regions targeting the vulnerable groups
MT	2007MT051PO001	OP II - Empowering people for more jobs and a better quality of life	Converg		- some changes were made to the selection criteria of the aid schemes and more resources were placed within the IB managing the schemes to ensure a more rapid and personalised response to the needs of industry

MS	OP code	OP title	OP objective	F. M. ¹²¹	Adjustments and changes in operational programmes
NL	2007NL052PO001	OP ESF 2007-2013	Compet	x	- new ESF action for youth unemployment was initiated - wider targeting of UB
PL	2007PL051PO001	PO Human Capital	Converg	x	- The anti-crisis package of the Ministry of Regional Development has been supplemented by the activities financed by ESF funds, leading to mitigation of the negative effects of the economic slowdown in Poland.
PT	2007PT05UPO001	PO Human Potential	Both		- increased training measures for young people and the unemployed - reactivation measures targeted at unemployed and vulnerable groups
PT	2007PT052PO001	PO Improving Human Capital and Social Cohesion - Madeira	Compet	x	- Bonus for Self-employed people suffering from long term unemployed - Easier access to training measures - Stimulation for enterprises job creation - Employment incentives for Elderly unemployed people
PT	2007PT051PO001	PO Employment - Azores	Converg		- Promoting qualified employment, long life learning and entrepreneurship.
PT	2007PT05UPO002	PO Technical Assistance	Both	x	
RO	2007RO051PO001	OP HR Development	Converg		- simplifications to facilitate implementation of existing measures
RO	2007RO051PO002	OP Administrative Capacity Development	Converg		
SE	2007SE052PO001	OP for Competitiveness and Employment	Compet		- More emphasis on youth measures and those deemed to have an impact on the crisis - All measures have been used which can help young to reach employment ranging from employment training to job creation
SI	2007SI051PO001	HR Development	Converg		- more emphasis on training measures - increased focus on measures to create jobs - focus on vulnerable and at-risk people
SK	2007SK05UPO001	OP Education			
SK	2007SK05UPO002	OP Employment and Social Inclusion	Both		- new "national" projects, calls for proposals for specific target groups, modification of LM instruments financed from ESF.

MS	OP code	OP title	OP objective	F. M. ¹²¹	Adjustments and changes in operational programmes
UK	2007UK051PO001	Highlands and Islands of Scotland ESF phasing out Convergence programme	Converg	x	<ul style="list-style-type: none"> - Shifted funds from P2/P3 (Investing in Workforce/LLL) to P1 (Increasing the Workforce) - More emphasis on education/training. Difficulties in NGO participation
UK	2007UK051PO002	West Wales and the Valleys ESF Convergence programme	Converg	x	<ul style="list-style-type: none"> - A virement of €41m from P1 to P2, - Higher intervention rates in all Priorities except TA - Support the retention and retraining of employees within businesses affected by the downturn. - "Pathways to Apprenticeship" scheme: preparatory routeway to a full apprenticeship
UK	2007UK052PO001	East Wales ESF Regional Competitiveness and Employment programme	Compet		<ul style="list-style-type: none"> - Within P1: The enhancement of ReAct to provide a greater response to people being made redundant. - Within P2: The introduction of ProAct in 2008. The project was originally designed to support the retention and re-training of individual employees in key positions within businesses which were effected by the down-turn. The initial phase is now closed to new applications. The extended second phase, ProAct Skills Growth Wales will enable companies who have survived the economic difficulties and who are now in a growth position to upskill existing staff and recruit new employees for that growth with support for the necessary training.
UK	2007UK052PO002	Lowlands and Uplands of Scotland ESF Regional Competitiveness and Employment programme	Compet	x	<ul style="list-style-type: none"> - 2008: Support for employees at threat of redundancy was moved into Priority 2 (Progressing Through Employment). - 2009: Virement of €22 mn ESF grant from Priority 3 (Improving Access to Lifelong Learning) to Priority 1 (Progressing Into Employment). - 2010: Under the new Priority 5 'Strategic Skills Pipeline' £64.6 Mn (€82.7m) ESF grant has been allocated towards 21 strategic projects (total project expenditure under P5: £168 Mn (€215.0 Mn). The Priority 5 allocation was based on amalgamating the remaining funds under Priority 1 and Priority 2 for the LUPS ESF 2007-13 Programme. - Key sectors [food processing and forestry sectors] not eligible for funding under EAFRD were added to the list of those eligible under the ESF programme for vocational training.

MS	OP code	OP title	OP objective	F. M. ¹²¹	Adjustments and changes in operational programmes
					- Clarification changes making essential distinctions in terms of eligible participants for Priority 1 and Priority 2.
UK	2007UK052PO003	Northern Ireland ESF Regional Competitiveness and Employment programme	Compet		- Under “Programme-led Apprenticeships”, which was established as a response to the downturn, participants who are unable to take part in the “ApprenticeshipsNI” programme due to lack of employers prepared to employ them, take part in work placement schemes for part of the week and receive vocational training for the rest of the week. This helps to ensure that skills, which would otherwise have been lost, are retained in anticipation of economic improvement.
UK	2007UK05UPO001	England and Gibraltar ESF Convergence, Competitiveness and Employment Programme	Both		- Introduction of flat rates - OP considered as highly flexible and suitable to respond to the crisis without any modifications to the OP

OP has been modified

OP has not been modified

Annex 3. List of case studies

MS	OP code	Name of OP	Titles of case studies
AT	2007AT052PO001	OP Beschäftigung Österreich	Flexibility counselling for businesses
BG	2007BG051PO001	OP Human Resources Development	Vouchers for direct payment of training and studying key competences in the Bulgaria
CZ	2007CZ05UPO001	OP HR&Employment	"Training is a Chance"
DE	2007DE05UPO001	OP ESF Bund 2007-2013	"Training in STW"
EE	2007EE051PO001	OP for HRD	Scheme to prevent unemployment for drop out from higher and vocational education
ES	2007ES051PO005	P.O. FSE ANDALUCIA	A change in the approach has shifted funds and intervention emphasis
FI	2007FI052PO001	Mainland OP	National governance reaction
FR	2007FR052PO001	PO national FSE	Occupational Transition Contracts
GR	2007GR051RV001	Contingency Reserve OP	Governance – speeding up implementation
HU	2007HU05UPO001	Operational Programme for Social Renewal	Governance
IE	2007IE052PO001	Human Capital Investment Operational Programme	Labour Market Intervention Fund
IT	2007IT052PO006	POR Lombardia FSE	National/regional partnership in the response to the crisis
LT	2007LT051PO001	Main OP	Promotion of entrepreneurship
LV	2007LV051PO001	Cilvēkresursi un nodarbinātība	Work with a stipend, ESF response to the crisis: governance related changes Latvia
NL	2007NL052PO001	Operationeel Programma ESF 2007-2013	Introduction of a new theme 'youth'
PL	2007PL051PO001	Program Operacyjny Kapitał Ludzki	Implementation of the anti-crisis package measures in Lubelskie region
PT	2007PT05UPO001	PO Potencial Humano 2007-2013	Regional governance
RO	2007RO051PO001	Programul Operațional Sectorial Dezvoltarea Resurselor Umane	Increasing the amount of advance payment/pre-financing so as to speed-up implementation of ESF funded projects

MS	OP code	Name of OP	Titles of case studies
SE	2007SE052PO001	Nationellt strukturfondsprogram för regional konkurrenskraft och sysselsättning (ESF)	National governance reaction
SI	2007SI051PO001	Operativni program razvoja človeških virov za obdobje 2007-2013	National governance reaction
SK	2007SK05UPO002	OP Zamestnanosť a sociálna inklúzia	National governance reaction
UK	2007UK051PO002	West Wales and the Valleys ESF Convergence programme	ProAct & ReAct Programmes

Annex 4. Criteria and ratings used for grouping Member States

MS	Unemployment rate 2010	ALMP in % of GDP (2009)	ESF annual % of GDP	ESF allocation per person 2007-2013	ESF expenditures (end 2010)	Grouping
AT	1	3	1	1	5	B
BE	3	1	1	1	5	A
BG	3	5	5	3	1	E
CY	3	5	3	3	3	B
CZ	3	5	3	5	1	F
DE	3	3	1	3	5	B
DK	3	1	1	1	3	A
EE	5	5	3	5	5	D
ES	5	3	3	5	5	C
FI	3	3	1	3	3	B
FR	3	3	1	1	5	B
GR	5	5	3	5	3	E
HU	5	5	5	5	3	F
IE	5	3	1	1	5	C
IT	3	5	1	3	3	C
LT	5	5	5	5	3	D
LU	1	5	1	1	3	A
LV	5	5	3	5	1	D
MT	1	5	3	5	1	B
NL	1	3	1	1	3	A
PL	3	1	3	5	5	D
PT	5	3	5	5	5	C
RO	3	5	3	3	1	E
SE	3	3	1	1	5	B
SI	3	5	3	5	3	F
SK	5	5	3	3	3	F
UK	3	5	1	1	5	B

Calculation method: All indicators have been split in three groups in order to arrive at a ranking low (1), medium (3) or high (5). On that basis the 6 groups have been formed – grouping those MSs with similar ratings. (In the first column the indicator 1 stands for lowest, 3 for medium and 5 for high unemployment rate).