

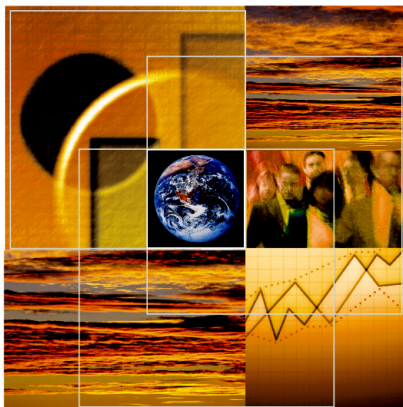


International
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Employment Strategy Papers

Successful employment and labour market policies in Europe and Asia and the Pacific

Edited by Claire Harasty



Employment
Policy
Unit

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Preface

Over the last ten years, a number of countries in Europe and in Asia have been able to significantly improve their employment situation, while most of the world was witnessing an increase in unemployment, underemployment and low paid work. What are the reasons for their success during that period? Can other countries learn from their experience?

The paper reviews the employment and labour market policies of these successful European and Asian countries. It attempts to draw some lessons and non-lessons from good practices for the benefit of policy makers in the developing world. Its objective is not to prescribe policy options, but rather to share with the constituents the knowledge accumulated in studying these countries.

The paper summarizes findings from the research and advisory work on employment and labour market policies undertaken by a number of ILO colleagues in the field and at headquarters. Peter Auer prepared the section on industrialized countries, Alena Nesporova on transition countries and Elizabeth Morris on the Asia and Pacific countries.. The paper was originally prepared at the request of the Chilean Ministry of Labour in Spring 2003. The purpose of its publication as an ILO Employment Paper is to make it widely available to colleagues within the Office, to our constituents and to a wider external audience.

Duncan Campbell,
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Successful employment and labour market policies in Europe and Asia and the Pacific

Good economic performance does not necessarily translate into improved employment situations. Policies are needed to enrich the employment content of the growth process, in particular by raising employability and hence reducing overall unemployment. Even though many countries in the late 1990s recorded good growth performance, few succeeded in improving their employment situation. Those who did used a mix of policies, ranging from active labour market policies to extensive social security and strict wage policies. What are these countries' success recipes? Could other countries, particularly in the developing world, find inspiration in these good practices?

This paper presents a number of successful experiences in creating employment and reducing unemployment at the country level. The focus is on a selection of small European countries, Spain and a selection of countries in the Asia-Pacific region. It is based on material prepared by ILO experts in the past two years¹. The paper is aimed at policy makers in the Chilean Ministry of Labour, but could be useful for policy-makers in other small open economies.

The paper is organized in two parts: part one presents the European experiences and part two the Asian ones. A final section summarizes the main conclusions that can be drawn from the examples developed. The main general conclusion from the good practices presented is that a good combination of **flexibility** in the employment relationship – resulting in high job turnover, or many job openings – **and security** for the workers – obtained through high levels of compensation – is central to a successful employment outcome of any national strategy. This means that **social protection** plays a central role in employment policy. Moreover, **social cohesion** – extensive dialogue and consensus building among all stakeholders – is indispensable to reach this ideal balance between flexibility and security.

European countries

1. Institutions and policies for labour market success in four small Western European countries²

Three common factors explain the success in creating employment and reducing unemployment in four small European countries – Austria, Denmark, Ireland and the Netherlands³:

- **Stability oriented macroeconomic policy that left some freedom for temporary demand expansion:** e.g. in Denmark government net borrowing rose to 5,6 per cent of GDP in 1993 and 1994 before falling again to 3 per cent in 1998. Contrary to former periods, demand expansion was short-term and the positive effects on the economy led the government to embark on the stability orientation again. This is a clear example of anti-cyclical intervention. Though not as clearly as in Denmark, this “macro expansion within overall stability” was used in the three other countries as well (the least in the Netherlands).⁴
- **Labour market policy reforms:** in general, while income replacement systems (unemployment insurance and assistance) were made somewhat less “generous” in regard to wage replacement rates and duration, an activation strategy putting more emphasis on active labour market policy

¹ With the exception of Spain for which material from outside the ILO was used.

² This section is based on: P. Auer (2000), *Employment Revival in Europe: Labour Market Success in Austria, Denmark, Ireland and the Netherlands*, Geneva: ILO; and P. Auer (ed.) (2001), *Changing Labour Markets in Europe; the role of institutions and policies*, Geneva: ILO.

³ There are of course other important factors, which policies cannot directly influence, such as the state of the world economy, very favourable in the latter part of the 1990s.

⁴ It should be mentioned that this kind of expansionary policy, used in times of economic hardship, became less feasible within the stability and growth pact countries (those in the European monetary union) that has set limits and asks for balanced budgets. The present recession shows the limit of setting too tight stability criteria. (note that Denmark is not part of the EMU, but part of the EU)

and intensive counselling and job search was enacted in line with recommendations of the European employment strategy. In some countries, the use of more flexible forms of employment was encouraged. However, for example in the Netherlands that saw an increase in part-time jobs and temporary agency work, there was also an attempt to make these forms (on a pro rata basis) similar to full time, regular jobs.

- **Social dialogue:** it has been used in all four countries to overcome the employment crisis: it was in essence tripartite, involving unions, employers and the government. While a main outcome was wage moderation (accommodating broadly stability oriented macro policies), there were many side deals as well: for example moderate wage hikes were combined with tax reductions (so as to leave take-home pay at decent levels).

Besides these three factors, there are many others explaining the employment recovery. Some are country-specific factors: Ireland benefited from the European structural fund (around 2 per cent of GDP growth per year) and from being chosen as the European “hub” for the US electronic industry, which translated into huge FDI inflow and produced particularly high GDP growth rates. The Dutch have been world champions in the creation of part-time jobs, often in conjunction with an increase in the activities of temporary work agencies. Austria has benefited from the opening of the former Communist economies, while Denmark has enacted a policy of job rotation and training leaves which fits well with its other institutional features (such as a lay-off system and comprehensive adult training). All four countries have also developed specific clusters of production (e.g. transport in the Netherlands, information technology in Ireland, and automotive products in Austria), which have proven to be very growth-intensive.

The European employment strategy also had its share in the success. The strategy was adopted by the Luxemburg job summit in 1997 and had its first five-year evaluation in 2002. It seems to be the method of open coordination that is its principal strength: this method does not impose legally enforceable goals, but works through the setting of quantitative employment goals (such as a 70 per cent employment rate to be reached by 2010, 60 per cent for women and 50 per cent for the 55 to 64 olds) and a process that implies the drawing of guidelines, national action plans and a joint employment report that come in yearly cycles. The strategy is a clear sign that politics and policies matter for employment.

The following sections consider the various contributions of macroeconomic policy, labour market policy and social dialogue to the overall labour market success of the four countries. Lack of space prevents us from considering in detail some of the other important policy dimensions, which have also contributed to the positive labour market experience of the four countries. For example, the provision of child-care facilities and parental leave has contributed to an expansion of women’s employment. Working time policies have also contributed to the modernization of the four countries’ labour markets, which now demonstrate a diversity of working time patterns in response to changing labour supply factors⁵.

a. Macroeconomic policy

The positive global macroeconomic environment in the late 1990s was an important factor in explaining the labour market success of the four countries. Economic growth is driven by both foreign and domestic demand conditions and the importance of the former has tended to increase over the past decade in the four countries under consideration. These four countries are among the most open to trade in the world, with export shares of GDP ranging from 40 to 77 per cent. From 1990 to 1996 alone, exports of goods and services increased by almost 30 per cent in Austria and the Netherlands, by more than 20 per cent in Denmark and by more than 70 per cent in Ireland. Domestic and foreign investment spending also boosted growth and employment. The Netherlands and Ireland have experienced particularly large per capita inflows of foreign direct investment.

Macroeconomic policies – both national and supranational (i.e. European Union) - have also played an important role in the success of the four small countries. A large part of the more stable macroeconomic environment is due to the conditions set by the E.U. and in particular the macroeconomic stability targets first established in the Maastricht agreement and later in the EU’s growth and stability

⁵ For a full discussion of working time policies, see G. Bosch, “Working time: from redistribution to modernisation”, in P. Auer (ed.) (2001), *Changing labour markets in Europe: the role of institutions and policies*, ILO: Geneva, pp.55-115.

pact. The levers for steering the macro economy at the strictly national level have clearly been reduced. Competitive devaluations have thus more or less disappeared from the policy arsenal of these countries. However, through the effect of wage moderation policies, the Netherlands experienced a *de facto* devaluation relative to its major trading partner (Germany), and this clearly helped to spur the Dutch economy. Claims that beggar-thy-neighbour policies are the major factors behind the superior labour market performance of these four countries seem exaggerated; export gains were indeed experienced in the manufacturing sector, but employment increases were experienced mostly in services.

To some extent, the reduction in national policy discretion also holds true for fiscal policy, but individual countries can still use this lever to influence economic trends. For example, demand conditions were stimulated by a targeted and short-term tax cut in Denmark in 1993-94, and this contributed to a macroeconomic upswing without creating inflationary pressures. Austria also used fiscal expansion to support its economy. State spending measured as a share of GDP is significantly higher in Austria and Denmark than for the EU as a whole; state spending in the Netherlands roughly matches European averages, while in Ireland it is lower than in other European countries. Despite traditional claims that government expenditures tend to crowd out private demand and investment, more recent evidence suggests that the expenditure elements of GDP are mutually supportive. Public sector spending can thus be included in the factors, which explain the success of these four countries.

Tax policies have evolved in each of the four countries, resulting recently in a reduction of social contributions for lower-wage workers as well as (in some of the countries) a reduction in the highest personal tax rates. Corporate taxes have also been lowered, and this may have stimulated investment.⁶ Tax revenues have increased in absolute figures, but have declined as a share of GDP in Ireland and the Netherlands. In Denmark and Austria, however, increased state revenue has been used to create additional public jobs; this has obviously not hindered Denmark in triggering a general improvement of its economy and labour market.

b. Labour market policy

Despite the increasing importance of the European Employment Strategy, the EU member countries retain much discretion in the organization and implementation of labour market policies. This discretionary policy freedom applies particularly to the balance between active and passive measures as well as to the specific design of individual measures. However, this discretion is Apath dependent@ since the countries have organized their labour markets in specific and sometimes diverging ways and this historical and institutional context obviously influences and constrains the application of labour market policy. In overall spending terms, three of our four countries have allocated relatively generous resources to labour market programmes: Denmark, the Netherlands and Ireland all allocate more than 4 per cent of GDP to labour market policies - about ten times as much as the US. In contrast, Austria's labour market programmes are relatively small, with total spending below 2 per cent of GDP (roughly equal to the OECD average).

Although the largest share of labour market policy expenditure is spent on so-called Apassive@ policies (such as unemployment compensation and early retirement incentives), the importance of Aactive@ policies is increasing and accounts now for 30-40 per cent of total labour market programme spending.

Unemployment benefit systems and other passive labour market policy instruments not only protect workers in adverse circumstances, but they also facilitate flexible employment adjustment by firms. Unemployment benefit systems in particular, which can be used as *de jure* or *de facto* lay-off systems, provide an important flexibility buffer, especially for smaller firms. The percentage of those unemployed that return to their previous employer after a short-duration unemployment spell (a proportion which accounts for 30-40 per cent of the unemployed in Austria and Denmark) indicates convincingly that the unemployment benefit system is used in this manner. While this behaviour may arouse some concern regarding cross-subsidization between different sectors and different employers, it certainly helps to stabilize small firms (such as those which experience sharp seasonal patterns) and hence

⁶ The lowest rates are found in Ireland, and the Irish government was accused by its European partners to have attracted foreign direct investment with its low tax rates.

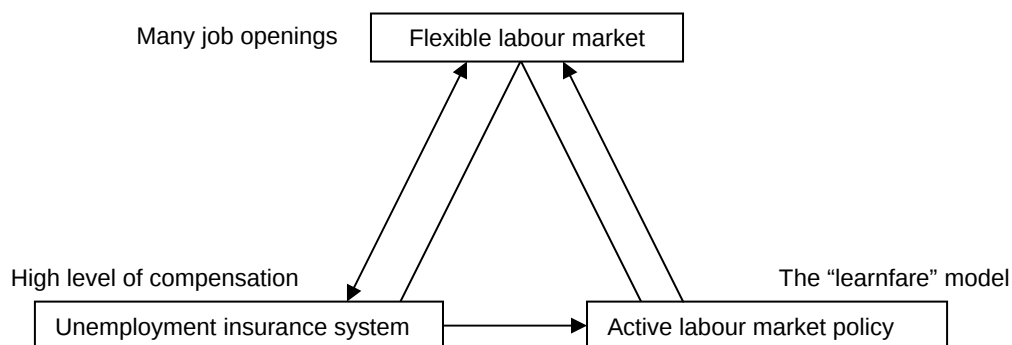
can be seen as a flexibility/security device. Early retirement also provides exit flexibility for firms, and allows workers to enjoy a better status than being unemployed at the end of their working lives.

While this type of supply-reduction initiative may explain some of the previous successes of our four case studies in reducing unemployment, innovative policies (such as leave schemes and job-rotation in Denmark) have also been implemented to cope with the labour market problems. And since each of the four countries considered demonstrated significant increases in their employment-to-population ratios over the latter 1990s, it cannot be argued that their success in reducing unemployment rates is entirely or even largely attributable to reductions in labour supply.

Good practice example: Denmark's golden triangle

From 1994 onwards, labour market policy in Denmark has been redesigned to include a more proactive and flexible approach to active labour market programmes as well as the concept of combining the fight against unemployment with the fulfilment of other goals, through leave schemes and job rotation. Part of the success in the Danish model can be attributed to a unique combination of flexibility in the employment relationship (indicated by a high level of labour and job turnover), the economic and social security of employees (illustrated by a generous unemployment benefit system) and the new labour market policy of activation (which upgrades the skills of the unemployed and thus support the ongoing transformation of the economy) – the elements that constitute the three corners of the Danish “golden triangle” (see figure below).

The Danish Golden Triangle



The main characteristics of the labour market policy reform after 1994 are as follows:

- The introduction of a two-period benefit system with an initial “passive” period and a subsequent “activation” period; during the “passive” period, an unemployed person receives benefits and is also eligible for 12 months activation. In 1999, it was decided to reduce the “passive” period for adult unemployed (aged 25 and above) to one year, while for young unskilled unemployed the period was cut to only six months. After the “passive” period, the “activation” period commences and lasts for three years;
- Changing the assistance to the individual long-term unemployed from a rule-based system to one based on an assessment of the needs of the unemployed person (introducing the individual action plan as an important instrument);
- Decentralizing policy implementation to regional labour market authorities, empowering them to adjust programme design to fit local needs;
- Cutting the connection between job training and the unemployment benefit system, such that any employment with a wage subsidy would no longer increase the duration of the period in which an unemployed person was eligible for unemployment benefits;
- Introducing three paid-leave arrangements (for child-minding, education and sabbatical) to encourage job rotation by allowing employed (and unemployed) people to take leave while receiving a benefit paid by the State and defined as a proportion of unemployment benefits. The option to take parental leave or leave for educational purposes may prolong the total duration of unemployment benefits by up to one year for each leave taken.

Source: P. K. Madsen (2003), “Flexicurity through labour market policies and institutions in Denmark” in P. Auer and S. Cazes (eds.), *Employment Stability in an age of flexibility: Evidence from industrialized countries*, ILO: Geneva

There are an array of labour market programmes and measures that are worth mention: there have been subsidies for low paid jobs (e.g. Netherlands and France), new labour market intermediaries that sometimes successfully managed redundancies (“Beschäftigungsgesellschaften” in Germany and “Stahlstiftungen” in Austria), work/training contracts (Sweden/Italy and many others). Training and education has also had some effects, especially when it was combined with an investment strategy like in Ireland.

The European Employment Strategy will increasingly shape the future of national labour market policies in Europe, and hence we can expect a marked convergence of policies in Europe. The central aim of this strategy is to increase employment-to-population ratios. In coming years, the so-called *passive* part of the social protection system (unemployment benefits, early retirement incentives, and social assistance) will be reduced, and the *active* parts increased. One of the major streams of this broad strategy is the so-called activation policy, much in line with the make-work pay policy of the OECD. The border between this activation approach and punitive *workfare* measures is relatively thin, so this policy thrust will require a careful weighing of the elements of compulsion and choice. In an optimistic version, it will lead to more effective active labour market policies. In a pessimistic version, it will reflect a move to compulsion and to sanctions on the unemployed.

c. Social dialogue

Each of the four countries considered in this chapter possesses an extensive range of economic and political institutions aimed at facilitating an ongoing *social dialogue* among the various partners in economic growth (including government, employers and organized labour). Each of the four countries considered here experimented with differing models of *social pacts* aimed at collectively managing aggregate macroeconomic and labour market variables in the 1990s.

Simply possessing institutions of social dialogue, like sufficiently representative union and employer organizations and centralized or coordinated wage bargaining, might not be sufficient to engage successfully in the sort of social pacts which our four sample countries implemented in the 1990s. A successful social dialogue also requires a common understanding that something has to be changed, and a willingness to do this through partnership rather than adversity. These social pacts are seen by some as simply sophisticated mechanisms for accommodating capital and constraining labour. Others view them as having been essential for turning around troubled economies. In any event, the social pacts should not be seen as a purely peaceful process without conflicts. Tough bargains were made, as well as concessions, and the pacts needed strong unions and representative employer organizations in order to implement them meaningfully and hence have an impact on the broader economy and society.

In three of the countries under review, a concerted effort at social dialogue led to the conclusion of formal social pacts with a national dimension. The first of these was concluded in 1982 in the Netherlands (the Wassenaar Agreement), followed by the Declaration of Intent in Denmark and the Programme for National Recovery in Ireland (both of which were signed in 1987). These pacts expressed the desire of the partners to cooperate in order to solve the problems facing the economy through a concerted approach based on wage moderation to boost competitiveness, while maintaining but reforming the welfare state. Typical trade-offs to offset the commitment to moderate wage increases included tax cuts, working time reductions, additional labour market policy measures (such as enhanced measures to cushion employment adjustment).

There is an ongoing debate about the extent to which union members will demand to be compensated for earlier wage concessions offered as part of the social dialogue process. It is obvious that in increasingly tight labour markets, wage pressures mount and wage discussions hence tend to become more difficult. For example, in 1998 in Denmark, after the rejection of a contract settlement by the union rank and file, the government eventually settled the bargaining round; in the Netherlands there are growing demands for a new general agreement, in the spirit of the initial Wassenaar; and recently the 5th Irish national social pact (the Programme for Prosperity and Fairness) had to adjust its wage bargaining settlement because of inflation, surpassing increases initially granted for 2001. In general, both nominal and real wage growth is accelerating in all of the four countries to rates well above EU averages.

Good practice example: National recovery through centralized and concerted policies in Ireland

Collective bargaining is at the centre of all union activity in Ireland and it has been long-term public policy to support this. In recent decades, the belief has become widespread that the inflationary effects of collective bargaining must be reined in and that this task becomes easier in the context of centrally determined pay norms. The 1987 national agreement entitled Programme for National Recovery (PNR) marked the beginning of centralized bargaining (see table below).

The pay terms of the PNR were not fixed norms, but guidelines, which had, in the private sector at least, to be converted into agreed rates through local bargaining; and the references to economic and social policy were targets for all relevant parties participating in an ongoing concertation process rather than government commitments. The job creation targets were for the private sector rather than based on the more traditional approach of boosting public sector employment. The PNR held together and was followed by a similar arrangement, the Programme for Economic and Social Progress (PESP).

Wage increases under centralized bargaining in Ireland, 1987-2000

Programme	Period	Year	Terms
PNR: Programme for National Recovery	1987-91		Average 2.5% per annum wage increase
PESP: Programme for Economic and Social Progress	1991-94	1	4% wage increase
		2	3% wage increase (plus 3% contingent local increase)
		3	3.75% wage increase
PCW: Programme for Competitiveness and Work	1994-97	1	2.5% wage increase
		2	2.5% wage increase
		3	2.5% wage increase
Partnership 2000 for Inclusion, Employment and Competitiveness	1997-2000	1	2.5% wage increase
		2	2.25% wage increase (plus 2% contingent local increase)
		3	1.5% wage increase first half 1% wage increase second half

As with the PNR, the PESP had job creation targets: 20,000 new jobs each year in manufacturing and a similar number in the international service sector. The PESP also contained a pay policy. The PNR and the PESP helped in segmenting sectors and forestalled spill-overs and have been broadly consistent with government attempts to improve competitiveness. Wage dispersion, which had risen sharply under decentralized bargaining, did stabilize after 1987. Under the PESP agreement, the rise in wage inequality was halted.

The Programme for Competitiveness and Work (PCW) followed as another three-year agreement, the provisions of which, for the first time, differentiated between public service employees and other workers. The last programme, Partnership 2000 for Inclusion, Employment and Competitiveness, represents a change of direction compared with its predecessors. Its emphasis is not as single-mindedly focused on economic competitiveness, but seeks to address three challenges: (a) maintaining an effective and consistent policy approach in a period of high economic growth; (b) significantly reducing social disparities and exclusion, especially by reducing long-term unemployment; and (c) responding effectively to global competition and the information society. It presents a detailed programme of social, economic and fiscal policies accompanied by a separate pay agreement. As before, low paid workers are given special attention through minimum amounts of pay increases for each phase.

Source: J. Visser (2001), "Industrial relations and social dialogue", in P. Auer (ed.), *Changing Labour Markets in Europe; the role of institutions and policies*, ILO: Geneva.

While the social pacts are not without problems, they have been an important pillar of the economic and labour market recovery of the four countries, and they show that bargained solutions based on the mutual acceptance of unions and employers are an effective alternative to the unconstrained working of market forces. A concerted effort by social partners and governments to tackle the problems which afflicted Europe in the 1980s and early 1990s, including weak competitiveness and deteriorating labour markets, permitted these countries to emerge from the crisis with their welfare state apparatus largely intact.

d. Policy integration

More than arising from isolated policy actions, lasting labour market success seems to result from an efficient combination of factors. At the macroeconomic level, tight monetary policy, fiscal consolidation and wage moderation policies seem to have accommodated each other. Austria is a good example of how to achieve long-term stability through the coordination of such policies.

Similarly, relatively weak dismissal protection at the firm level (either because regulations are weak, or are not strongly enforced - as is the case in Austria) seems to combine well with relatively strong income protection for laid-off workers at the societal level. In these two countries, where small- and medium-sized firms prevail, such systems seem to allow for the simultaneous attainment of flexibility for employers with income security for workers, allowing for the attainment of low long-term unemployment rates. Given the importance of small firms and continuing seasonal patterns in employment, this arrangement seems to be a positive stabilizing force in the four countries considered.

In general, systemic elements working in the same direction are obviously more efficient than elements working in opposite directions. If systemic elements in employment systems are congruent, better employment performance can be achieved. The Danish employment system might be taken as an example of how such elements interact: high labour turnover is supported not only by the lay-off system, but also through labour market training, which itself is congruent with training leave schemes. Denmark also provides both parental leave schemes and child care provisions which result in more possibilities for women to participate in working life. In contrast to the U.S., where flexibility is market-driven, in Denmark flexibility is institution-driven. Danish workers alternate frequently between employment and other status (lay-off, training, or family leave) in the labour market.

A combination of policies, which produce both flexibility for firms and security for workers, might be seen as the most appropriate institutional arrangements for European labour markets. However, given the complexity of these systems, further research will be needed to determine the precise effect of various policy combinations. Timing is also important: temporary leave schemes might be efficient bridges to the regular labour market during an upswing, but possibly not in a downturn - since most of the leavers will probably once again be unemployed following their leave. In an unpredictable and complex world, such combinations and appropriate timing also need some luck in order to add up to successful policies.

e. Do small countries have specific advantages?

While the three factors of sound macroeconomic environment and policy, modern labour market policy and strong social dialogue might produce similar positive effects in larger countries, the mere smallness of the countries under review might be an additional factor in their success. One factor distinguishing small from larger industrialized countries is the importance of economic openness. Dependence on imports and the necessity to export both require that the economies of small European states be more open and more specialized than those of larger countries. Economic openness can be an advantage or a handicap, however, depending on the situation on the world markets and there clearly are economic benefits, which are associated with large and integrated domestic markets. In any case, the dependence of these smaller nations on the larger countries within Europe has to be explored further: major shocks in the dominant economies of Europe will inevitably also be felt by their smaller neighbours and this will test the resilience of their policy directions and institutional structures.

Another factor is democratic corporatism based on an ideology of social partnership, a system of centralized and concentrated interest groups and voluntary and informal coordination of conflicting objectives. It may be easier to attain this social partnership in a smaller society. For example, the smaller and more defined power elite circles in these countries could lead to more informality and closer personal relationships, important conditions for successful bargaining and consensus. But there are some large countries, which also have systems of democratic corporatism.

Other advantages of being small might include a more homogeneous labour force and better governance (and thus better cooperation between actors). Coordination of policies in order to establish an effective policy mix might also be facilitated by the smallness of a country and the limited number of constituents participating in the decision processes.

Thus, while on the governance side it can perhaps be concluded that smallness is an advantage, it is more difficult to establish these advantages in economic terms.

f. What can other countries learn?

The particular traditions and cultures, which form the background to the particular policies and institutions, which have been developed in these four countries might make it difficult to understand and transfer experience from other countries. In particular, it might be very difficult to adapt the practices of democratic corporatism in these four countries to regimes with a liberal, pluralist tradition of policy formulation.

However, these smaller European success stories can teach several important lessons to other countries. Firstly, while democratic corporatism *per se* is not the answer to all labour market problems, it seems that once a real dialogue is established within an overall framework of corporatism, solutions to major economic problems can indeed be found. A real dialogue requires several conditions to be met, in order to be successful. It requires recognized and representative partners, which can meaningfully enforce the deals, which they negotiate. The dialogue demands that trade-offs be bargained. Dialogue is facilitated by a common agreement on the state of the economy, and ongoing interactions between bargaining rounds. All of this in turn is furthered by the existence of permanent institutions, such as the socio-economic council and the labour foundation in the Netherlands. An effective social dialogue also needs a proactive and credible government to help in reaching agreements and representing the general interest. In the light of the success of these four countries, corporatism seems to be a form of labour market governance which holds out at least as much promise of efficiency in economic management as liberal market-led models. Especially when equity issues are taken into account, corporatist governance would seem to demonstrate superior economic and social performance.

Other lessons can be gleaned from our review of these four case studies. Economic openness seems to pay off, at least for small industrialized countries (this may or may not be the case for developing countries). There seems to have been few, if any, longer-term negative effects of such openness for the four countries considered. According to some research (Agell, 1999), the rationale behind the labour market institutions of these four countries is precisely the openness to globalization. Agell shows that social security systems are positively correlated with economic openness and protect workers in these countries against the adverse effects of globalization. Extensive social security plays a central role in both promoting and stabilising employment. And so does a wage policy set on keeping wage increases at par or below productivity increases.

Larger countries could clearly emulate some of the specific policies which have contributed to the labour market successes of the four countries considered here - such as job-rotation schemes along Danish lines, or regulations governing the terms and conditions of part-time work as in the Netherlands. Indeed, a job-rotation system (adapted from the Danish model) was, for example, recently introduced in Austria, which has rather similar institutions to Germany. Other countries might benefit from implementing a three-pillar model of financing for retirement (a basic public pension, a contribution-based secondary system, and a subsidized private top-up), as in Denmark or in the Netherlands. And the Austrian apprenticeship system (much like the German system) could serve as a model for the introduction of alternate training in other countries.

2. Institutions and policies for labour market success in Spain

From a high of 24 per cent in the mid 1990s, the unemployment rate in Spain has been falling since to reach 11 per cent today. The employment rate increased from 48 per cent in 1996 to more than 58 per cent in 2003. How did Spain arrive at this impressive result in terms of creating employment and reducing unemployment? The country went through a series of reforms of its labour market policies in the 1990s, which increased the flexibility of the labour market. Since the initiation of the European Employment Strategy in 1997, Spain has significantly increased its spending on active labour market policies, which resulted in a successful activation of labour market programmes. Total expenditure on labour market policies grew by a factor of 1.5 between 1997 and 2001; it was 2.1 per cent of GDP in

2000, with more than 42 per cent of that amount directed to active measures, against only 13 per cent in 1993. The introduction of national action plans since 1998 centred on promoting employability, promoting stable hiring and facilitating enterprise creation also contributed to Spain's success.

a. Spain's employment strategy

The main characteristics of the Spanish employment strategy are as follows:

- Improvement of vocational and occupational training: the adoption of a new law on vocational training aiming at integrating the three subsystems in the field of training⁷; the reformulation of occupational training; and the creation of new programmes for training, employment and commitment to seeking employment, specifically geared towards disadvantaged groups.
- Promotion of employment stability: changes in labour regulations in 1997 and 2001 attempted to create a framework allowing for greater flexibility as well as greater stability in employment, and lower compensation pay for some groups as well as lower social security contributions from employers for these contracts. In addition, the conditions under which temporary contracts may be used have been restricted and a severance pay has been introduced for them. The programme covers unemployed women aged 16 to 45; unemployed women in sectors where they are under-represented; long-term unemployed (more than 6 months); unemployed people over the age of 45; unemployed mothers if they are hired within 24 months of giving birth; and people with disabilities. The reduction in employer contributions ranges from 20 per cent to 100 per cent (the highest rate being applied to women recruited after childbirth or maternity leave).

Good practice example: the social partners' agreement on employment stability

The 1997 agreement between the social partners expressed the determination to stop the upward trend in temporary employment contracts and to encourage permanent employment contracts. Indeed, a typical feature of the Spanish labour market was the high workforce turnover resulting from a high proportion of temporary contracts. In the 1990s, temporary employment accounted for about one third of total employment, which was the highest rate in the EU. This partially explains why the higher unemployment rates did not coincide with a higher long-term unemployment rate. Shortly after the agreement was signed, the government included the terms of the agreement into legislation and introduced several legal incentives to reinforce the effect of the agreement. Several of these incentives were targeted at specific groups in the labour market, such as young people, the long-term unemployed and, of course, temporary workers.

The aims of the agreement and the legislative changes can be summarized as follows:

1. Promotion of permanent contracts;
2. Reduction of fixed-term contracts;
3. Promotion of combined theoretical and practical education among the young to facilitate their entry into the labour market.

The following are some of the incentives introduced by the government to enable it achieve these objectives:

1. *Reduction of social security contributions*. Employers are entitled to these reductions when they hire persons from one of the target groups and offer them a permanent contract. These reductions

⁷In Spain, three vocational training systems exist side by side, defined by the groups covered and the authorities responsible:

- *Initial/regulated vocational training*, under the responsibility of the education authorities: this system is currently being completely decentralized and will eventually come under the control of the Autonomous Communities.
- *Occupational vocational training*, under the responsibility of the labour authorities: this system is governed by national legislation, but administered by the Autonomous Communities.
- *Continuous training*, under the responsibility of the labour authorities: continuous training is jointly administered by the Government, the trade unions and the most representative employers' associations. (FORCEM).

apply to initial permanent contracts and to fixed term contracts that are converted into permanent contracts. The employers' social security contributions are reduced for three years. Employers benefit from greater reductions in the first two years than in the last year. For some target groups employers can claim the reduction during the whole duration of the employment contract. The level of reduction also varies depending on how far removed the employed person has become from the labour market.

2. *Reduction of dismissal costs* during a period of two years for new permanent contracts in order to remove the barriers, which prevent employers from offering such contracts. The reduction in dismissal costs indicates that the agreement between the social partners involved a trade-off between employment stability and the severance pay paid by the employer to the employee in the event of dismissal purely on economic grounds. For new permanent contracts, the severance pay which employers are obliged to pay in the case of dismissal has been reduced from 45 days' wages per year of seniority with a maximum of 42 months' wages to 33 days' wages with a maximum of twelve months' wages.

The agreement was implemented in a period of economic recovery. It thus makes it difficult to judge the net effects of the agreement on employment stability. Nevertheless, according to the Spanish Ministry for Labour and Social Affairs and an independent Spanish Active Labour Market Policies' expert, so far, the reform has been positive for several reasons.

First of all, there has been a small decline in the number of temporary employment contracts in total employment. According to the Spanish Ministry for Labour and Social Affairs, the decrease remained small because the number of people recruited on permanent contracts represents only a small fraction of the considerable number of newly recruited people each year. However, this fraction is increasing. Recent information shows an increase in *new* permanent contracts registered with the Spanish public employment service from about 4 per cent in 1997 to 9 per cent in 1998. On the basis of a regression analysis in which the impact of economic growth is separated, the Spanish Ministry for Labour and Social Affairs concluded that each quarter, the number of permanent contracts increased by 130,000 as a direct result of the 1997 reform. In addition, figures regarding the increase in the number of permanent and fixed-term contracts reveal that the number of permanent contracts has been increasing at a faster rate than the number of fixed-term contracts. It is also interesting to note that the proportion of temporary workers in the private sector decreased significantly by 3 per cent, but increased in the public sector. This is apparently due to budgetary restrictions in the public sector.

A second positive outcome of the agreement is that it seems to have resulted in a more equal distribution of permanent contracts among different groups of workers. Target groups, in particular, have benefited from this reallocation. Women seem to have benefited more from the increase in the share of permanent contracts than men.

Thirdly, the number of training contracts combining theoretical and practical education for young people has increased.

Another important and positive characteristic of the agreement is that the agreement and the government's incentives have been interrelated actions. The considerable reduction in the number of industrial conflicts since the agreement was signed seems to indicate an improvement in industrial relations and the collective bargaining climate.

Although the assessment of the agreement's effects has been positive, two weaknesses have been brought to light. Firstly, the incentives given to implement the agreement are quite expensive. This will influence the sustainability of these measures. And secondly, the Spanish independent expert questioned whether the agreement and the corresponding legislative changes and incentives introduced have changed employers' perceptions of the dismissal costs. If individual employers believe that these costs are still high, the measures introduced will not reduce the number of fixed-term contracts. It will then be very difficult to structurally change employers' behaviour.

Another possible criticism concerns the social security reductions for new permanent contracts. This might result in the substitution of existing permanent contracts for new permanent contracts. However, since the reform, the figures regarding the number of dismissals of existing contracts do not show an apparent increase. On the other hand, there has been a slight decrease in the number of ordinary contracts that have been drawn up. Deadweight is estimated by the Ministry for Labour and Social Affairs to be 9 per cent of those contracts for which a reduction of social security contributions is offered. In their opinion, this effect is balanced by the disappearance of other types of subsidized contracts that existed before the reform.

Sources: Peer review programme of the European Employment Strategy (<http://www.peerreview-employment.org/en/9909.html>)

In 1998, the year after the agreement had been signed and the government had incorporated it into its legislation, the share of temporary workers in total employment was 33.1 per cent. This accounted for a 0.5 per cent decrease on the previous year. In the second quarter of 1999, this proportion further decreased to 32.7 per cent.

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- Reform of fiscal policies and investment incentives to encourage firms to create jobs and promote stable job creation. At the level of the national government, fiscal incentives have been passed to encourage investment in the protection of the environment, R&D and new technologies. Among the most important fiscal measures, there has been the reform of the income tax regime. The reduction in tax and social security was equivalent to an average increase in wages of 6 per cent and up to 11 per cent for the lowest incomes. Other changes have also been made affecting employers, particularly SMEs⁸. As a result, there was a reduction in the tax payable by workers earning an average wage and with family responsibilities from 13.8 per cent in 1998 to 11.8 per cent in 1999 (income tax). Where there is only one wage earner (with average wage) and two children, the tax payable fell from 6.4 per cent in 1998 to 2.5 per cent in 1999. Tax reforms have meant that income tax no longer creates a disincentive for women to enter the labour market, since in the great majority of cases it is more profitable for married couples to file their tax returns separately. But the main scheme was to reduce employers' social security contributions to favour stable employment. Regional governments have also been carrying out initiatives to stimulate investment in their respective territories. For example, regional governments from Castilla y Leon and Andalusia have granted subsidies and direct guarantees to medium-sized and large companies having the capacity to generate subcontracted employment. The government of Aragon has launched a programme (EXPORTA) to foster exports of SMEs. The programme includes commercial and technical advice and offers a large trade network helping SMEs to compete in foreign markets.
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Good practice example: The Integrated Placement Services Plan (SISPE)

The public placement service financed its activities from its own funds until the "integrated placement services" were introduced in 1996. The National Employment Service (INEM) may enter contracts with public and private non-commercial bodies, which carry out the tasks of active labour market policy for a specific group of persons in a specific region. The SIPEs develop action plans to expand the opportunities for integration in particular regions and stimulate activity through the articulation of an active labour market policy. They cooperate at the same time with the public placement service and partner institutions.

The purpose of this forward-looking programme is to improve public job placement and to expand its activities in order to access all jobseekers and to be able to provide a comprehensive and multi-faceted service in accordance with current needs. In 1996, 143 contracts for cooperation with partner institutions were signed within the framework of that year's programme and 565,000 jobseekers assisted. The service consists of vocational guidance, labour market information for jobseekers, job-search assistance and information and advice for business start-ups. The partner institutions carried out vocational training courses for 7,767 jobseekers and established workshop schools and youth training centres for 4,478 unemployed. 3,804 people were immediately recruited on the basis of employment plans. The activities developed within the framework of the programme are manifold and complex and account for a significant share of INEM's budget, which is solely responsible for financing the programme. Because this is one of INEM's most important programmes, it is endeavouring to implement it both more intensively and more extensively and to improve its organisation. Thus, efforts have already begun in cooperation with the partner institutions to optimize and synthesize the current regulations.

The government wishes this form of cooperation to continue and believes that both society as a whole and the unemployed themselves are responsible for expanding the capacities of each individual during the integration process such that entry into employment or self-employment becomes possible.

Source: Instituto Nacional de Empleo (INEM) ; <http://www.inem.es/>

- Modernization of public employment services: a number of changes have been made to the practice of intermediation in the labour market: a more complex management structure, decentralization, a more

⁸ Tax incentives for SMEs: in 2000, tax measures were approved to stimulate household saving and SMEs, with incentives in corporation tax for introduction of new technologies, increasing the use of the Internet, developing e-commerce and training personnel in the use of ICT. The tax measures consisted of a discount amounting to 10 per cent of the investment and spending related to these measures and the creation of a financial support provision for capitalising technological companies through the concession of seven-year loans at zero interest rates without the need of guarantees.

user-friendly approach and an increase in the number of bodies and institutions involved. Intermediation is carried out by the regional public employment services, collaborating bodies and, increasingly, by temporary employment agencies. Example of measures: setting up of the information system “SISPE”; strengthening of individualized measures for orientation and active job-seeking;

- Decentralization for the implementation of active policies: over the past few years, responsibility and administrative authority has gradually been transferred to the regions. This has given rise to changes in the area of education and in the administration of active employment policies. Since 1998, the role of regional public authorities and social actors in the creation and development of active measures was given a boost by the emergence of regional and local employment accords, the establishment of partial reforms in the functioning of the labour market based on social dialogue between management and labour organizations and the increased regulatory function of collective bargaining in the areas of hiring and training.

Good practice example: the Vallès Occidental Employment Pact

The Employment Pact of Vallès Occidental developed from an agreement signed in March 1997 by the Regional Council of Vallès Occidental in its own name and that of 23 municipalities in the area, the Department of Labour of the Catalonia regional government, the trade unions CCOO and UGT and the employers' associations CECOT and CIESC. The most important aspects of the pact are the wide-ranging partnership and joint efforts made by the socio-economic actors and the public administration, both in terms of designing innovative actions to fight unemployment and in their application. This collaboration has greatly increased the efficiency of the measures, allowing the development of a coherent strategy and offering a boost to social dialogue.

The actions in the pact for the 1998-1999 period were divided into 18 measures grouped into seven core sections. These were: the promotion of industrial land in the area; the increase in competitiveness of SMEs; the promotion of stable employment; the fight against unemployment and the promotion of job seeking actions; a boost to the creation of new companies; and the search for new sources of employment. These actions are targeted at groups facing difficulties in integrating into the labour market and society (young unemployed people, long-term unemployed, people in a situation of social exclusion, people receiving minimum jobseeker's income), unemployed women, workers needing skills renewal. They are also targeted at job placement companies, new entrepreneurs, SMEs, micro and big companies.

Actions in the Vallès Occidental Employment Pact:

- I. Infrastructures
 1. *Promotion of industrial land.* Listing the available land and services of industrial estates in the area to allow their promotion both in and outside the area.
- II. Competitiveness of SMEs
 2. *Initiation and stimulation or exports.* Identification of companies and activities with export potential, and training specialists who can create or improve existing export departments.
 3. *Vallès Quality.* A campaign promoting the quality of products from Vallès, the training of specialists to help companies set up quality systems or improve existing systems, and the creation of quality departments in companies.
 4. *Environmental advice for SMEs.* The creation of an environmental advice and education service which includes a study of the needs of environmental training in the area, the creation of a data base on the industrial environment, a telematic consultation system made up of a webpage with relevant information, access via e-mail and fax, as well as personalized attention by a team of technical specialists.
- III. Promotion of stable employment
 5. *Databank on collective bargaining and employment.* Collection and publicizing of information to companies on clauses in collective agreements which encourage employment.
 6. *Vallès arbitration centre.* Creation of a mediation and arbitration centre in the area to solve labour disputes.
 7. *Employment policy task force in companies.* Encouraging agreements which improve the employment situation in companies through actions such as the reduction or elimination of overtime or the conversion of temporary contracts into permanent ones.
- IV. Training and job placement

8. *Coordination of resources for job advice and job placement.* Analysis of the job training and/or professional training offers available in order to optimize the existing resources.
 9. *Achievement of the objectives of the Luxembourg employment summit.* Vocational training actions aimed at fighting youth and long-term unemployment.
 10. *Programme against social exclusion.* Employment plan through job placement companies aimed at people at risk of exclusion.
 11. *Youthstart, the Cooperem project.* Individualized training and advice actions aimed at finding jobs for young people in the area, particularly targeted at those who have no training or are in especially disadvantaged circumstances.
 12. *Now, Participem en Femeni project.* A boost for actions at a local level in favour of integrating women into the labour market through personalized advice and training in finding work.
 13. *White paper on the training needs of SMEs. Detecforma.* The drawing up of a white paper on the training requirements of SMEs and the design of an observatory for the identification of these requirements.
- V. New sources of employment
14. *Novallès: New employment in sectors caring for the elderly and leisure in country areas.* This includes the creation of companies financed jointly from public and private funds, and of management units which will offer care services for the elderly at home and services related to rural tourism.
 15. *New sources of employment linked to sustainability.* Development of actions related to management of energy and promotion of the use of renewable energies as an innovative way to create jobs.
- VI. Employment in the information society
16. *Virtual Vallès.* The creation of a network of services for innovation targeted at new SMEs, and the promotion of IT in sectors in which it is least used.
- VII. Cooperation between institutions and agencies in the area
17. *Vallès Employment Agenda.* This is a catalogue of employment-promoting projects and actions in which the various institutional, economic and social agents in the area are involved.
 18. *Vocex.* A set of regular indicators of economic activity, the labour market and training in the area. These allow analysis, reflection and proposals to be exchanged between the agents.

Results

The Vallès Occidental Employment Pact has carried out 100 per cent of its planned actions. It is difficult to make an exhaustive analysis of the jobs created as a result of the application of the measures contained in the Pact, particularly those which helped to create indirect employment. The period of the plan coincided with a fall in the unemployment rate in the area from 8.08 per cent in 1998 to 7.14 per cent in 1999. Despite this, the rate is still not at the Catalan average of 6.47 per cent. Overall, Vallès Occidental has had the second highest rate of job creation of any area in Catalonia.

The continuity of the Pact

The second action plan of the Vallès Occidental 2000-2006 Employment Pact aims to continue the measures which have already been launched and to allow new actions, projects or initiatives which can respond to new shortages identified in the area. It will not be limited only to the development of employment-promotion measures, but will also deal with other aspects of regional development such as infrastructures, communications, tourism and the environment. It also aims to consolidate the cooperation between the various agents taking part and thus increase its operating capacity and improve results, in particular reinforcing the aspects of coherence and complementary measures. The plan is to extend it to the whole area, taking in more municipalities and organizations in each action. This second plan is structured into five core parts: regional competitiveness, business competitiveness for job creation, employment and social cohesion, urban and rural development and the mainstreaming of the measures across the whole plan.

Source: Kingdom of Spain, National Action Plan for Employment 2001;
http://europa.eu.int/comm/employment_social/employment_strategy/nap_2001/nap2001es_en.pdf

b. Increasing the labour force participation rate of women⁹

Just over half the employment created between the end of 1997 and the end of 2001 went to female workers whose employment rate increased by 23 per cent. The efforts made to increase women's

⁹ Kingdom of Spain: National Employment Action Plan – 2002.

employment were both through action on the demand side (reductions in costs for employers through lower social security contributions) and on the supply side (by making women better qualified and with more time available for work). Women are also encouraged to become self-employed.

The training and employment of women has been given priority through additional economic incentives. Women are already in the majority as university students and in 2001 represented 62 per cent of those taking courses for unemployed people. In addition, the Institute for Women, the autonomous regions and local corporations are promoting an innovative form of vocational training especially designed for women. A number of programmes are also being developed for groups of women who have additional difficulties in finding jobs to integrate them into the labour market and society.

As a result of the emphasis on women as a priority group for action, most of the contracts, which qualified for some form of reduction in social security payment, were for women (53 per cent of the total). At present, all permanent contracts offered to women are given reductions in social security contributions, in some cases 100 per cent (women returning to work after childbirth).

Collective bargaining has also taken increasing account of non-discrimination or promotion of equality between men and women in recent years. In addition to this, the “Integrated Family Support Plan 2001-2004” was passed to improve the quality of family life. The plan includes tax benefits for crèches and for the recruitment of workers to care for children and dependents, as well as reductions in employers’ social security contributions for women who are employed after a period out of the labour market to look after their children. The number of children aged 3 or less attending nursery schools is increasing significantly (public schooling has been extended so as to welcome children from the age of 3). A Law Reconciling Family and Working Life has been passed, giving special attention to parental leave and regulating protection.

c. Evaluation of Spain’s employment strategy¹⁰

Labour market policies: The emphasis on the preventive approach through the intensification of actions aimed at enhancing the employability of short-term unemployed is reflected in the strong decline in the number of unemployed considered as long-term unemployed; and in terms of flows, the increase in the flows from unemployment to employment and the reduction of the flows from short-term to longer-term unemployment.

In general, the *tax and unemployment benefits reforms* have been effective. The lowering of the marginal rates of the Personal Income Tax has been particularly beneficial to women’s employment and the evolution of the labour taxation policy has contributed to employment creation. At the same time, the lowering of personal income tax rates and social contributions paid by employers has had an effect on the formalization of the underground economy (undeclared work)¹¹.

There has been a significant advance in the average *educational level* of the Spanish population. In the last five years, the percentage of the population in the lowest three categories of educational attainment (illiterate, no schooling, primary education) has dropped considerably. At the same time, the percentage of those with secondary school diplomas and university degrees has grown. This phenomenon is associated with the results of previously implemented educational policies, but it should be noted that these were reinforced in recent years by the application of different lines of action, shown in the National Action Plans. A clear increase in the participation rates of young people in education (16-18 years old) has been observed recently. Lastly, it should be pointed out that the demand for secondary education shows a strong positive correlation with the educational level of the parents. This confirms a certain intergenerational persistence of inequalities in human capital, which may be difficult to eliminate solely through financing policies.

The results of the evaluation carried out on the effectiveness of the Professional Training Programme for the Unemployed (FPO) indicate that it has had a net positive effect on the employment possibilities of the members of most groups considered. Vocational training seems to have a

¹⁰ European Commission (2002), Assessment of the European Employment Strategy – Spain; Final Report (summary), http://europa.eu.int/comm/employment_social/employment_strategy/eval/eval_es.pdf

¹¹ Social Security registrations have risen at a faster rate than the number of employed persons (as measured by surveys) since 1997.

compensatory effect for persons with the lowest levels of educational attainment, as it clearly improved their possibilities of employment. The specific analysis of the effectiveness of the FPO programme on the target groups shows that, in line with the above indicators, short-term unemployed youths and adults were the groups that obtained the best results. The application of the generic FPO programme seems to be especially positive in the case of Disadvantaged Young People (under age 24 with low educational attainment), Ex-convicts and Disabled persons. On the other hand, this programme hardly had any significant effect in the case of Disadvantaged Adults (over age 45 with low educational attainment). In most of the groups and categories studied, participation in FPO programmes only had an effect on employability in the short term (6 months), with substantial reductions in effectiveness on employability at 12 months.

There was an increase in the participation of adults in continuing education from 1997 to 2001. Continuing education has enjoyed strong growth since 1997, with increasing participation by workers in company training plans and training leaves. The evaluation showed that the probability of receiving training in Spanish companies is greater for men than for women, that this probability diminishes significantly from age 45 onwards, while it increases substantially for those with the highest educational levels, and that individuals with the most experience in the company receive training more easily than average, while workers with low qualifications having very low relative participation. As for the relationship between continuing education and mobility, it was confirmed that the probability of voluntarily changing jobs has a clearly negative correlation with having received training financed by the employer.

The evolution of *self-employment*, despite increasing somewhat, does not show a clear upward trend. This may be due to the existence of factors that hinder the ability to take full advantage of the job-creation potential of this type of work. One such factor is the lack of entrepreneurial aptitudes and the relatively low level of human capital of self-employed workers. There are also administrative barriers to the initiation and continuity of self-employment in Spain. Despite the importance of SMEs in the employment creation process, their evolution has not been as positive as expected. Improving these results will require improving the capacity of SMEs to gain access to business tools that have become indispensable in the new economic context: information technology, communications and the infrastructure businesses need to take full advantage of international trade.

The changes in the labour regulations and the general collective bargaining agreements have materialized in terms of the *reorganization of work organization*: greater flexibility in the distribution of working hours, more frequent conversion of temporary contracts into permanent ones, more attention to the commitment to maintaining the level of employment in the firm, progress made in the matter of functional polyvalence and in the professional classification, modification of working conditions, participation of workers in organization, the implementation of productivity incentives, etc.

A summary of the effects of these reforms, according to social actors opinions, are: a significant growth in employment, especially permanent employment; the persistence of a high level of temporary employment; an improvement in the quality of employment with regard to greater stability in the hiring of women and young people, although there remains a notable segmentation by gender and age in the labour market; very little development of part-time employment; very little reduction in groups where high turnover of temporary contracts are prevalent.

The European Employment Strategy (EES) has become increasingly integrated into the National Action Plans, although the employability pillar still draws the most attention. So the EES has a reasonably positive impact in Spain. It has established important links with the different internally managed policies and has given a boost to decentralization processes and co-ordination with regional governments, as well as promoting social dialogue with social actors. The social cohesion policy has established very strong links with employment through the extensive mobilization of structural funds. The EES has also favoured partnership among institutional actors and between institutional and social actors. The central government and the regional governments have forged agreements to promote the decentralization process and the modernization of the Public Employment Services. The processes of social dialogue between the central government and social actors, which have been going on for a long time, lead to the signing of important accords and contributing decisively to the government's macroeconomic stability policy in the first years of the EES.

3. Institutions and policies for labour market success in three small Eastern European countries¹²

a. *Active labour market policies to support and speed up economic restructuring and reduce unemployment: the case of the Czech Republic*¹³

At the start of the transformation process, the Czech economy was characterized by obsolete industrial structure, with over represented heavy and light industry and underdeveloped high-tech industries, while the contribution of services to GDP and employment was well below the shares usual for countries at a similar economic level. Large state-owned enterprises with 500 and more employees provided employment to the vast majority of workers while employment in the small private sector was negligible, below 1 per cent. A high level of economic activity characterized the labour market, especially for women, combined with low labour productivity, sub-optimal allocation of labour, and low flexibility and mobility of labour.

Full employment and excessive demand for additional labour combined with extensive labour hoarding in enterprises, which had been characteristic for the central planning system, was rapidly transformed into excess supply and layoffs of redundant workers after the introduction of economic and social reforms in January 1991. Redundant workers were expected to find new jobs mainly in the underdeveloped tertiary sector after shorter or longer unemployment spell depending on the ability of the economy to create new jobs there and the ability of workers to acquire new skills and move behind jobs. Therefore, open unemployment was expected to grow rapidly to the same high levels as in the neighbouring transition countries.

The unemployment level in the Czech Republic, however, reached the peak of 4.4 per cent in January 1992 and then moved around 3 per cent until 1997. Several factors were behind this surprisingly successful labour market development. They included deep national currency devaluation, which created a “transformation cushion” for enterprises giving them certain time for re-orienting their production and exports to new markets without pressure to reduce production and labour costs quickly. Also the agreement achieved with the social partners on moderation of the nominal wage increase, which resulted in a large fall in real wages by one-quarter in 1991, supported this development. The chosen methods of privatization were another important factor although their final effects were ambiguous. On the one hand, the so called big privatization primarily done through the distribution of vouchers among the population and their exchange for shares of big state-owned enterprises, instead of improving enterprise governance, actually produced an extreme dispersion of shares’ ownership with little control over enterprise managements and led to a significant slowdown of enterprise restructuring and preservation of labour hoarding for a certain period. On the other hand, privatization of small production facilities as well as the return of formerly nationalized property to the owners or their heirs created favourable conditions for the development of small businesses, stimulated by a non-saturated market demand. However, similarly as in other countries, shortage of capital was a serious constraint to small enterprise development as commercial banks were reluctant to give credits to small entrepreneurs.

The lack of seed capital was partly overcome by active labour market policies. The Czech Ministry of Labour and Social Affairs and the Public Employment Service launched extensive job creation programmes, which provided grants and later preferential credits or wage subsidies to private entrepreneurs for creating new jobs for unemployed people and to jobseekers for business start-ups. Later the business start-up part of this programme was reduced and substituted by focused small enterprise promotion programmes directed to small entrepreneurs in general. These programmes were launched by the Ministry of Economy and the Ministry of Industry and Trade, but the application criteria included, besides promotion of regional development and certain industries, employment goals. They were

¹² Background note prepared by Alena Nesporova, EMP/STRAT, ILO Geneva.

¹³ For more details, see Alena Nesporova and Vera Uldrichova, “Employment Policies and Programmes in the Czech Republic”, in M. Godfrey and P. Richards (eds.), *Employment Policies and Programmes in Central and Eastern Europe*, ILO: Geneva, 1997.

complemented by the provision of support services by business innovation centres or regional business counselling centres established and financed by the State and/or employers' associations. The job creation programmes were completely decentralized, which enable district offices to set their own priorities within the overall framework defined by the Ministry. These programmes stimulated small business development so that the share of self-employment reached 12.8 per cent of total employment as early as 1993 and the number of business licences issued to individual persons exceeded one million in the same year.

Apart from job creation programmes, other active labour market programmes included vocational training, retraining and skills upgrading, public works and mobility measures. At the same time, the level and duration of payment of unemployment benefits were reduced to give incentives to unemployed persons to take up a new job as early as possible or participate in one of the labour market programmes. In 1992 over two-thirds of registered jobseekers participated in these programmes and most of them were re-employed afterwards. With the help of all these measures workers threatened by redundancy or already made redundant could move directly from one job to another or their unemployment spell was significantly reduced. The share of long-term joblessness thus remained low. At the same time, labour supply measures were introduced: working pensioners were discouraged from further work by high taxes and an early retirement scheme was launched for those unemployed persons unable to find a new job who had more than 25 years of service and 2 years or less to reaching their statutory retirement age.

Good practice example: Vocational training in the Czech Republic

Requalification: it is based on a written contract between the public employment service and the applicant. The public employment service fully covers course fees and may even contribute to other costs (meals, accommodation, travel costs). The applicant receives a benefit of 60 per cent of average net monthly income. There are two types of requalification: specific, i.e. realized on the basis of the employers' requirements and leading to a specific job and non-specific, i.e. that increases the chances of future employment. The specific requalification programmes are the most widely used and are very effective in placing short-term unemployed back into work – at least 60%, even without specific targeting. But it fails completely in helping the long-term unemployed.

Work experience for graduates: the public employment service covers the wage costs for a period of up to 1 year for the employer who creates a work-experience position for a registered unemployed graduate. In practice, the public employment service covers the wage costs at the level corresponding with the field of specialization and the level of education. The minimum wage is the lower limit of the public employment service contribution. This instrument was helpful in decreasing the unemployment of graduates. Unfortunately, due to budgetary constraints, the number of training positions decreased as of the end of 1997 despite the increase in graduate unemployment.

Source: T. Sirovátka, M. Pribyl, Z. Prouza, J. Rusnok and R. Vintrová, *Employment and labour market policies in the Czech Republic*, ILO country report

Both the active and passive policies were reduced later, partly because the demand for labour recovered and unemployment was low, and partly because the needs of the labour market changed. Nevertheless, the timely use of these employment promotion and labour supply reduction programmes in the initial period of economic transformation significantly contributed to accelerating desired structural adjustment and rapid labour reallocation while alleviating mass unemployment and the waste of human resources in the Czech Republic.

b. Slovenia

Slovenia is a small open economy with a population of approximately 2 million. With GDP per capita of US\$ 9,105 in 2000, it leads the league of the transition countries of Central and Eastern Europe in terms of economic development. Like all the other European transition economies, Slovenia fell into a transition crisis after political changes and the split of the former Yugoslavia at the beginning of the 1990s.¹⁴ However, it was the second country after Poland, which successfully emerged from the crisis as

¹⁴ In fact, economic recession started already in 1986 as a consequence of falling competitiveness of exports from the former Yugoslavia, which the then government failed to respond to by adequate economic reforms (although the Yugoslav system was

early as in 1993. Since then, the country has been able to sustain reasonably high economic growth rates above 4 per cent per annum and the medium-term economic outlook is equally good. Since 1998, employment has been on the increase although it is still some 17-percentage points below the 1989 level. The unemployment rate (ILO definition) followed employment developments: it increased after 1988 and reached the peak of 9.1 per cent in 1993-1994 and started declining systematically after 1998 to reach 6.5 per cent in 2002.

What are the reasons for such relatively favourable labour market developments in Slovenia, in marked contrast with many other transition countries? First of all, Slovenia had been much closer to the market system and the global markets than any other centrally planned economy. Therefore the impacts of political and economic reforms were not as detrimental for the economy as in the other transition countries both in terms of the depth and duration of the transition crisis. Moreover, the government adopted a gradual path of economic reforms in combination with very prudent economic policy, which helped maintain fiscal and trade balance well under control¹⁵. As a result of this prudent economic policy, the consumer price inflation rate, very high in the early 1990s, was reduced to below 10 per cent in 1996 and sustained since then. This created a favourable financial environment for investment - the gross fixed capital formation exceeded 20 per cent of GDP in 1995 and has been on the increase up to now - contributing to an increasing demand for new labour. Also the stock of inward foreign direct investment in Slovenia during the period 1993-2001 tripled, from US\$954 million to almost US\$ 3 billion, accompanied with significant new job creation.

When in the early 1990s many big state-owned enterprises faced economic problems, they underwent restructuring with subsidies from the state or those economically inefficient were closed down, implying a large number of redundancies channelled to the public employment service or to early retirement. The gradual path of economic reform meant among others that enterprise restructuring was not directly combined with accelerated privatization. Although many economists argued that it would only postpone and aggravate the problems, it turned out that many restructured state-owned enterprises being put under strict financial control improved their performance and could later find solvent investors more easily while the economy developed more smoothly.

In order to promote new employment, the government provided extensive support to business start ups, which resulted in the establishment of some 23,000 new small businesses during the 1990s. The externalization of ancillary activities in the process of restructuring of large companies also contributed to the creation of many new small companies, which have become the major new job generators, in particular in construction and services.

Good practice example: facilitating self-employment in Slovenia

A number of projects providing unemployed people with various forms of education, training and support are being carried out in Slovenia. One of these programmes - the development and implementation of subsidized consulting on the basis of referral project - entails two stages: in the first stage, the employment offices provide basic information to all unemployed interested in starting a business. In the second stage, the unemployed who has presented a concrete entrepreneurial project is provided with individual help by specialized consultancy agencies; the employment offices upon successful realisation of the projects reimburse their services. The programme is organized on the basis of a voucher system: it is estimated that the administrative and consultancy costs per person reach a certain amount; if the costs incurred by an individual are lower, he or she has the right to use the remaining amount to finance certain services once self-employed, such as accounting assistance or legal consultancy related to the business. Another programme provides financial support at the start of business operation. It is intended for unemployed people taking part in a training programme for self-employment who have prepared all the procedural documentation and a business plan and who have examined possibilities for the realization of their business idea. Financial support can then be obtained either as a non-returnable sum in the

more market-oriented and less isolated from the global markets in comparison with any other centrally planned economy at that time). However, the GDP contraction much accelerated after 1989 in connection with the reform process and the break-up of Yugoslavia.

¹⁵ The general government account balance did not exceed 2 per cent of GDP after 1991 similarly as the current account balance, the latter with the only exception of 1999 and 2000.

equivalent of six guaranteed wages, as refunding of contributions or as returned financial assistance and refunding of contributions in regional centres where the guarantee fund has been founded.

Type of support	Number of participants 1991-1999
Information and motivation	19 704
Various forms of training	22 327
Individual counselling by outside institutions	23 055
Financial support upon self-employment for people who took part in training	15 602
Financial support upon self-employment for people who did not take part in training	5 702
Total employment	21 788

Sources: 1) Sonja Drobnic, "Employment Policies and Programmes in Slovenia", in M. Godfrey and P. Richards (eds.), *Employment Policies and Programmes in Central and Eastern Europe*, ILO: Geneva, 1997.

2) *Annual Report of the Slovenian NES 1999*, Chapter 4: "The implementation of employment programmes and measures", www.ess.gov.si/English/html/AnnauReport/lp99/epog14.htm

Persistent rather strict labour market regulation has created a sort of dual labour market, with a large proportion of workers in well protected positions (the average job tenure in Slovenia is well above the average for transition countries and even for the EU countries) but also a large share of mainly young workers working under temporary contracts (13 per cent of workers held temporary employment contracts) or without contracts and moving fast among jobs. This makes the labour market more flexible and helps employers adjust to changing economic conditions while young people can still benefit from well designed assistance provided by public employment services. The new Labour Code enacted as of 1 January 2003 means a move towards more adjustment flexibility for enterprises while shifting employment and income protection for workers further from the enterprise to the societal level. It should also help improve enforcement of the law and reduce informal labour.

The Slovenian Public Employment Service is the most developed among the transition countries due to its accumulated experience from functioning already under the socialist regime (although unemployment at that time was very low). It provides a wide range of programmes from job mediation, through vocational guidance for the unemployed and youth, labour market training, subsidized employment, public works, small business promotion programmes, internships, mobility measures, local employment initiatives, programmes for disabled persons, etc. to unemployment benefits and assistance and early retirement. There are also programmes providing early intervention to redundant workers to prevent their open unemployment and facilitating their re-employment. In addition, a large proportion of employed persons are participating in retraining or skills upgrading courses usually funded by their enterprise (in 1995 some 58 per cent of the workforce), which improve their capacity and prevent their redundancy. In 1999, total expenditure on labour market policies was 1.3 per cent of GDP, which was the highest amount among the transition countries, of which 0.5 per cent was devoted to active measures and 0.79 per cent to passive measures.

Slovenia's Economic and Social Council has certainly contributed to the overall performance of the country, including in terms of employment by seeking tripartite cooperation and industrial stability among the social partners. The latest Tripartite Private Sector Pay Policy Agreement was concluded in June 2000 (there is a similar agreement for the public sector). The overall objective is to set common guidance for pay policy with a view to maintaining a balance between the needs of workers for increasing real wages and the concern of employers and government for enhancing enterprises' and the country's competitiveness.

The Government gives high emphasis on further activation of labour market policy. In order to reduce long-term unemployment, public works are extended to more long-term jobseekers and combined with their obligatory involvement in training programmes and job search activity. Efforts are also intensified for developing preventive and employability-oriented strategies, building on early identification of individual needs of jobseekers, formulating their individual re-employment plans and encouraging them to return to the open labour market as early as possible. The share of funds allocated to active programmes will gradually increase to the planned 1 per cent of GDP by 2006.

c. *Good practice example: public works programmes in Hungary*

Hungary has launched and is running several types of public works schemes since the beginning of the 1990s. Since 1996 public works have become the largest labour market programme in terms of the number of participants.

The first type, the Public Benefit Employment scheme, is targeted at long-term unemployed persons. Public Benefit Employment is organized by local governments in the areas of community interest – cleaning of communal premises and public areas, maintaining or upgrading of local infrastructure, social assistance and similar activities. The length of participation of jobseekers in these schemes may vary from few days to several months and the aim is to restore their ability to work and prevent their fall into extreme poverty by providing them with income. The number of participants in the programme (i.e. all those having participated in the programme for at least one day in the given year) increased from 35,000 in 1992 to 141,000 in 1996 and then with shrinking registered unemployment it declined to 120,000 in 1999 and 93,000 persons in 2000. On an average monthly basis, 34,000 jobseekers took part in the programme (i.e. 6.8 per cent of average monthly registered unemployment) in 1996, 29,000 persons (7.1 per cent) in 1999 and 24,000 persons (6.1 per cent) in 2000. This programme is covered by the Labour Market Fund (which is raised by contributions from employers and employees and besides active labour market programmes covers also unemployment benefits and early retirement).

Since 1996, another scheme has been launched with a focus on projects of national, regional or local importance in the field of environment protection/restoration, construction and maintenance of physical infrastructure or public buildings, setting up of industrial zones in depressed areas and similar activities. In 1996 the National Council for Public Works was established, including high-level representatives of five ministries, to assess project applications for support and allocate funds from the state budget for the selected projects. Regional public works councils, consisting of delegates of local labour offices, municipalities, chambers of commerce and representatives of the National Roma Self-Government, were also established for organizing and supervising these projects while the projects themselves are run by the appointed labour offices. In 1999, the National Council was dissolved while the decision-making was decentralized to the regional level, to regional public works councils. This programme is also targeted at long-term unemployed persons and in particular at persons with multiple disadvantages. In order to improve their employment chances after completion of the projects, since 1999 participation in the scheme can be supplemented with on-the-job training financed from the Labour Market Fund (in occupations such as park-keeper, dam and canal keeper, pumping plant machine operator, etc.) In 2000, 52 programmes were approved benefiting more than 400 settlements and involving around 4,800 workers (of whom 3,100 registered jobseekers). Almost 1,500 workers received training within the programme. Altogether HUF 2 billion were allocated for the projects and HUF 40 million for training. As this scheme has proved to be beneficial both for the regions and communities (mainly depressed regions or regions affected by natural catastrophes or major environmental problems) and for the disadvantaged jobseekers the government is determined to continue and possibly expand it according to the needs.

Since May 2000 social assistance to unemployed persons in need (usually those having exhausted unemployment benefits) is conditioned by obligation to work for at least 30 days per year according to the principle of “work instead of aid”. Local governments are responsible for providing this employment opportunity through the above mentioned public benefit scheme or public works or they can organize public purpose work. By December 2000 already one half of the settlements organized this type of scheme, in particular those with the highest levels of unemployment.

Asia and the Pacific countries

1. Stimulating employment growth through trade liberalization – the Malaysian example¹⁶

Trade liberalization can have significant positive effects on employment, output and incomes. Malaysia implemented a two-faceted strategy of import substitution and export promotion. The emphasis shifted over time between the two, but both elements co-existed throughout. Unlike typical trade liberalizers, Malaysia's export-oriented thrust was not driven by mere freeing of the market to bring about better resource allocation. Far from liberalizing the economy, export-oriented incentives were provided along with import-substitution policies.

Particularly since the mid-1980s, trade liberalization together with active encouragement of FDI inflows led to rapid employment creation, directly in export-oriented sectors and indirectly, through a multiplier effect, in domestic market-oriented sectors. Unemployment rates fell more rapidly and substantially during phases when export orientation was the dominant strategy and Malaysia actually became a significant importer of labour by the late 1980s. As the labour market tightened, real wages for all types of workers grew. The emerging export-oriented industries, moreover, generated a rapid growth of demand for unskilled labour. At the same time, the Government's efforts to expand training opportunities, particularly from 1993 onwards, through the creation of a Human Resource Development Fund and other measures, helped raise the skill level of the workforce. Even in 1998, despite the Asian financial crisis, the unemployment rate rose only marginally to 3.2 per cent. It should be noted, of course, that this was partly because much of the retrenchment affected the mostly unskilled foreign workers who had, by then, come to constitute around 20 per cent of the labour force. During the recent slowdown, the unemployment rate rose to 3.6 per cent in 2001.

While export-oriented manufacturing was instrumental in sustaining long-term growth in GDP, low inflation and unemployment levels, a rise in the share of female and semi-skilled workers in the labour force, and an increase in real wages, particularly in the 1990s, it was not driven entirely by market forces. The evidence supports neither market-driven nor market-friendly (including proscriptive intervention) liberalization efforts. Despite the uncoordinated nature of industrial policy, subsidies, tariffs and other support instruments were used extensively to attract FDI and to stimulate exports and domestic production, involving both import-substituting and export-oriented industries. While the evidence is insufficient to establish *a priori* a case for the superiority of industrial policy, it does demonstrate that growth in trade was strongly driven by government policies – during both the import-substituting and export-oriented dominated phases. Also, unlike typical industrializers, changes in Malaysia's trade regime depict neither efforts to overcome demand constraints nor a pursuit of policy neutrality. While export-orientation appears to have been central to industrial expansion, it was not followed systematically through greater liberalization.

However, interventions in Malaysia were not so extensive that markets did not have a role to play. A blend of State intervention and markets worked together to engender industrial expansion in the country. While employment grew strongly during the two export-orientation phases, its positive impact on workers was generally strong only during the period 1990-97, when serious labour shortages forced firms to raise wages. In terms of employment, the proportion of semi-skilled workers in production workers showed the largest increase. A lack of effective institutional development restricted the transition to high skilled, higher value-added operations in the 1990s.

The Malaysian experience becomes useful not only for small economies that do not have an adequate domestic market size to realize economies of scale internally, but also for larger economies, as the current external trading environment increasingly prohibits the use of protective measures. Export-orientation has been imperative in offering scale as well as the discipline to engender sustainable growth, employment generation, greater labour force participation, transition in skills and improvements in real wages. Growth in export-oriented industries, and their pulling effect on domestic industries as a result of the effective demand created, helped expand overall GDP growth and employment. Financial incentives,

¹⁶ Rasiah R. (2002), "Manufactured exports, employment, skills and wages in Malaysia", *Employment Paper 2002/35*, ILO: Geneva.

political stability, good basic infrastructure and global developments stimulated a massive relocation of TNCs to Malaysia particularly in the early 1970s and after 1985. This formed the basis for an expansion in export-oriented manufacturing. Final markets in the industrialized economies – including through intra-TNC trade within ASEAN, which, in turn, led to trade with industrialized economies – helped sustain long-term growth in exports. While export-orientation in the early 1970s was dominated by unskilled operations, changes in production dynamics and increasing pressure on depleting labour reserves stimulated an increase in demand for semi-skilled and technical employees. However, rising factor costs and overheating did not lead to a significant rise in the relative share of skilled workers and R&D scientists and technologists, despite the Government's efforts during the 1990s to achieve this; the supply of high technology infrastructure – including human capital – was inadequate to facilitate a transition to value-added operations.

The Malaysian experience is particularly useful for small economies that rely on FDI to expand their manufactured exports. While export-orientation was critical in Malaysia, financial incentives, at least in the formative years, were important in attracting FDI as they offset the risks associated with new unknown sites. However, the lack of effective institution building to resolve collective action problems now threatens to stall further growth. Rising factor costs have made the transition to higher value-added activities necessary. Malaysia needs to follow the paths taken by Ireland and Singapore and make the institutional transition necessary to attract higher value-added activities if it is to overcome its current impasse. While export orientation is essential, sustainable growth - to support low unemployment rates, improvements in skills and wage levels in the face of resource depletion and rising factor costs - requires interventions to help spawn institutions, which will support higher value-added activities.

2. Linking active labour market policies to unemployment assistance and unemployment benefits: the experience of Australia and of the Republic of Korea¹⁷

a. Australia's Job Network¹⁸

From 1945 to 1998, the Commonwealth Employment Services (CES) placed within the Ministry of Labour provided public employment services in Australia. Beginning in 1998, the CES was replaced by a Job Network made up of organizations, mostly from the private sector and community organizations. The cost of providing the services continues to be met by the government. Employers and job seekers use the services without paying a fee, and the government pays the Job Network for services provided to clients. The Job Network was intended to reduce the size of the civil service while creating a system of payments based on performance. The expectation was that the Job Network would improve the quality, efficiency and choice of employment services. The government continues to play a role in regulating the Job Network, determining the scope of service provision, managing the financial arrangements, selecting the service providers and monitoring the labour market. The reforms in Australia linked employment assistance with income support under Centrelink set up in 1997 to assess entitlements for income support, register people looking for work, determine their level of disadvantage and refer them to labour market assistance. The key elements of the reform are:

- The integration of the key employment assistance and income support functions under a new body to be known as Centrelink;

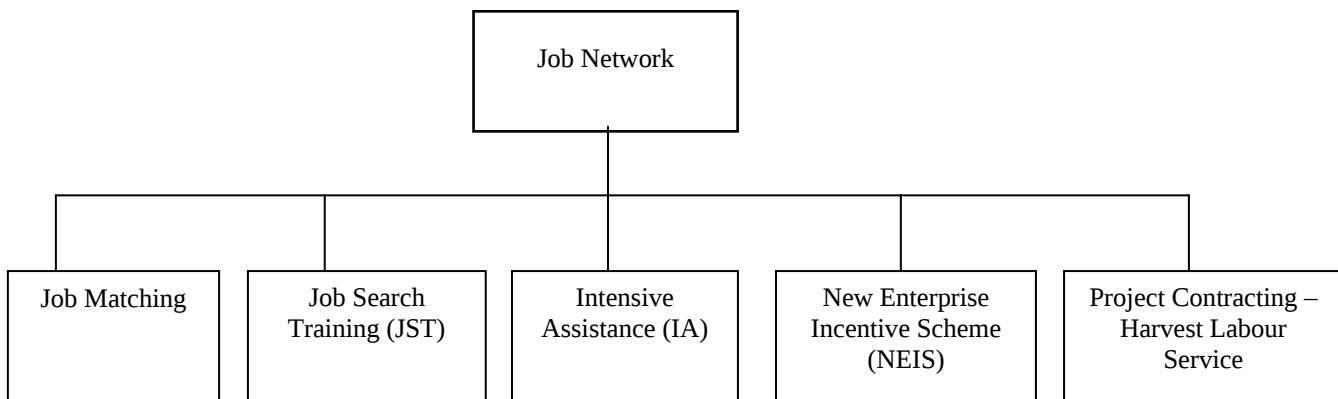
¹⁷ Elisabeth Morris, "Policies and Measures of Foreign Countries: Practices from Asia and the Pacific", Paper prepared for the Shanghai workshop: Active Employment Policies: practices from Asia and the Pacific, 21-23 October 2002, ILO Bangkok Office: Bangkok.

¹⁸ Information for this section come primarily from the website of the Federal Department of Employment and Workplace Relations at <http://www.workplace.gov.au>. Material is also obtained from a paper prepared for the ILO by the Federal Department of Employment and Workplace Relations with contributions from the Federal Department of Education, Science and Training, the Australian Chamber of Commerce and Industry and the Australian Council of Trade Unions on "Youth Employment Policies of the Australian Government Relevant to ILO Member Countries in the Asia and Pacific," June 2002.

- The development of a competitive market for publicly funded employment placement services to be known as Job Network through a national tender process for the delivery of labour market services. Successful tenders could include government, private and community organizations;
- A flexible continuum of assistance to be made available to job seekers according to their level of disadvantage with access channelled mostly through Centrelink to those providers who were successful in the tender process.

The Job Network

The Job Network is a national network of around 200 private, community and government organizations dedicated to finding jobs for unemployed people – particularly the long-term unemployed. The Job Network provides five services:



Job Matching involves labour exchange services, which are available to most unemployed persons regardless of whether they are on income support. Job Matching includes:

- obtaining job vacancies from employers and meeting employer recruitment needs;
- listing job vacancies;
- matching job seekers' skills and abilities to employer requirements;
- referring job seekers to vacancies;
- helping people obtain apprenticeships and traineeships;
- preparing resumes for job seekers;
- ensuring that appropriate job placement occurs.

The service is free to eligible job seekers and is not conditional on receipt of unemployment benefits. To be eligible the job seeker must not be working for more than 15 hours a week, not be in full-time study and be eligible to work in Australia.

This service provided by Job Network members can significantly reduce search times required to find a suitable job. The mechanism is effective and fair insofar as it widens the pool of potential job seekers available to employers and may open up to job seekers careers that they had not considered. The effectiveness depends on whether clients use the service.

Job Search Training involves training job seekers in job search skills and motivating them to take steps in searching for jobs. Job Search Training generally provides 15 consecutive days of training in job search techniques. It is available to job seekers including those on income support and all job seekers aged 15-20 and not in full-time education and training. Job Search Training providers are paid a fee, for each eligible job seeker commencing assistance with them. Flexibility has recently been introduced with the capacity to deliver to those working part-time. The Job Search Training provider works out with each individual job seeker those areas of their skills that need development. These include:

- assistance with writing and updating resumes, preparing job applications, obtaining references, following up on 'leads' and approaching employers;

- practice preparing for an interview and being interviewed;
- access to telephones, computers, photocopiers and other office equipment when preparing job applications and resumes, and the Internet and newspapers when searching for suitable jobs;
- improvement in the skills and confidence of job seekers to perform well when marketing themselves to employers;

The objective of Intensive Assistance is to obtain sustainable employment for the most disadvantaged job seekers in the labour market by providing the services and support they need to address barriers to employment in the local labour market. Services are provided for up to 15 months with a provision to negotiate an extension of up to six months. Intensive Assistance is available only to those who are assessed as having a high probability of becoming or remaining long-term unemployed. Job Network members provide a variety of services depending upon the barriers facing a job seeker in obtaining a job. Intensive Assistance provides individually tailored help through:

- vocational training;
- work experience;
- training in literacy;
- numeracy or English as a second language;
- employer incentive including wage subsidies;
- workplace modification of post placement support;
- providing or subsidising fares, clothing or equipment to secure employment.

Job seekers are assessed by Centrelink to be eligible for Intensive Assistance based on a profiling instrument called the Job Seeker Classification Instrument (JSCI), which calculates whether they are likely to become long term unemployed. Information taken into account by the JSCI includes age, educational attainment, how recent the work experience, Indigenous Australian status, geographic location, disability and medical condition, and language and literacy. Each of these factors has been statistically associated with long term unemployment. The answers to these questions are used to calculate a score that provides a relative measure of job seeker disadvantage in the labour market. If the job seeker has a score above a certain level, they will qualify for Intensive Assistance.

The New Enterprise Incentive Scheme has the objective of helping eligible unemployed people establish and run viable new businesses. New Enterprise Incentive Scheme assistance includes:

- training in small business management, business skills and business plan development;
- income maintenance (NEIS Allowance) for up to 52 weeks;
- business advice and mentor support during the first year of business operation.

The objective of the Project Contracting - Harvest Labour Services is to ensure a satisfactory supply of labour to harvest areas that require considerable numbers of out-of-area workers to supplement local labour during peak seasons in order to harvest crops.

Evaluation of the Job Network

Three months after a Job Matching placement, 73 per cent of job seekers were either employed (70 per cent) or undertaking education and training, while three months after leaving Job Search Training or Intensive Assistance, the outcome rates for job seekers were 47 per cent (38 per cent employed) and 42 per cent (35 per cent employed) respectively.

Evaluation evidence also suggests that persons aged 18-20 were not accessing the Job Network services (JST and IA) as much as they were predicted to, but those aged 20-24 were using the services well above their predicted rate. However, young people (aged up to 24) who had participated in Job Matching, Job Search Training or Intensive Assistance had higher rates of success in keeping a job six months after participation in the programmes than those who had not participated.

The Job Network in Australia constituted a major change from the previous method of delivery through a public employment service to a contestable framework in which private and non-profit

organizations could bid for the contract of providing these services. The provision of programmes like Job Matching, Job Search Training or Intensive Assistance are not reliant on a contestable framework such as Job Network. These programmes could be operated through a public employment service.

Job Matching and Job Search Training could be relevant to job seekers in other countries. However, due to its expense, Intensive Assistance may not be a feasible option for some countries although elements could be important to reduce long-term unemployment especially among young persons. In Australia, this programme is partly predicated on its capacity to reduce the liability of the government in terms of income support payments and so this rationale may not exist for countries with no income support arrangements.

b. The Republic of Korea's Employment Insurance System

The Employment Insurance System in the Republic of Korea established in 1995 is a compulsory social insurance system. All employees and employers in the enterprises covered by the system should pay an insurance premium that entitles them to receive grants and benefits from the Employment Insurance Fund. Whereas traditional unemployment insurance systems are remedial measures with cash benefits for unemployed workers, the Korean system includes preventive measures for employment stabilization and active measures for employment promotion. The Korean Employment Insurance system has three major programmes: Employment Stabilization Programme, Job Skill Development Programme and Unemployment Benefits. The system includes strict measures to prevent abuse of unemployment benefits. At the same time, it encourages active job search and job skill development for re-employment. From 1998, all workplaces including temporary or hourly workers became subject to the Employment Insurance System. By 2002, four-fifths of workers were covered. While the Employment Insurance System aims in principle to cover all workers at workplaces subject to application, there are some workers who are excluded such as public officials.¹⁹

The Employment Stabilization Programme

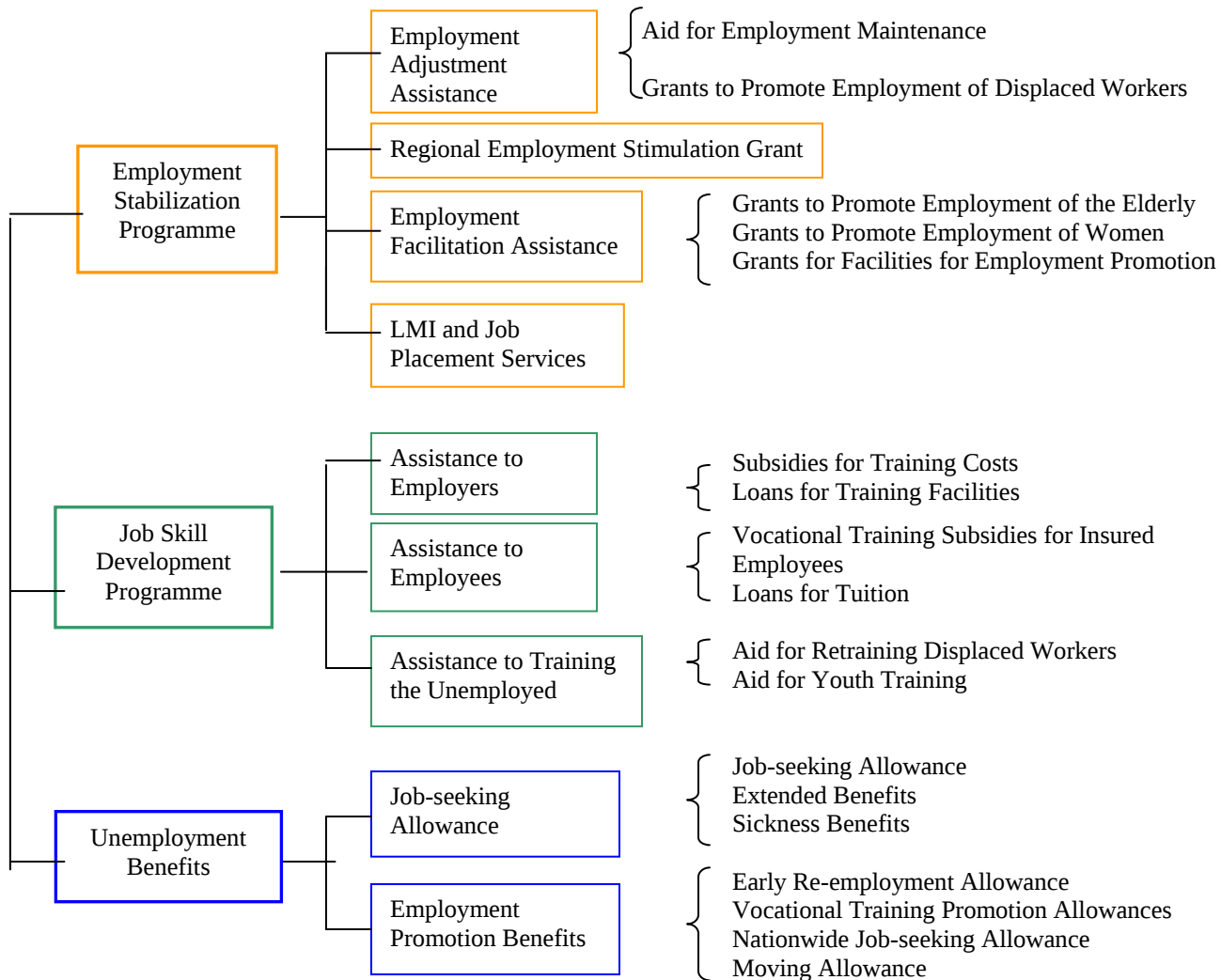
The employment stabilization scheme aims to prevent unemployment and to stimulate re-employment. It is designed to harmonize efficiency and equity by subsidising firms in efforts to avoid massive layoffs and hire disadvantaged workers. Employment adjustment subsidies are intended to encourage employers to maintain employment and employment facilitation subsidies are provided to promote employment of marginal workers. The programme also seeks to promote job placement through accurate information on labour markets and through guidance and counselling for job seekers.

Employment Adjustment Assistance: Employers are entitled to receive Aid for Employment Maintenance by taking proper measures for employment maintenance. These include temporary shutdown, reduced working hours, employment maintenance training, dispatching of workers, leaves of absence and relocation of employees. The Grant to Promote Employment of Displaced Workers used to encourage employers to hire the unemployed during times of adjustment.

Regional Employment Stimulation Grant: Another approach to job creation for displaced workers is local development schemes for depressed regions or company towns. For example, declining industries such as shoes, textiles or mining may be concentrated in certain areas. Successful strategies attract new industries through investment incentives, tax rebates, local infrastructure and human capital. Although labour markets must adjust to product markets, employment opportunities can be expanded in the short run through a Regional Employment Stimulation Grant to encourage employers to open, expand and move businesses into these regions. The grant is intended to increase job opportunities in areas where employment opportunities have seriously worsened.

¹⁹ Ministry of Labour, Republic of Korea, *Labour Administration*, Government Publication Registration No. 11-1490000-000209-10.

Structure of the Korean Employment Insurance System²⁰



Employment Facilitation Assistance: The Employment Facilitation Assistance is intended to expand employment opportunities for marginal workers. Grants to Promote Employment of the Elderly are provided to find job opportunities for older workers through employment and re-employment. Grants to Promote Employment of Women are provided to encourage a leave of absence, promote the re-employment of women who drop out of the workforce for pregnancy, childbirth and childcare and foster employment of women who are heads of households. Grants for Facilities for Employment Promotion are available to subsidize salaries of teachers as well as for establishing new centres or expanding existing centres for day care.

Labour Market Information and Job Placement Services: In order to minimize job mismatch and structural unemployment the Employment Stabilization Programme aims to develop tailored job placement systems, flexible labour market systems and labour market information systems. Labour market information includes information on the past, current and future trend of labour force demand and supply, wages, working hours, employment structure, job seekers and job openings, laws and regulation on the labour market, occupations, industries, vocational education and training, job guidance and placement and labour market programmes and policies. The process or system that collects, analyses and distributes this information is a labour market information system. The system can improve job search and job placement. Information should be accessible, appropriate, standardized, nationwide and specialized. All stakeholders – government, employers, workers, educators, trainers and communities – should be included in the labour market information system.

²⁰ Kil-Sang Yoo, *The Employment Insurance System in Korea*, Seoul: Korea Labour Institute, 1999.

Job Skill Development Programme

A core strategy for growth and development is to develop a strategy for education and training. In a global economy of competition and change the Employment Insurance System supports a Job Skill Development Programme for vocational education and training. The Job Skill Development Programme is an incentive system to encourage the active participation of employers and employees in lifelong learning. It is designed to provide opportunities to displaced workers, new entrants and unemployed workers as well as to develop the job skills of employed workers.

Assistance to Employers: Subsidies for Training Costs are the most important policy measure for encouraging employers to participate in training of employees. This includes institutional training, on-the-job training and telecommunication s training. It includes grants for training current employees and new entrants. It also provides aid for paid leave for employee training and training costs in foreign institutions. Loans for Training Facilities are available for individual employers or employers' associations for vocational training facilities and equipment.

Assistance to Employees: Insured employees who are going to be laid off or are nearing retirement age may receive subsidies for vocational training for finding re-employment or starting a business. Low interest loans are available to insured employees who take courses in technical institutions, junior college and higher education to improve skills and knowledge for work. There is a system of priorities for selecting recipients from among applicants.

Assistance for Training the Unemployed: An Employment Insurance Fund provides free retraining for Aid for Retraining Displaced Workers who are insured employees. If eligible for unemployment benefits the person receives unemployment benefits during the training period. If not the claimant receives a training allowance. Those undergoing a training programme not covered by the Employment Insurance System can receive a training allowance that does not come from the Employment Insurance Fund. In order to provide unskilled youth with the skills and knowledge necessary for employment the Employment Insurance Fund provides Aid for Youth Training to unskilled youth.

Unemployment Benefits

Unemployment Benefits are cash benefits intended to alleviate financial hardships and facilitate job search during a certain period of unemployment. The benefits are comprised of the job-seeking allowance and employment promotion benefits. The former is to address income insecurity and the latter is to support re-employment activities. The system is designed to facilitate active job search. Eligibility requirements for unemployment benefits are designed to minimize the adverse effect of unemployment benefits in terms of efforts to find employment, duration of unemployment and the supply of labour.

Job-seeking Allowance: In order to receive a Job-seeking Allowance the claimant must meet qualifying requirements in terms of work experience and eligibility requirements with regard to job termination. These conditions are as follows:

- the claimant's insured employment period should be at least 180 days out of the 18 month base period preceding the day of job separation;
- the claimant must register at the public employment office as a job seeker right after job separation and request the Job-seeking Allowance within the ten month feasible period;
- the claimant is out of work but remains willing to and able to work and is actively seeking new employment to the best of his or her ability;
- the reasons for job termination should not be of a nature that would disqualify the claimant from receiving unemployment benefits, such as voluntary unemployment without good cause, discharge for misconduct and others;

Restrictions on the Job-seeking Allowance relate to discharge for serious misconduct, voluntary leave without good cause, refusal of a suitable job offer or job placement services, refusal of suitable training order, and receipt of other types of income. Under certain circumstances extended benefits are paid under the Job-seeking Allowance. These include benefits for recommended vocational training, difficult individual situations and high unemployment rates. Special benefits are paid when a claimant is not able to work due to injury, sickness or childbirth.

Employment Promotion Benefits: In order to encourage job search and early re-employment the Employment Insurance System has Employment Promotion Benefits including Early Re-employment Allowances, Vocational Training Promotion Allowances, National Job-seeking Allowances and Moving Allowances. Early Re-employment Allowances are an incentive pay to minimize the duration of unemployment. It is awarded to those who obtain stable employment before reaching the halfway point of the total benefit period. There is also a subsidy for job placement agents who have contributed to shortening the unemployment of claimants. Vocational Training Promotion Allowances supplement the Job-seeking Allowance to facilitate vocational training recommended by the public employment office. National Job-seeking Allowances are designed to assist extensive job search recommended by the public employment office by subsidising costs for transportation and lodging. The Moving Allowance subsidizes costs incurred in relocation for new employment or vocational training.

3. Active labour market policies: practices from Asia and the Pacific²¹

a. Skills development

Training programmes usually account for the largest share of public spending on active measures in industrialized countries. Evaluations are mixed in terms of effects on earnings and employment. Studies show the most positive results for adult women and the least successful impact on out-of-school youth. Training programmes are most effective when they are tightly targeted and small scale with a strong on-the-job component.²² Studies indicate that: (i) retraining programmes should provide marketable skills based on local conditions; (ii) income support should accompany training programmes; and (iii) types of training – long-term versus short-term and classroom versus practical – must fit the abilities of unemployed workers and the needs of potential employers.²³ Incentives may be given to individual firms to improve labour productivity and increase firm competitiveness through investment in human resources. Public-private partnerships are proving successful in fulfilling these requirements.

Good Practice Example: Shanghai Training Network

Shanghai has established a vocational training management network to link its employment services to the training providers. An information exchange ties job agencies to training organizations. The former includes information about enterprise requirements, job seekers and trends in demand for labour. Information about training providers comprises basic information about organizations, staff and courses. This information enables job agencies to provide career counselling to jobseekers. The network alerts training providers to changes in demand for skills. The role of government is to provide subsidies and facilities. Training providers obtain government support through competition. The government accepts bids from training organizations to undertake training programmes. In addition it monitors the outcomes of training by examining the pass rate and employment rate for those who complete the training courses. In order for a training provider to receive a government subsidy the pass rate must be at least 90 per cent and the employment rate must be at least 60 per cent. The unemployed receive training free of charge. Other groups in unstable positions are also given special assistance in order to prevent them from becoming unemployed – preventing layoffs and improving employability. These people pay 50 per cent of the training fees. Poor workers can be reimbursed for training fees if they get a job.

²¹ Elisabeth Morris, “Policies and Measures of Foreign Countries: Practices from Asia and the Pacific”, Paper prepared for the Shanghai workshop: Active Employment Policies: practices from Asia and the Pacific, 21-23 October 2002, ILO Bangkok Office: Bangkok.

²² John P. Martin, “What Works Among Active Labour Market Policies: Evidence from OECD Countries’ Experiences,” *OECD Economic Studies*, No. 30, 2000/1, p. 93.

²³ Christine Evans-Klock, Peggy Kelly, Peter Richards and Corinne Vargha, *Worker displacement: Public policy and labour-management initiatives in selected OECD countries*, Employment and Training Papers 24 (Geneva: ILO, 1998), pp. 21-22.

Good Practice Example: Malaysian partnership for competitiveness in global markets

Malaysia has set up skill development centres in various states to cover the industrial attachment of trainers and the sharing of public-private sector facilities and infrastructures. One example is the Penang Skill Development Centre, which is built on a partnership between the state, private enterprise and academia. The centre was established by multinational enterprises and the Penang State Government and is managed as a business by a management council composed of public and private sector representatives. The state provides grants, trainers, equipment, training materials and premises. The private sector supplies financing, equipment and trainers. The centre is used both by government agencies and the private sector. There are user fees for courses and membership fees. Information about the centre can be accessed through JobStreet.com that posts training programmes and education opportunities for Malaysia. It aims to provide the latest continuing education information to users. The website for the Penang Skill Development Centre is <http://www.psd.org.my> with information for users about training, education and vacancies as well as a learning network, search archives and PSDC publications. Two programmes listed online are:

- Graduate Reskilling Scheme – The Federal Government through the PSDC is providing a series of reskilling programmes for unemployed graduates. The first of this series is a Graduate Reskilling Scheme (GRS) for ICT. The PSDC is now the only centre in Malaysia to run the GRS for ICT.
- Scheme for Retrenched Workers and Unemployed Training Scheme – The *Pembangunan Sumber Manusia Berhad* (PSMB) has been appointed to implement the Retrenched Workers and Unemployed Training Scheme. This programme has been specially designed to equip retrenched workers with knowledge and skills to meet the demands of the industries of the 21st century.

Source: ILO, Wong Yuk Kiong, 1998 cited in ILO, *Skills in Asia and the Pacific: Why Training Matters*, Technical report for discussion at the Tripartite Asian and Pacific Consultative Meeting on Human Resources Development and Training, Singapore, 30 June – 2 July 1999. See <http://www.jobstreet.com.my/career/training/train6.htm>.

Good Practice Example: Opportunity in Numbers – An Alliance of NGOs and a Progressive Marketing Office Adapt to a Changing Economy in the Hong Kong Special Administrative Region

Hong Kong has a high unemployment rate amid a shift in its economy from heavy industry to service-oriented businesses. This transformation has required all job seekers and skilled trainers to adapt to the new demands. But some organizations in the business of helping disabled people find employment are slow in making necessary changes. They are not used to giving customer-centred service, analysing the job market or knowing how best to compete. Some need to find and teach service-oriented skills. And many lack professional knowledge, marketing strategies or business skills needed in certain job categories that are being required by the new economy. Consequently, disabled people are being trained under old or non-competitive standards.

How can organizations not familiar with market-driven forces keep up or even move progressively with the changing times? How can people who know about disabilities connect with people who know about employment? The Marketing Consultancy Office for the rehabilitation of disabled people, a new government agency, is assisting NGOs and other groups in rehabilitating themselves. It is helping them understand good business practices in order to run their programmes for disabled workers more effectively. The Marketing Consultancy Office (MCO) actually does much more than marketing and very little consulting. Acting more as a hands-on liaison between its organization customers and its business customers, the MCO:

- has pulled together some 100 NGOs into an alliance;
 - organizes training sessions,
 - pursues work-for-hire contracts and job vacancies, plus provides start-up funds for small enterprises,
 - sets up promotional events to tout products, services and disabled people's capabilities;
 - wrangles creative uses of the media and advertising for all the free publicity it can get.
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Good practice example: The National Vocational Training and Development Centre for Women in the Philippines

The National Vocational Training and Development Centre for Women was established in 1998 with support from Japan as one component of the Philippines new approach to vocational training. A training centre opened with a dormitory and child care facilities. Its Board is inter-ministerial and tripartite in composition and includes representatives of NGOs.

The Women's Training Centre was established as a model to train and develop women for new and wider career opportunities. Its long-term objectives are to improve the social and economic status of women in the economy; to enhance women's participation in development; and to promote regional industrial development in the Philippines. It is expected to function as a self-reliant institution that can provide practical assistance to SMEs, organizations and agencies for the benefit of women, enabling them to make decisive inroads in technology, entrepreneurship development and various occupations. It also promotes the participation of civil society through national and international advocacy, social marketing, networking and programme linkages. The Women's Training Centre contributes to the economic empowerment of women through the provision of skills and non-skills training, job placement, career guidance, counselling services, research and development and advocacy. The Centre's Trainees have found jobs in non-traditional sectors, such as the automobile industry and snatched from men a number of awards, for example in welding competitions.

The Centre now also trains women from other Asian countries. One of the important roles of the Women's Training Centre is to promote cooperation not only within the Philippines, but also with organizations with similar interests in the Asia and Pacific region. Extensive cooperation with such organizations will help it become a focal point for international cooperation activities in vocational training and gender issues in the region.

Source: Towards Gender Equality in the World of Work in Asia and the Pacific; Technical report for discussion at the Asian Regional Consultation on the follow-up to the fourth World Conference on Women, Manila, 6-8 October 1999, ILO: Bangkok, pp.64.

b. Direct job creation

Traditional job creation schemes are generally in "socially-useful" and "non-market" activities. These may be part of community-based programmes in the immediate labour market that are set up to provide jobs to the unemployed. The advantage of public works or service schemes is that they provide income to displaced workers while at the same time contributing to infrastructure development, environmental protection and community amenities such as recreation, schools and utilities that may attract future investment and additional jobs. The benefits of these schemes can extend beyond the construction process to multiplier effects of direct payments, supply linkages to input purchases and productivity increases through infrastructure development. Criticisms of public works schemes include the fact that in practice they are often unsuccessful in creating productive assets and job opportunities. They tend to be fairly expensive and capital intensive.²⁴

Technology choice is a key decision. For many, although not for all, infrastructure investments, employment-intensive techniques can be applied to a very substantial part of construction and maintenance activities and is a real alternative to equipment-intensive construction techniques. The former is not only more labour-intensive, it can also easily be made more local resource-intensive, thus creating or strengthening backward and forward linkages in the domestic economy, which increases the overall impact on employment and income. The employment-intensive alternative is certainly valid for those countries where labour is abundant, capital scarce and where wage levels remain 'competitive' with equipment and capital costs. Where wages are below US\$ 6 per day, labour-based options should normally be retained. For wages of up to US\$ 10 per day, labour-based alternatives should be seriously

²⁴ Christine Evans-Klock, Peggy Kelly, Peter Richards and Corinne Vargha, *Worker displacement: Public policy and labour-management initiatives in selected OECD countries*, Employment and Training Papers 24 (Geneva: ILO, 1998), p. 27.

considered and equipment-based methods retained only if they demonstrate clear financial and economic advantages²⁵.

Good Practice Example: Labour-Based Rural Infrastructure Works Programme in Cambodia

Since 1992, as a tool to directly fight poverty, the ILO has promoted labour-based appropriate technologies (LBAT) for the effective means to generate employment by improving and maintaining essential rural infrastructure. Labour-based technology aims to apply a labour and equipment mix that gives priority to labour but supplements labour with appropriate equipment where necessary for reasons of quality or cost. While producing or maintaining infrastructure to a specified standard in a cost-effective manner, people are employed under fair working conditions. The Royal Government of Cambodia has endorsed LBAT as the technology of choice for the rural infrastructure programme. In support of this important decision, the project "ILO Technical Assistance to the Labour-Based Rural Infrastructure Works Programme, CMB/97/M02/SID", known as the *Upstream Project*, was formulated. This four-year project, became operational in 1998, and has four capacity-building targets:

- To increase the capacity of the private sector by training small-scale contractors (SSC) to carry out the rural infrastructure works using Labour-Based Appropriate Technology. The project has been involved with the training of 22 small-scale contractors. Follow-up studies indicate that the small-scale contractors are thriving.
- To assist the Institute of Technology of Cambodia (ITC) in instructing and institutionalising five engineering courses which include aspects of labour-based appropriate technologies. The project is also sponsoring the Institute of Technology of Cambodia to carry out research on Cambodian laterite characteristics.
- To assist the Royal Government of Cambodia to ensure that rural infrastructure investments are protected, while simultaneously preparing assumption of the maintenance responsibilities. The project is demonstrating good practices by implementing construction and maintenance works in the Provinces of Siem Reap, Battambang and Banteay Meanchey.
- To improve the institutional capacity of the Ministry of Rural Development (MRD). The overall aim is to assist the Ministry of Rural Development to plan rural infrastructure in such a way that it will lead to investments with the maximum desired impact.

Source: ILO ASIST-AP Bangkok

c. *Job creation and enterprise development*²⁶

Policies, institutions and regulations that provide a conducive environment for small entrepreneurs can make a substantial contribution to employment creation. Over the last years, governments have increasingly recognized the contribution of a flourishing small enterprise sector to the creation of new quality jobs in their economies. Many countries have introduced policies and laws to promote micro and small enterprises. The work of the ILO compiles good practices about effective ways to provide decent work through enterprise development. These elements can find a place in national policies:

- identify and implement policies and legal frameworks that foster competitive and economically viable small enterprises and cooperative;
- encourage management practices which establish and maintain job quality, particularly within small enterprises, facilitate the maintenance of social standards along supply lines, promote socially sensitive enterprise restructuring and promote enterprise restructuring;
- foster economic opportunities for women as entrepreneurs, employees and members of cooperatives;
- improve market opportunities for micro and small enterprises;
- design, develop and implement strategies to enhance the competitiveness and productivity of micro, small and cooperative enterprises

²⁵ J. Majeres, "Employment-intensive investment and poverty reduction: the wider policy framework", *ASIST*, Bulletin No. 15, March 2003.

²⁶ http://oracle02.ilo.org/dyn/empent//empent.portal?p_docid=OBJEHOMDEP

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- Improve access to business development and training services for micro and small, and cooperative enterprises
 - Strengthen association building, workers' cooperatives, Indigenous peoples and self-help organizations to generate quality employment particularly within the informal economy
 - Promote decent employment through local economic development programmes
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Good Practice Example: Emerging Entrepreneurs among Ethnic Minorities in Rural Viet Nam

From August 1999 to January 2000 the ILO Programme to Support Self-reliance of Indigenous and Tribal Peoples through Cooperatives and Other Self-help Organizations (INDISCO) and the Start and Improve Your Business (SIYB) collaborated on a project to deliver business development training to four ethnic groups in rural Viet Nam. An impact study indicates that business training had a significant impact on the four communities with higher than normal rates of business start-up. The success was attributed to the combination of suitable training material and access to credit for investment immediately after training. Over 80 per cent of trainees were granted a loan from the revolving fund established by the INDISCO project. Over 67 per cent invested the loan in a non-farm business. The training and credit had an additional impact on other activities. Close to one-fourth employed workers outside the immediate family.

Source: Jens Dyring Christensen and David Lamotte, "Ethnic Minorities – Emerging Entrepreneurs in Rural Viet Nam: A Study on the Impact of Business Training on Ethnic Minorities," SEED Working Paper No. 13, InFocus Programme on Boosting Employment through Small Enterprise Development, Job Creation and Enterprise Development Department, International Labour Office, Geneva.

Good practice example: successful programmes for SMEs in the Philippines

The Philippine Exporters Confederation responded to the government's programme of creating 1 million jobs a year by cultivating budding entrepreneurs in the provinces through making them indirect exporters. With that as guiding principle, the association got in touch with a group of established exporters in the holiday decor industry (a female-dominated home-industry) that often got big orders from foreign buyers. Together with the host local government and a development NGO native to the host town (Cabiao), they devised a training programme for new entrepreneurs and their would-be workers. After the training, the new entrepreneurs were assigned a fixed number of items to produce that were drawn from actual purchase orders or letters of credit made by foreign buyers to the principal exporters. Because it was market-drive, it proved an immediate success in Cabiao. Requests for similar arrangements in neighbouring towns flooded the programme implementers. It quickly spread and the female-dominated home industries had a total of 2,280 budding entrepreneurs and their workers got involved in capiz-making to holiday décor making, industrial sewing and hand made paper boxes. Four established exporters became their big brother partners who shared foreign orders with the community-based enterprises.

Whether the same systems can be successfully done between feed manufacturers or food processors with groups of farmers has yet to be fully tested.

Source: Philexport Pioneers: Successful programs for SMEs", *Philippine Employer*, May 2003 Edition, Manila, pp. 79-80.

Good Practice Example: Japan Small Business Corporation (JSBC)

The JSBC has developed a three-tier training programme directed at various levels of participants in the small and medium enterprise development sector. The programme's aim is to develop the quality of human resources that support small and medium enterprise in order to promote enterprise growth. The first tier is targeted at those who guide enterprise development especially policy makers at the prefectural level. The second tier is targeted at small enterprise support personnel such as societies of commerce and industry. The third level of training is directed at small enterprise managers. The lessons learned from the JSBC are:

- a multi-level training structure can have synergistic effects in producing support at the policy level as well as improving capacities at the organizational and individual level;
- targeting training at local government divisions responsible for industry can increase policy attention to issues of gender and micro-enterprise development if training content is gender sensitive;
- capacity building for women's organizations working in the field of micro-enterprise development is important in providing them with the skills to move from income generation projects to entrepreneurship and enterprise development.

Source: Paula Kantor, "Promoting Women's Entrepreneurship Development based on Good Practice Programmes: Some Experiences from the North and South," SEED Working Paper No. 9, Series on Women's Entrepreneurship Development and Gender in Enterprises – WEDGE, InFocus Programme on Boosting Employment through Small Enterprise Development, Job Creation and Enterprise Department, International Labour Office, Geneva.

d. Measures for youth employment

The literature shows that special measures for youth employment are often ineffective. Evidence from Canada and the US indicates that the greatest benefits result from interventions that are early and sustained. Policies should ensure that school leavers are equipped with fundamental skills and basic competencies that are recognized and valued by employers. Improved attitudes may result from mentoring programmes.²⁷ Studies show that the effectiveness of youth employment policy is enhanced by the involvement of social partners in design and implementation of programmes. Employers' actions include promoting participation in vocational training, creation of job opportunities and involvement in policy making. Workers' plans include counter-cyclical training and entry-level courses, employment advice, referral systems, recruitment programmes and wage subsidies. Youth are encouraged to participate in trade unions and collective bargaining. NGOs also play a key role in employment promotion.²⁸

Good Practice Example: KABATAAN 2000 in the Philippines

The various youth programmes in the Philippines are grouped together under KABATAAN 2000, which is a year-round youth work programme. It aims to inform young people about the policies and programmes set forth by the government for them. KABATAAN provides training and financial assistance to support young persons' educational and career development goals.

Three of the programmes under the umbrella of KABATAAN 2000 are the SPES, TULAY 2000 and WAP. SPES is the Special Programme for the Employment of Students, aimed at helping poor but deserving students to pursue their education by encouraging their employment during summer or Christmas vacations through incentives granted to employer who pay only 60 per cent of their salaries. It is targeted at students aged 15-25 who are in high school or doing vocational training. TULAY 2000 aims to assist with the integration of young persons with disability into the mainstream of society. This initiative is in support of the ESCAP-promoted Decade for Disabled Persons 1993-2002 and in line with ILO Convention 159.

WAP is the Work Appreciation Programme, which aims to provide youth with opportunities to be able to appreciate work and develop proper work ethics by exposing them to the actual work situation. It is targeted at 18-25 year-olds, who are unemployed, in or out of school. The students are employed for up to three months, with the employers paying 75 per cent of the prevailing wage.

Source: This is taken from Peter K. Wingfield Digby, "Youth employment statistics in Asia and the Pacific: A review of Internet resources," Paper prepared for the ILO/Japan Tripartite Regional Meeting on Youth Employment in Asia and the Pacific, Bangkok, 27 February – 1 March 2001.

²⁷ John P. Martin, "What Works Among Active Labour Market Policies: Evidence from OECD Countries' Experiences," *OECD Economic Studies*, No. 30, 2000/1, p. 99.

²⁸ ILO: *Youth and Employment: Report Prepared by the International Labour Office*, World Conference of Ministers Responsible for Youth, Lisbon, Portugal, 8-12 August 1998, pp. 10-11.

Good Practice Example: Work for the Dole and Experience in Australia

Work for the Dole provides work experience placements for job seekers in approved activities that provide facilities and services to local communities. In Australia unemployed persons aged 18-34 receiving unemployment benefits for six months have a Mutual Obligation requirement. The objective of Mutual Obligation is to encourage greater self-reliance in job seekers by encouraging them to take responsibility in seeking employment opportunities and preparing for work activities. Job seekers are required to undertake an activity in addition to job search, with the requirement usually discharged over a six-month period. Where they do not choose an activity voluntarily, young persons may be required to participate in Work for the Dole if they are on the full rate of unemployment payments.

To date, Work has largely been focused on youth, because lack of work experience can be a key barrier to them getting a job. It also keeps young people engaged with their local community. Community Work Coordinators are contracted by the Government through a competitive tendering process to manage work experience opportunities in different areas. Work for the Dole participants cannot be placed in private sector organizations. Community Work Coordinators receive a fee to provide management services such as generating and developing work experience opportunities, liaison with Centrelink, interviewing eligible job seekers, monitoring sponsors and participants and reporting to the government.

A Mutual Obligation framework is clearly not relevant to countries in which unemployment benefits are not paid. In this respect the Work for the Dole programme may not be directly applicable to these countries. Nevertheless, there would still be benefit in offering a short period of work experience to those with little previous work experience and who have demonstrated that they have not been successful in obtaining employment in the short term. Work experience programmes such as Work for the Dole instil work ethics and habits, improve on-the-job vocational skills that are of particular benefit to those who do not like a classroom environment, improve and maintain levels of job seeker confidence and social skills and instil civic values. Such programmes are also relatively inexpensive to implement compared to the costs involved in letting the person remain disengaged, de-motivated and disconnected from society.

Source: Information for this section come primarily from the website of the Federal Department of Employment and Workplace Relations at <http://www.workplace.gov.au>. Material is also obtained from a paper prepared for the ILO by the Federal Department of Employment and Workplace Relations with contributions from the Federal Department of Education, Science and Training, the Australian Chamber of Commerce and Industry and the Australian Council of Trade Unions on "Youth Employment Policies of the Australian Government Relevant to ILO Member Countries in the Asia and Pacific," June 2002.

Good Practice Example: New Apprenticeships in Australia

New Apprenticeships combine paid work with structured training to give young people a nationally recognized qualification and the experience they need to help them into employment. The training is designed with industry input so that it provides relevant skills. Until a few years ago, this type of training was available only in a few trade occupations but it has now extended to a much wider range of occupations. These are generally below the professional and para-professional level. A summary of the arrangements relating to New Apprenticeships is found below. Further detail about the programme can be found at www.newapprenticeships.gov.au.

Agreements and Responsibilities: New Apprenticeships are covered by formal agreements known as either Training Agreements or Contracts of Training. These agreements set out the training and supervision an employer must provide for the employee, as well as the employee's obligations as a New Apprentice. The Agreements are registered with, and approved by, State Training Authorities, who have legislative responsibility for training provision in their State. Both the employer and the New Apprentice are expected to adhere to the National Code of Good Practice for New Apprentices when entering into a training contract. The Code of Good Practice outlines the obligations of both the employer and the New Apprentice when entering into a training agreement.

Flexibility of New Apprenticeships: Traditionally, apprenticeships took three to four years to complete and "traineeships" lasted for one to two years. New Apprenticeships, which were introduced in Australia in 1998, combine both apprenticeships and traineeships in the one integrated national system. They are competency based, which means it may be possible for a New Apprentice to complete their training sooner if they have reached the skill level required. Generally, New Apprenticeships last from one to four years full-time, depending on the field of training.

More flexible arrangements to suit employer and employee have been introduced through New Apprenticeships and they can be undertaken in full-time or part-time modes. It is even possible to start a

New Apprenticeship while still at school. New Apprenticeships training can be done on-the-job, off-the-job, or a combination of both. For example, a typical training programme could involve two days off-the-job training at a Technical and Further Education College (TAFE), and three days on-the-job work and training each week. The employer, in consultation with their chosen training organization, can negotiate the pattern of training.

In some cases, off-the-job training is conducted by "block release". Block release is where the off-the-job training is conducted periodically throughout the year in a block form of one or more consecutive weeks. An example would be where the on-the-job training with an employer is five days per week, with off-the-job training taking place in a block of five consecutive days every six weeks.

Some New Apprenticeships involve all training being completed on-the-job. In this situation, an employer would provide both hands-on work experience and a structured training programme. In some cases, on-the-job training can be provided by a registered training organization. The flexibility of this training makes it easier for students to stay in their local area and work for local employers including family businesses.

User Choice of Training Provider: Under User Choice arrangements, an employer can select the private or public training provider of their choice that allows them to negotiate the timing, location and nature of the training. User Choice encourages a direct market relationship between the individual training providers and the employers and their New Apprentices. Clients are able to approach any training organization registered with the State Training Authority to provide the type of training they want, and the Authority will arrange for government funds to be directed towards the chosen training provider. The registered training organization will help design a training programme tailored to an enterprise's needs. The tailored programme must outline the competencies to be gained, the mode of delivery and the assessment arrangements. New Apprenticeships are now available in more than 500 occupations nationally, in both emerging and well-established industries.

Group Training Companies: To meet the training needs of small businesses that are unable to train a New Apprentice on their own, the Government has encouraged the development of Group Training Companies. Many small or medium sized enterprises are unable to train an apprentice on their own because they do not have enough work, or variety of work, to give the apprentice an adequate grounding in the trade. Group Training Companies employ New Apprentices and then place them with host employers. Group Training Companies currently work with more than 35,000 enterprises. At the end of the training period, the New Apprentice generally finds employment with one of these enterprises.

New Apprenticeships Incentive Payments: The Australian Government pays incentives to employers provided that both the employer and the New Apprentice satisfy eligibility criteria as set out in the *Commonwealth New Apprenticeships Incentives Programme Guidelines*. These incentives are not payable unless the State/Territory Training Agreement is formally approved, the New Apprentice remains employed by the same employer and has commenced training in accordance with the approved Training Programme. Payment of a living away from home allowance may also be made to New Apprentices who have to move from their parental home in order to take up their New Apprenticeship.

Rural and Regional Incentive for Occupations in Shortage: The Government has also introduced New Apprenticeships specifically for rural and regional areas. These New Apprenticeships are focused at being "Better for your business - Better for the town", and have been developed so that young people do not have to look for jobs in the city or go away to study. In addition to a range of both Commonwealth and State/Territory government incentives and subsidies to help businesses taking on New Apprenticeships, the rural and regional New Apprenticeships incentive gives employers in non-metropolitan areas an additional payment for some New Apprenticeships in occupations identified as being in an area of skill shortage.

New Apprenticeships Access Programme (NAAP): NAAP provides job seekers who experience barriers to skilled employment with pre-vocational training, support and assistance to obtain and maintain a New Apprenticeship. It is targeted at early school leavers, long term unemployed young people and those with particular disadvantages, such as a disability or poor literacy and numeracy skills. NAAP commenced in 1997 as an integral part of the New Apprenticeship system. More information can be found at: <http://naap.detya.gov.au/default.asp>.

Evaluation of New Apprenticeships: The Australian New Apprenticeships system is one of the largest in the OECD, on a per capita basis. It has had a high degree of success in equipping young people for jobs. In 2000, some 93 per cent of all New Apprentices were employed in an unsubsidized job three months after completing a New Apprenticeship. The programme has expanded over the last five years.

Source: Federal Department of Employment and Workplace Relations with contributions from the Federal Department of Education, Science and Training, the Australian Chamber of Commerce and Industry and the Australian Council of Trade Unions, "Youth Employment Policies of the Australian Government Relevant to ILO Member Countries in the Asia and Pacific," Paper prepared for the ILO, June 2002.

e. Labour market information

In order to formulate effective labour market policies and programmes, it is essential to have an effective labour market information system²⁹. Better labour market information systems enhance the capacity of agencies to formulate plans and policies for the future.

Good Practice Example: Labour and Social Security Information Management System in Shanghai

Shanghai is tackling the enormous challenge of information management in a system that links employment services to social security. The system covers almost 6 million workers and 3 million migrants. It operates through a three-tiered system at the municipal, district/county and neighbourhood levels. In the process of registration for job search, counselling activities, training courses, unemployment benefits, living allowances, pension scheme and so forth the individual worker builds up a personal dossier of employment experience. The management system has a common interface with other networks providing links to banking services, post offices, personnel archives and labour statistics. With a labour and social security (LSS) smart card, workers can access personal accounts for information about social insurance or individual pensions. The LSS card can be used in banks and hospitals. It can be used to claim benefits under the system. Information obtained from registration is compiled, processed and analysed by the labour and social security department to obtain up-to-date information about labour markets including trends and forecasts for employment and unemployment and special information about retired workers and disabled persons. Information is disseminated through the Labour and Social Security Department's website: <http://www.sh.lss.gov.ch>.

Good Practice Example: Unlocking gender-friendly policies in Mongolia

Mongolia's pilot time-use survey highlighted results that set into motion a process through which greater gender sensitivity is incorporated into regular data collection and policy formulation. Mongolia's lawmakers, government officials, non-governmental organizations, international organizations and bilateral agencies discussed key development areas for policy and action arising from the pilot survey. The survey showed that men spend more time on activities considered in the System of National Accounts (SNA) than on non-SNA activities in contrast to women who spend more time on non-SNA activities. There are clear differences between urban and rural with rural women spending more time on SNA activities than urban counterparts. Compared with men women spend more time in unpaid work. Rural men spend twice as much time in paid work and urban men. Key findings pointed to a need to improve labour statistics. A special publication on gender concerns was subsequently prepared based on data from the 2000 Population and Housing Census. Mongolia is now planning to conduct a labour force survey. The time use study also highlighted a need for reform in policies and programmes for working conditions and social protection in the informal economy.

Source: The Statistics Division in ESCAP has been working together with the ILO, UNDP, UNIFEM and other agencies to implement a component of the Asia-Pacific Gender Equality Network (APGEN) project on "Integrating Paid and Unpaid Work into National Policies."

²⁹ Policy makers require timely, reliable and accurate information about trends in employment, unemployment and underemployment. They need information to analyse labour supply and labour demand as well as to implement active labour market policies that place new entrants in productive work and displaced workers in new jobs. Employment services require information to match job applicants with notified vacancies. They also use information about business, training and credit to open opportunities in self-employment. Improved information is generally necessary to assess the benefits and costs for government and society in strengthening systems of social protection for workers. Potential investors require information about job skills, wage rates and labour legislation. Vocational trainers require labour market information about skill requirements and labour demand. Better labour market information is required to analyse trends in the quantity and quality of jobs and assess performance of the economy. This information is also essential for evaluating existing and planned programmes for job creation, enterprise development, employment services, skill development and social protection and for promoting social dialogue.

Summing up: some issues for employment policies

The examples given above provide just a glimpse of policies and measures taken in Europe and in the Asia and Pacific region to place women and men into productive employment. They however provide a number of lessons (and non-lessons) for policy-makers in Chile.

Experiences point to the importance of *macroeconomic policies* and the macroeconomic environment. By themselves, labour market policies cannot generate jobs. A sufficient pull from the demand side is a necessary condition. Countries in Southeast Asia sustained very high growth rates that translated into high employment growth. Chile too experienced high growth, but it did not translate into such high employment growth. One explanation may lie in the fact that in Malaysia, for example, domestic firms were able to respond to the demand boost created by the large inflows of FDI. The country was able to produce domestically for the additional demand of goods and services that the wealth brought about by FDI inflows generated. In addition, domestic firms were able to produce for the multinational firms as subcontractors. So domestic capacity was built to take advantage of FDI flows and become independent of them (Malaysia's savings rate is high enough to cover investment needs, without relying at all on FDI). This led to very high employment growth rates. Once the upswing is under way, labour market policies play an important role in enriching the employment content of growth.

In particular by raising employability, securing the supply of qualified labour and avoiding bottlenecks. In addition to the importance of demand factors, three main lessons can be drawn for Chile: the need to combine flexibility with security and hence the need for social protection and social cohesion. On these three points, the Republic of Korea's experience seems especially relevant to Chile.

The flexicurity model: it is the combination of a very flexible employment relationship with a good coverage of the benefits system. European experiences point to the feasibility of a strategy of negotiated flexibility and individual protection as an alternative to more liberal and market-oriented models of the employment system (e.g. Denmark). In Central Europe, the Republic of Korea (the Employment Insurance System) or Malaysia, one important element explaining successful employment growth is the exceptionally good provision of social security. Indeed, increased security for workers allows greater flexibility by (a) providing firms – especially smaller firms - a lay-off system through the unemployment benefit system (workers return to their previous employers after a short duration unemployment spell) and (b) providing workers the security they need to envisage job turnover.³⁰

The need for social protection: social protection plays a double role for employment if the flexicurity model is to be successfully adopted: on the one hand, it can be used to stabilize employment and on the other, it can be used as an employment promotion tool. The experience of the Republic of Korea with its employment insurance system is one of the best examples of how to achieve this in a country with limited financial resources and limited institutional capacity. The Korean social insurance system combines unemployment benefits with an employment stabilisation programme and a job skill development programme to both prevent unemployment (grants for firms and life-long learning for workers) and stimulate re-employment.

The need for social cohesion: the practices under review all point to the conclusion that people need guarantees to accept change and that consensus is necessary to move forward. Social pacts, extensive dialogue between representative institutions have provided these guarantees and have hence made it possible to go through needed changes, i.e. increase the flexibility of the employment relationship (modernisation, wage restraint, etc.). This requires strong social partners and calls for strengthening their capacities to take part in successful dialogue.

Some of the specific elements in labour market policy flagged in this paper that could be relevant for Chile are:

³⁰ Some countries may not have the capacity and resources to provide broad coverage for unemployment assistance and unemployment benefits. Instead, they may rely on social assistance and public works to provide income security during economic downturns. Moreover, the principal problems in many developing countries may be low productivity and low income in the informal economy and rural sector rather than open unemployment in the formal sector. This calls for a system that is both practical and effective in promoting employment opportunities, increasing labour productivity and providing social protection.

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- The concept of the **individual action plan**, which signifies a more flexible and individualized approach to activation and training of the unemployed (Danish experience).
 - The concepts of **job rotation and leave schemes** where upgrading of the skills of the workforce in general is combined with education and training of unemployed to fill in as substitutes. In particular, this would help women enter the labour market. Here one important Danish experience is that the spread of such programmes is stimulated by removing strict requirements on the hiring of substitutes.
 - **Employment services:** Increasingly, employment services – whether public employment services, private employment agencies or privatized employment services – must respond to the demands of clients in providing “one-stop-shops” for services. An important function is providing all kinds of information necessary for women and men to move into employment – including that relating to laws, regulations, licenses, fees, training, credit and business development services. Whether or not this is an electronic labour exchange and whether or not there are links between employment services and social security and whether or not the employment services assist in promoting self-employment in small enterprises or the informal economy, there is a need for coherent systems, agency coordination and political commitment. But employment services must respond to local needs rather than copy good practices from other countries that may be unsuitable to the socio-economic context (for example, job search is often conducted through family ties and informal networks rather than employment services).
 - **Labour Market Information Systems:** Good practices point to the importance of labour market information and labour market analysis. The existing infrastructure ranges from sophisticated electronic employment services to quite elementary information systems. It is important that plans for labour market information systems match the resources and capacity to establish and maintain the systems. It should be borne in mind that LMI includes qualitative information as well as quantitative data. Useful information includes the answers to the *basic questions* of women and men who are looking for work³¹.
 - **Partnership arrangements:** Australia has reformed its employment services by paying for services provided by the private sector and community organizations. This involves a formal system of subcontracting various components of the employment services in a Job Network. There are other types of partnerships that can provide help to jobseekers without a formal system financed by government that uses services provided by businesses and NGOs. Different kinds of cooperation between government and employers and with non-governmental organizations have proved effective in moving women and men into productive employment. It would also be fruitful to explore partnerships between public employment services and private employment agencies in terms of their contributions to labour market policies.

The practices also highlight a number of broader issues that may be raised by policy makers. Among these are the following:

- **Policy integration:** Effective coordination among government agencies and service providers requires policy integration. This is especially important if employment promotion and social protection are combined in formal systems. In some instances, there are many government agencies with similar mandates and overlapping responsibilities. For example, this is generally the case for education and training. There are also various organizations dealing with women, youth and the elderly. Approaches should be identified to encourage inputs from all stakeholders including employers’ organizations, trade unions, NGOs, private employment agencies, schools and universities and training providers as well as government agencies dealing with social security, social services, vocational guidance, addiction issues and others. An important part of the success

³¹ Where can I go to plan my career? What certificates and qualifications do I need? How long does this take? Where is the best place to go for training? How much will it cost? Where can I go for financial aid? Am I eligible for social insurance? How does the system work? What happens if I am laid off? What laws and regulations do I need to know to set up my own business? Do I need a license or permit? What are the taxes and fees? Where can I obtain credit? Are business development services available to provide support and advice? Where can I obtain information about job vacancies in other cities? Regions? Countries? What is the best method to send money back to my family?

of the European countries under review here is explained by the implementation of the European Employment Strategy that successfully integrates policy in national action plans for employment.

- ***Institutional capacity:*** Some of the policies and measures that have been outlined by the industrialized countries require an institutional capacity that is beyond the current level in some countries in the rest of the world. Institutions that design and implement policies for labour markets and employment issues must have strong leadership, good management and trained staff. In many cases, there is a need for capacity building at the national level as well as in local communities. Staff turnover often weakens the capacity of government to identify, implement, monitor and evaluate labour market policies, programmes and projects. All too often, good policies remain on paper and are not put into practice. Steps taken to implement policies must include efforts to build capacity.
- ***Resource constraints:*** Decision makers should take a careful look at resource constraints in selecting employment policies. This will include financial resources and human resources as well as institutional capacity. While the Australian practice of Intensive Assistance for individualized services can be very useful for job seekers, it is beyond the means of most public employment services in the developing world. However, community-based approaches through support and mentoring may be effective methods for helping unemployed workers find new jobs.

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