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Activation Policies in Norway

Nicola Duell,
Shruti Singh,
Peter Tergeist

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ACTIVATION POLICIES IN NORWAY

Nicola Duell, Shruti Singh and Peter Tergeist

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Nicola Duell and Peter Tergeist are economists in the Employment Analysis and Policies Division at the OECD Directorate for Employment, Labour and Social Affairs, and Shruti Singh is an economist on secondment to the OECD from the UK Department of Work and Pensions. They prepared this review under the supervision of the head of division, Stefano Scarpetta, and with statistical assistance from Sylvie Cimper.

The OECD review team met staff in a number of Norwegian institutions related to labour market and social welfare policies on a mission in May 2008. Comments on an earlier draft of the report were provided by the Norwegian Ministry of Labour and Social Inclusion in December 2008. The authors extend their thanks, in particular, to the staff in the relevant parts of the Ministry of Labour and Social Inclusion and the Directorate of Labour and Welfare, to the staff in several County and local NAV offices visited by the OECD and to a number of other interlocutors for their contributions to the content and preparation of the report. The authors also thank David Grubb for editing and review of several of the chapters.

ABSTRACT

This report examines the performance of the Public Employment Service (PES) and the effectiveness of activation strategies in Norway. It covers the role of the key actors in labour market policies, the placement function of the PES, the structure of benefits for the working-age population out of work and the related incentives and disincentives for taking up work, and provides an overview of the different active labour market programmes.

Over the past few years, labour market conditions in Norway have been better than in most OECD countries, reflecting strong economic and productivity growth. The global financial and economic crisis and the significant decline in oil and gas prices observed since the second half of 2008 are affecting the short-term economic prospect, with some deterioration in labour market conditions.

Despite its relatively strong labour market performance, the main challenge for Norway is to mobilise underutilised labour, as nearly a fifth of the working-age population is out of work and receiving health-related benefits. In contrast, the take-up of unemployment benefits has been limited despite their generosity – both in terms of duration and net replacement rates – by strict eligibility criteria and the implementation of mobility and other mutual obligation requirements in Norway.

The Norwegian Government has put forward several major policy reforms to contain benefit dependency and to prevent people from leaving the labour market too early or on a long-term or permanent basis. In 2006, a new institution – NAV – was launched, merging the State PES and the National Insurance Administration, and bringing them together in front-line offices with municipal services providing coordinated services for all clients.

Several other changes to activation strategies are also underway. The new NAV employment services are systematising their early intervention and follow-up strategies for all jobseekers. Greater incentives have also been built into labour market programmes in particularly for social assistance clients.

In spite of these important reforms, there remain a number of challenges to counteract sickness absence. It is now widely recognised that long-term sick leave is the initial step to disability benefit in many OECD countries. Early intervention in the form of case-by-case monitoring of sickness absence in Norway – which requires collaboration between employees, employers and NAV – has so far not been successful in delivering the desired outcomes.

Finally, vocationally disabled people represent the largest group of participants in labour market programmes. Half of them engage in lengthy retraining in mainstream education and training courses. But further efforts have to be made to tailor active programmes to the needs of this group as well as other jobseekers such as older workers and immigrants.

RÉSUMÉ

Ce rapport examine la performance du Service public de l'emploi (SPE) et l'efficacité des stratégies d'activation en Norvège. Il analyse le rôle des acteurs clés des politiques du marché du travail, la fonction de placement du SPE, les dispositifs d'indemnisation de la population d'âge actif qui ne travaille pas et leurs effets sur la motivation de reprendre une activité ; il fournit un aperçu des différents programmes.

Au cours des années récentes, les conditions du marché du travail ont été plus favorables en Norvège que dans la plupart des pays de l'OCDE, signe d'une forte croissance économique. La crise financière et économique généralisée et la chute importante des prix du pétrole et du gaz depuis la seconde moitié de l'année 2008 ont un effet sur les perspectives économiques à court terme, entraînant de fait une détérioration des conditions du marché du travail.

Malgré un marché du travail relativement performant, réduire la sous-utilisation de la main-d'œuvre reste le principal défit de la Norvège : presqu'un cinquième de la population d'âge actif qui ne travaille pas perçoit des prestations liées à l'état de santé. En dépit d'un régime généreux d'allocations de chômage – tant dans leur durée et qu'en termes de taux nets de remplacement – des critères d'éligibilité très stricts ainsi que la mise en place d'une exigence à la mobilité et autres obligations réciproques en ont limité l'usage en Norvège.

Le gouvernement Norvégien a entrepris d'importantes réformes afin de restreindre la dépendance aux prestations liées à l'état de santé et éviter qu'un grand nombre de personnes ne quittent trop rapidement le marché du travail, à long terme ou de définitivement. En 2006, une nouvelle institution (NAV) a été créée, fusionnant le Service public de l'emploi et l'Administration nationale de la sécurité sociale norvégiens, et rassemblant les services sociaux des municipalités afin d'offrir à tous les clients un accès aisé et coordonné à l'ensemble des services.

Plusieurs autres changements relatifs aux stratégies d'activation sont en cours. La nouvelle institution NAV développe une approche plus systématique d'intervention précoce et de suivi des demandeurs d'emploi. Pour une plus grande activation des bénéficiaires de l'aide sociale, de nouveaux programmes du marché du travail ont été mis en place avec des mesures plus incitatives.

Malgré ces réformes importantes, un nombre de défis restent à relever pour endiguer l'absence pour raison de maladie. Dans la plupart des pays de l'OCDE, le fait est que les longs congés de maladie représentent le premier pas vers les prestations d'invalidité. L'intervention précoce dans le cadre d'un suivi de l'absence pour raison de maladie au cas par cas, qui requiert une coopération étroite entre employés, employeurs et la NAV, n'a pas abouti aux résultats attendus.

Enfin, les bénéficiaires des prestations de réinsertion professionnelle représentent la majorité des participants aux programmes du marché du travail. La moitié d'entre eux participent à des formations de reconversion au sein de l'enseignement ordinaire. Plus d'efforts doivent être entrepris pour mieux adapter les programmes du marché du travail aux besoins spécifiques de ce groupe ainsi que d'autres groupes de demandeurs d'emploi tels que les travailleurs âgés et les immigrés.

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GLOSSARY

Aetat	National Employment Service
ALL	Adult Literacy and Life Skills Survey
ALMP(s)	Active Labour Market Programme(s)
AMO	Labour Market Training
ARENA	Norwegian casework management system
EFTA	European Free Trade Association
EULFS	European Union Labour Force Survey
EURES	European network for co-operation on placement services
GDP	Gross Domestic Product
GP	General Practitioner
IALS	International Adult Literacy Survey
ICT	Information and Communication technologies
ILO	International Labour Organisation
IW	Inclusive Workplace
LAFOS	Labour Force Service Centres (in Finland)
LFS	Labour Force Survey
LMP	Labour Market Programme
NAV	National Employment and Welfare Service
NEET	Not in Education, Employment or Training
NHO	Norwegian employer association
NIA	National Insurance Administration
NOK	Norwegian Kroner
NOKUT	Norwegian agency for quality assurance in education
PES	Public Employment Service
PISA	OECD Programme for International Student Assessment
UI	Unemployment Insurance
VOX	Institute for adult education
WFI	Work Focused Interview

SUMMARY AND RECOMMENDATIONS

1. LABOUR MARKET BACKGROUND AND THE NEED FOR POLICY REFORM

Norway has an above-average employment performance …

1. Over the past few years, employment conditions in Norway have been better than in most OECD countries, reflecting strong real GDP and productivity growth. The labour market situation has been marked by very low unemployment rates, coupled with labour force participation and employment rates that are among the highest in the world. The global financial and economic crisis and the significant decline in oil and gas prices observed since the second half of 2008 will lead to a slowdown in economic growth and some deterioration in labour market conditions.

2. The unemployment rate based on the ILO definition fell to 2.4% in the summer of 2008 and, while on the rise since, is (in early 2009) still the lowest in the OECD area. The share of registered full-time and part-time unemployed was also at a historical low in 2008. And long-term unemployment rates are lower than in any other European OECD country: only about a quarter of the unemployed have been out of work for over 6 months, and less than 10% for 12 months and over.

3. Employment grew by almost one-third in total since 1980, and the employment rate is now around 10 percentage points higher than the OECD and EU-15 averages. Employment growth has been particularly strong in the years since 2004, reaching over 3% on annual average between 2006 and 2008. Contrary to many other OECD countries, the employment and labour force participation rates of older workers, both male and female, also kept growing during the past decade. The average effective retirement age of men and women is relatively high, at over 64 and over 63 years, respectively.

4. In recent years, despite growing labour force participation, labour market pressures have given rise to labour shortages, which could only partially be filled by immigration and integration of the long-term unemployed. There is therefore a need to activate a larger share of people receiving social protection benefits.

…nevertheless, high numbers of Norwegians receive out-of-work benefits

5. Further progress needs to be made in Norway to raise labour utilisation. Average working hours per employee are among the lowest in the OECD (due to a combination of low contractual hours, a high part-time rate and a high number of days lost due to sickness). And high numbers of working-age individuals receive income-replacement benefits for illness, rehabilitation and disability. Indeed, there is a big contrast between the low unemployment rate of around 2 to 3%, on the one hand, and the high 19% share of health-related benefit recipients among the working-age population, on the other. Unemployment is in fact to a large extent disguised by health issues. Many of those who are out of work stay on extended sick leave and medical and/or vocational rehabilitation, and then move on to a long-term disability pension. Thus, notwithstanding the high labour force participation rate, Norway has become the OECD country with the highest proportion of the population outside of the workforce due to illness and disability, an important share of which would be classsified among unemployment benefit recipients or social assistance recipients in other OECD countries.

Population ageing requires higher labour utilisation rates

6. Labour utilisation needs to be increased in particular because Norway – like the large majority of OECD countries – will experience significant population ageing in the next few decades. Pension spending will rise quickly as the currently large economically active cohorts eventually retire, and also in view of increasing life expectancy. The old-age dependency ratio (the relation of the population above age 65 to those aged 20 to 64) is projected to almost double to about 45% in 2050 (although the increase may well be less than in many other OECD countries). Decreasing shares of the working-age population will also reinforce the labour shortage problem. Promoting higher labour force participation and keeping the average retirement age high, or further extending it, will therefore play a key role in responding to the economic imbalances caused by population ageing.

7. Immigration can play a role in responding to the challenges posed by population ageing. Indeed, promoting sizeable inflows of labour migrants is a declared strategy of the Norwegian government, with recruitment efforts for specific occupations being undertaken inside and outside Europe. At present, about 15% of the population already have some "immigrant background" and the net inflow of immigrants reached 40 000 in 2007, the highest level ever, representing almost 1% of the Norwegian population. However, growing migration flows can only be part of the solution, as evidence from other OECD countries shows that the integration of large numbers of immigrants in the labour market is not straightforward. Since 2004, there has been a surge in the number of immigrants looking for work from the new EU member states. Family ties, however, remain the most important source of long-term immigration, and due to skills mismatch, only a minority of such immigrants are job-ready. This translates into high shares of immigrants among the unemployed and social assistance recipients.

Policy reforms are underway to counteract benefit dependency

8. Sickness absence and the exclusion of the long-term ill from the labour market is the main area for government intervention to mobilise underutilised labour resources. The Norwegian government is very much aware of the need to reverse the trend of an ever-increasing number of people on welfare benefits. Indeed, it has put forward a certain number of reforms to contain benefit dependency, recognising that there is much room for activating people on long-term sick leave and with disabilities. The government should further strengthen incentives for individuals with health problems to stay in the labour market rather than transit towards disability benefits, as previous reform measures have not produced the desired results. The current recession, with its increasing inflow of unemployment benefit and probably social assistance recipients should not be allowed to serve as a justification to neglect this policy priority.

9. Several major policy reforms are currently under way:

- An institutional reform is being implemented to provide integrated services to persons out of work, implying a closer co-operation between public employment offices, health services and municipal social services by means of the integrated Labour and Welfare Service (NAV);
- NAV is mandated to systematise jobseeker profiling and work-ability assessment of all incoming clients;
- As for the health-related benefits system, a new single temporary benefit, merging medical rehabilitation, vocational rehabilitation as well as the temporary disability scheme, aims to enhance the flexibility of the system and allow earlier exits from benefit;
- A pension reform is also under way, with the objective to facilitate combining pension receipt and work income and to motivate people to stay at work longer.

10. Some of these reforms are only at the beginning stages of implementation. Much remains to be done to strengthen work incentives and to ensure that existing regulatory frameworks are effectively implemented.

2. THE INSTITUTIONAL SET-UP OF ACTIVATION POLICIES

Several Ministries are involved in activation policies

11. Several institutions, including three Ministries, play an important role in implementing labour market policy in Norway. The main government department with responsibility for labour market policy is the *Ministry of Labour and Social Inclusion.* Total expenditure under its authority amounts to about 30% of the national budget. The *Ministry of Education* is a central partner for the Public Employment Service (PES) which buys training courses for its clients from educational institutions. The *Ministry of Health and Care Services*, through its regional health services, has co-responsibility with the Labour Ministry for services to bring people on sick leave back to work as soon as possible.

12. *Municipal social services* are another long-standing and important labour market actor. They provide social services to ensure that individuals are capable of supporting themselves, if possible through a return to employment. Finally, the *Labour Inspectorate* controls enterprises' performance on health and safety, including their activities to help individuals with health problems return to work *via* personal follow-up plans and to adapt the company's working environment to meet the needs of employees with reduced work capacity.

High expectations accompany the new integrated NAV structure

13. The new NAV structure has now brought municipal social services and the PES under one roof, making it the central public body (with close to 18 000 staff) responsible for labour market policies and employment services. Based on the 2006 Act on Labour and Welfare Services, this new authority was launched in July 2006, merging the State PES and the National Insurance Administration, and bringing them together in front-line offices with municipal social services. The main objective of this large administrative reform was to establish a *one-stop-shop*, where all claimants for unemployment, social assistance and sickness, rehabilitation and disability benefits, as well as those wishing to participate in active labour market measures, will be offered the same services, located in the same building.

14. The closer co-operation between the employment authority and social welfare offices corresponds to similar reforms in other OECD countries (Denmark, Germany, the United Kingdom, and to some extent Finland and the Netherlands), aiming to streamline available services and improve the activation of a larger variety of benefit recipients. Among other things, this prevents the so-called "revolving-door" practice – well known from past practices in a number of OECD countries – of sending clients back and forth between unemployment and welfare administrations.

Important challenges arise from the merger

15. However, the institutional merger is, in fact, only partial, since the municipal social welfare services were not fully integrated into the new structure. This was due mainly to the strong historical role played by municipal autonomy, a cornerstone in the Norwegian political system; another argument for leaving social services with a separate role was that this could facilitate coordination between municipal social assistance services and other municipal services, such as housing or drug counselling. In every locality, special co-operation agreements are needed to define which municipal services will be included in the local NAV office. Mid-way in the process, it is too early to say whether this partial nature of the merger will be at the expense of providing a fully coordinated support to all jobseekers.

Local management and leadership

16. Ensuring effective co-operation between the staff from the previously separated agencies remains a challenge. In particular, while co-operation between the previous *Aetat* (placement service) and insurance agency staff is not a big problem (many of the latter are now working on benefit management and payment in NAV back offices), the municipal social workers have brought with them a clear separate identity, and they may feel that the merger threatens to reduce their autonomy and not fully respect their competence. In order to solve potential conflicts, a central dispute resolution board has been set up. (So far, no conflicts have been brought to this board).

17. In practice, local offices need to live with "two different office owners" (municipalities and central government), and there is no single "chain of command", which makes it difficult to build a common service culture. The two main goals laid down in the framework agreement between the government and the Municipalities Association: *i)* to have one contact point per client, who deals with all kinds of needs; and *ii)* to ensure that the office is experienced by users as a single unit, are therefore not easily implemented. Preliminary evaluations of the merger process have shown that services have become more integrated in the sense that there is now increased co-operation across previous agency borders. However, integrated NAV offices still differ substantially in how they define the desired "holistic" approach to client treatment, with some offices keeping more or less the pre-NAV division of work, while in others caseworkers handle the whole spectrum of clients and problems. This also depends on which municipal social services outside of social assistance are integrated under the "NAV roof".

18. The new organisation needs to build effective leadership in local offices. Ideally, office management should be streamlined by allowing for the appointment of an overall office manager who can make decisions encompassing both the central administrative and the municipal parts of the integrated service (even though he would remain accountable to municipalities for municipal tasks and to central government for employment services and benefit payment). The county NAV director and the mayor of the respective municipality are supposed to decide jointly on the selection of the local office manager. So far, close to one-third of the local directors have been nominated by the municipalities, and half are civil servants employed by central government. However, about 20% of all merged offices have two general managers – an option allowed in the agreement, when no decision could be reached on local leadership. It would be desirable that such situations be avoided in the future.

Remuneration of office staff

19. Other issues concern staff pay, staff training and the need for a joint client database. First, while the general aim has been expressed to develop a polyvalent staff focusing on a wider range of tasks, actually two NAV employees doing the same type of job can still be paid on two different salary scales, depending on whether they were hired by central government or the municipality. This poses serious motivational and industrial relations issues. The problem is known from other countries that have merged their employment and welfare services. While it is extremely difficult to modify the salaries of *existing* staff, it should at least be possible to create a common salary scale for all *new hires* (although this will not diminish the problem in the short-term).

Harmonisation of ICT systems and co-ordinated staff training

20. It is important to harmonise, as soon as possible, the computer systems in use by the former PES and the municipal welfare parts of NAV to facilitate the follow-up of clients. Experience from other countries has shown that harmonising computer systems during such merger projects can be long and cumbersome and threaten to hamper the efficient implementation of the reform. Finally, all partners involved in the reform are aware of the need to acquire new competencies and skills to fulfil the larger variety of office tasks under the new arrangements (which

now include clients' work capability assessment). A co-ordinated training for the PES, insurance and municipal staff is therefore essential to achieve a shared identity of staff and, not least, a shared approach to activation.

Performance management has been set up but needs to be complemented by incentives/penalties

21. The Ministry of Labour and Social Inclusion is responsible for setting NAV's performance objectives; it does so in its annual letter of allotment (*Tildelingsbrev*). However, the process is not completely top-down, since draft objectives and performance indicators are first discussed with the NAV Directorate. Afterwards, NAV can add its own targets for its regional offices, and finally all local offices will receive a set of performance indicators (attached to the budget allocation) that they need to meet.

22. The system of performance management leaves NAV with some autonomy in applying allocated grants and choosing appropriate measures to achieve performance targets more efficiently. However, the monitoring of local office performance (including the identification of good and bad performers) is likely to suffer from the apparent absence of any incentives or penalties for NAV offices to encourage them to meet their targets. Countries such as Switzerland and the United Kingdom have experimented with systems of performance rating of their PES offices and with rewards for positive outcomes, something Norway might find helpful to consider. Performance management also suffers from the lack of a single "chain of command", which implies that there are no centrally-steered performance targets and indicators governing the municipal actor.

Office resources and staff/client ratios seem adequate

23. It is envisaged that by December 2009, approximately 460 local NAV offices will be established in all areas of the country. After the hiring of some new staff, the latest count reported almost 14 000 staff under government control, and about 18 000 staff when the municipal social services are also included. When the merger of local offices is completed, between 6 000 and 7 000 government staff will work at that level, while the rest will work at headquarters, in administrative offices and intermediate units (for benefit payment, counselling, complaint procedures, etc.).

24. Staff/client ratios are not easy to determine in the current period of major change in services. After the full integration of NAV offices at the end of 2009, it can be assumed that over half of municipal social workers will work with "employable" social assistance clients and half of government staff in local offices will work on guidance, counselling and placement in direct contact with jobseekers. This would imply that almost 6 000 staff will provide service to a stock of (in 2008) 150 000 benefit recipients (unemployment, social assistance and vocational rehabilitation). The number of clients would rise to 250 000 if all jobseekers (not only benefit recipients) were included, while total annual client inflows from the three categories amount to about 600 000. On both counts (stocks or flows), staff/client ratios seem adequate in international comparison, even if it is understood that social workers need to invest more time in their average client than employment counsellors do, and even though unemployment figures are unlikely to remain at their currently low levels over the coming two years.

3. PRINCIPAL ACTIVATION ISSUES AND THE ROLE OF BENEFITS

The architecture of the benefit system has favoured the growth of health-related benefits

25. Although the length of benefit recipiency and net replacement rates are relatively generous, strict eligibility criteria and the implementation of mobility and other mutual obligation requirements have limited unemployment benefit dependency in Norway. Indeed, an unemployed person needs to be "willing to take … any employment … anywhere" in the country (National Insurance Act). This may explain why the ratio of unemployment benefit recipients to Labour Force Survey unemployed is among the lowest in OECD countries. Also, the use of benefit sanctions is relatively widespread, and Norwegian research has shown that the threat of (even mild) sanctions shortens unemployment duration and speeds up job search.

26. Requirements are less strict for social assistance recipients, since labour market participation is usually not a condition for benefit receipt. Nevertheless, municipalities have encouraged the take-up of work (for example, by allowing combinations of part-time work and benefit recipiency), as well as the participation of social assistance recipients in active labour market programmes. Thus, the philosophy of "active benefits" for social assistance recipients is fairly well developed in Norway, and this approach is also behind new schemes such as the *Qualification Programme*, and the *Introductory Programme for Immigrants*. However, the effectiveness of labour market programmes in terms of off-flow rates from assistance benefit is generally lower than for other client groups, due to the fact that this target group faces multiple employment barriers.

27. The comparatively good performance of the unemployment benefit system and, to some extent, social assistance in terms of relatively low numbers of beneficiaries is partly due to the high labour demand over the past few years. However, it also appears to a considerable extent to be realised at the cost of the health-related benefit system, whose gate-keeping function remains deficient. Thus, many of the more problematic (and even relatively "mainstream") cases tend to end up in the health-related benefit system, so that they no longer appear as labour market problems. Differences in gross replacement rates between unemployment benefit (62%) and vocational rehabilitation benefit (66%) may have further created incentives to move into vocational rehabilitation. A harmonisation of these rates would therefore be suitable.

28. This tendency to transfer hard-to-place jobseekers onto health-related benefits is problematic as it makes a strict implementation of an activation strategy more difficult. Further, the medicalisation of labour market problems may also mask social problems, which might be at the roots, in particular, of mental illness. It may also limit the opportunities to refer jobseekers to labour market measures appropriate for them, and makes outflows from benefits into employment more difficult.

Job-broking and counselling are well-established PES features, but more emphasis could be put on contacts with employers to identify vacancies for disadvantaged client groups

29. Similar to other OECD countries, NAV provides a wide range of job-broking services, relying increasingly on information technologies. Employment status and job-search activities are verified at appropriate intervals. Most job matching is conducted *via* the NAV website that is easily accessible to both jobseekers and employers. Such an open vacancy system has the advantage of saving time and resources that can be diverted to support those more distant from the labour market. In this context, NAV employment officers could invest more time in increasing co-operation with employers and pro-actively acquiring vacancies suitable for placing their relatively disadvantaged clients.

Early assessment and profiling tools are being developed for all client categories

30. The new NAV employment services are systematising their early intervention, jobseeker profiling and follow-up strategies. Under procedures that are currently being developed, all NAV clients will be assessed during the initial interview to determine their "work-capability", as defined by their personal characteristics and the counsellor's judgement of the need for special assistance, and any existing barriers to reintegration. The work-capability assessment is targeted, in particular, at jobseekers on medical or vocational rehabilitation, on time-limited disability benefits and those in receipt of social assistance. The assessment is also the basis for the set-up of binding individual action plans which – following up on other countries' experience – are now being generalised throughout all client categories.

31. The new assessment and follow-up system goes in the right direction and could become an important element of NAV's activation regime under the new, more integrated organisational structure of labour and welfare services. But the success of the scheme is dependent on its rigorous enforcement and implementation, its continuous work focus, and on the balance of carrots and sticks for the individual jobseeker.

More effective gate-keeping for those in receipt of long-term sickness benefits is required …

32. Evidence shows that long-term sick leave is the gateway to a disability benefit in many countries, and effective gate-keeping at initial stages of sickness is vital in reducing the inflow into disability. Indeed, Norway has established guidelines for early intervention in the form of case-by-case monitoring of sickness absence, following on from the tripartite Inclusive Workplace Agreement of 2001 (renewed in 2006).

33. The follow-up and monitoring system requires that the employer/line manager prepares, as soon as possible (at the latest after 6 weeks), a follow-up plan for return to work following an accident or sickness absence. This plan is supposed to contain a review of the employee's work capacity and an outline of appropriate measures for a rapid return to work. After 12 weeks at the latest, the employer needs to organise a dialogue meeting with the employee to discuss the follow-up plan and to notify the local NAV office of its results. After a period of 6 months, NAV is obliged to organise a meeting with all parties concerned to discuss a renewed follow-up plan and the need for rehabilitation.

34. If fully implemented, this is a very resource-intensive approach to re-integrating those on sick leave back into the labour market. The government has shown its commitment to this goal, for example by creating over 400 positions responsible for this matter in the NAV Workplace Centres. However, despite the monitoring efforts, little improvement has been made with regards to sickness management, as witnessed by the persistence of high absence rates. Early evidence shows that implementation of the approach is still very patchy and more efforts to comply with monitoring requirements are needed from both employers and NAV. Many follow-up plans established by companies are reportedly of poor quality, and both the employers and NAV has difficulty setting up all the required dialogue meetings. For example, during the last four months of 2007, of all employees crossing the 12-week threshold of sick leave, less than one out of seven actually held a meeting with their employer. In addition, while a majority of local NAV offices reported that they planned to hold the required dialogue meetings with the employer and the employee at the 6-month threshold, in only one-sixth of cases were such meetings actually held.

35. In view of the fact that the reliance on the social partners for an effective control of sickness absence has failed to achieve the objectives stated in the IW agreement(s), Norway would be well advised to keep the option of adopting a gate-keeping model such as that followed by the Netherlands, which gives firms more incentives to control sickness absence by shifting a larger part of the costs of absences on to them. Such financial risk-sharing between government and enterprises would set stronger incentives on employers to invest in occupational health and improve their organisation of work. This approach could be balanced by measures to reduce any potential negative impacts on hiring of older workers and other disadvantaged groups, for example through targeted social security exemptions.

36. To tackle the problem of poor gate-keeping outcomes, the following are some other measures that could be considered:

- *Strengthen incentives and sanctions for employers and local employment offices*. The compliance with the employers' obligation to prepare the follow-up plan at six weeks and to hold a meeting with the employee at twelve weeks should be checked more vigorously, and sanctions for non-fulfilment of such obligations should be considered. Similarly, reporting requirements of local NAV offices to their regional or national headquarters about the holding (or non-holding) of required meetings could be strengthened;
- *Facilitate information-sharing*. Appropriate investments to improve NAV's information systems could facilitate more transparent, and possibly less labour-intensive, information-sharing between NAV offices and individual employers. Considering the resource-intensity of a case-by-case follow-up of sick leave, this may become important if the economic slow-down leads to rising unemployment and more resources need to be spent on the activation of the regular unemployed.

…and it should be combined with new controls to reduce inflows to disability benefits and encourage outflows from them

37. The current Norwegian activation approach regarding people with disabilities is focused on rehabilitation measures and the implementation of individual rehabilitation plans. While genuine illness and loss of capacity must be respected, such measures should be combined with solutions that keep up the person's work focus and facilitate his/her labour market availability, if appropriate. For example, the UK's *Pathways to Work* scheme requires newly registering disability benefit clients to attend a series of monthly "work-focused interviews" with a personal advisor – a first step towards individual obligations which has already resulted in increased outflow rates from benefit. Ideally, mandatory work-focused interviews should start even earlier, before granting a benefit.

38. The merger of the three Norwegian health-related benefits (medical rehabilitation, vocational rehabilitation and temporary disability benefit) facilitates intervention at an earlier stage, if the work-capability assessment is regularly implemented and if, for example, vocational rehabilitation can start simultaneously with medical rehabilitation. However, merging these three benefits does not guarantee by itself that participation on vocational rehabilitation measures is enhanced and starts at an earlier stage, and for the moment, the requirements and incentives for persons with certified health problems to go back to employment or other types of activity at an early stage remain weak.

39. Other principal recommendations relating to work incentives for people on health benefits (already expressed by the 2006 OECD Review of sickness and disability policies in Norway) are:

- There should be stronger use of partial work capacity and partial disability benefit awards;
- Financial incentives to work – for example, in-work benefits for disabled persons taking up work or increasing their working hours – should be improved;
- The requirement to engage in vocational rehabilitation should start earlier (during long-term sick leave), and periods of rehabilitation benefit payment without any intervention measure should be avoided.

The medicalisation of labour market and social problems needs to be addressed

40. In Norway, the assessment as to whether an employee's working capacity is sufficiently reduced to entitle him (or her) to a benefit is usually made by a general practitioner (GP). The 2006 Disability Review commented critically on the excessive role played by GPs in determining remaining work capacity, and the recommendation contained in the review to rely less on GPs' assessments is still valid. It is strongly recommended that NAV increases its own number of occupational doctors in order to assess the eligibility to disability benefits. The systematic introduction of the new work-capability assessment would represent a good opportunity for strengthening the role and increasing the number of NAV's own occupational doctors.

41. Other countries have succeeded in reducing the decision-making power of GPs in terms of access to long-term sickness/disability benefits. In Switzerland, for example, regional medical services have recently been introduced, operated by the cantonal authorities with the aim to provide uniform and qualitatively better disability assessments throughout the country.

4. BETTER TAILORING LABOUR MARKET PROGRAMMES

Norwegian labour market programmes are mainly targeted at the vocationally disabled

42. Labour market programmes in Norway are distinguished between those for "ordinary unemployed" (who do not face particular health problems and are not eligible for a health-related benefit) and those for the incapacitated or vocationally disabled, the latter being the most important target group, both in terms of the number of participants and programme expenditure.

43. In the context of very low unemployment and a tight labour market, active programmes for ordinary participants have mainly been targeted at the hard-to-place unemployed. More than a third of ordinary programme participants are immigrants from non-OECD countries, who face a number of disadvantages linked to their lower average educational attainment and poor command of the Norwegian language. Not surprisingly, language training and work-experience schemes are the most common measures for unemployed immigrants. Given the experience of other European countries with a longer immigration history, and given the high drop-out rates of children of immigrant families, it will also be important to implement an item featured in the Government's Action Plan for Immigrants, *i.e.* to regularly follow-up and monitor activation of second-generation immigrants.

44. Youth between the ages of 16 and 24, often with low educational attainment, represent another third of participants in labour market programmes. Other specific programmes have been set up for marginalised groups and new entrants receiving social assistance. One group that could receive more attention in "ordinary" labour market schemes are older jobseekers (about one-fifth of registered unemployed) who, once they lose their job, have difficulties getting back into work and should be discouraged from seeking a disability pension. For example, more could be done to increase the take-up of employment by older workers undergoing vocational rehabilitation and to provide stronger incentives for enterprises to recruit and retain them, rather than shifting them into disability or early retirement schemes.

Evaluation of labour market programmes

45. The Norwegian evaluation literature has shown limited effects of active labour market programmes on employment outcomes for regular labour market participants. In the tight labour market of recent years, lock-in effects tended to outweigh positive outcomes. Active programmes for the vocationally disabled have shown higher effectiveness than measures for "ordinary" participants. Positive effects have also been demonstrated for some relatively disadvantaged groups such as immigrants, and ALMPs could benefit from a stronger focus on such disadvantaged target groups. Evaluations also indicate that labour market programmes for the most marginalised (who are more likely to participate in programmes for social assistance recipients) do not have significant employment effects. Socially marginalised groups need intensive guidance and post-programme follow-up, although it remains useful to activate them, since long-term inactivity can entail large societal costs.

Effective design of labour market programmes

46. Given the high risk of permanent benefit dependency, it is important that large numbers of recipients, including older workers, participate in vocational rehabilitation measures. First, there are currently considerable waiting times when benefit recipients do not actually participate in a measure, and more effective organisation of training courses and other measures could shorten these idle periods. Next, it seems that the effectiveness of vocational rehabilitation could further be enhanced if participants started to enrol in measures at an earlier stage (for example, during long-term sick leave). It will be crucial that the current merger of benefit categories favours early intervention.

47. Retraining is the single main labour market policy measure for the vocationally disabled (almost 30 000 participants annually, most of them enrolled in courses in regular schools). NAV should study whether education in regular schools (*i.e.* participation in courses alongside regular participants in further education) is appropriate for various types of work incapacities, in particular those due primarily to social factors or to mental illnesses. The extensive use of education in regular schools (which does not entail extra costs to NAV) may impede the development of programmes tailored to specific needs (*e.g.* training of older workers may be subject to different requirements than training of youth; workplace-related training may be better suited for people with learning difficulties; etc).

48. Moreover, a greater focus on workplace training schemes should be considered (currently only 15% of all training slots). International evidence shows that workplace-related training schemes can be relatively successful in integrating disadvantaged groups in the labour market.

49. Wage subsidies are a relatively small labour market scheme in Norway. Research has shown wage subsidies to be effective for specific groups (*e.g*. non-OECD immigrants, youth and young women in particular). There could be a stronger focus of subsidies on these groups, while closely monitoring programme results with a view to limiting dead-weight and substitution effects. Finally, public-sector job-creation schemes for the unemployed were abandoned in the late 1990s, a logical consequence of tight labour market conditions. However, with rising unemployment levels, job creation schemes (while not a first-best option) are to be preferred over shifting people onto disability.

Box 1.1. **Summary of main policy recommendations**

Improving effectiveness and outcomes of the new one-stop-shop model

- Build effective leadership in local offices by ensuring the appointment of a *single* office manager who can make decisions encompassing both the State and the municipal parts of the integrated service;
- Promote an integrated working culture in order to deliver unified services to NAV clients. To this end, organise coordinated training of the former public employment service, national insurance administration and municipal social services staff to enable them to cover a wide range of clients and issues;
- Create a new and uniform salary scale for all newly-hired NAV employees. Consider consolidating the salary scales of the existing different staff categories over time;
- Expand performance management by introducing a system of performance rating with rewards for positive outcomes;
- Harmonise the computer systems between former Aetat, NIA and municipal branches of NAV.

Stricter gate-keeping relating to illness and disability

- Ensure that employers fulfil the obligations to prepare individual follow-up plans and to hold meetings with employees on sick leave. Apply sanctions for non-fulfilment of obligations;
- Strengthen reporting requirements of local NAV offices and Workplace Centres to their regional and national headquarters about the holding of required meetings. Such information should be used to assess the comparative performance of NAV offices and for setting benchmarks for more efficient follow-up;
- Consider introducing a financial risk-sharing model between the government and individual companies that shifts a larger part of the costs of sickness absence onto employers; and
- Further enhance information-sharing between NAV offices and individual enterprises in the context of sickness management by means of appropriate investments in IT systems.

Enhancing activation and reintegration of health-related benefit recipients

- Rehabilitation benefit – and the newly merged health benefit – should be set at the same rates as unemployment compensation;
- Reduce the length of time for which a person receives rehabilitation benefit payment without actually participating in a rehabilitation measure. To this end, expand places in the relevant labour market programmes and reduce waiting times for participants to start on a measure;
- Keep up the work focus of health-related benefit recipients, for example by organising a series of work-focused interviews, which should begin early in the process;
- Expand the role of NAV's own-occupational doctors and increase their number with the introduction of the new work-capability assessment scheme;
- Ensure thorough implementation of the work-capability assessment to increase the effectiveness of the new merged health benefit (relating to medical rehabilitation, vocational rehabilitation and time-limited disability);
- Increase the use of partial work capacity and partial disability benefit awards;
- Enhance financial incentives for the disabled to work; for example by considering in-work benefits for disabled persons taking up work or increasing their working hours.

Better tailoring of labour market programmes

- The Labour and Welfare Service should assess whether the labour market programme "education in regular schools" fits the need of disadvantaged jobseekers, in particular those incapacitated primarily for social factors or mental illnesses. In this context, programmes may need to be better tailored to the needs of specific groups;
- Wage subsidies tend to be effective for specific groups (in particular, non-OECD immigrants, youth and young women); to limit dead-weight and substitution effects, the appropriate targeting of this programme should be closely monitored;
- Provide better incentives for enterprises to recruit and retain older workers, rather than shifting them into disability schemes.

CHAPTER 1

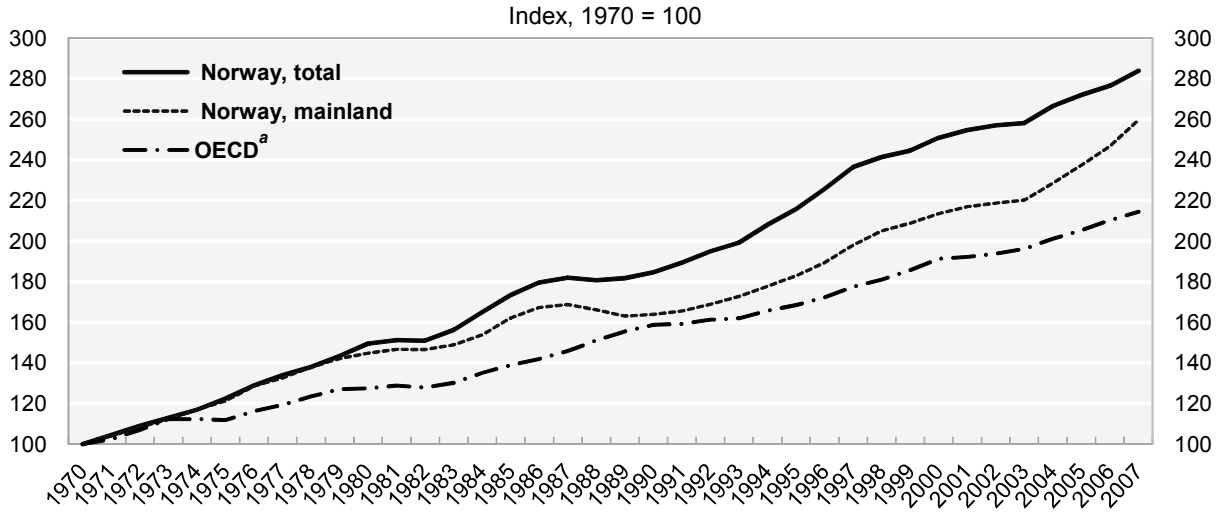
THE BACKGROUND TO ACTIVE LABOUR MARKET POLICIES IN NORWAY

1.1. Introduction

50. Norway is a unitary state with a small population of about 4.8 million spread out over a large geographical area stretching over more than 2 000 km from North to South; half of the territory is covered by mountains or mountain plains. Of its 430 municipalities, only five have a population of over 100 000. After having twice rejected EU membership by referenda (in 1972 and 1994), Norway remains a member of the European Free Trade Association (EFTA); over 75% of foreign trade is nevertheless with the European Community. The country is usually regarded as typical of the "Nordic welfare model", with a key role of the public sector (the share of general government employment being the highest in OECD countries), high taxes, high labour force participation, strong corporatist arrangements and relatively egalitarian outcomes.

51. The Norwegian labour market has been buoyant over the past few years, reflecting strong GDP growth and allowing large real wage gains with relatively low inflation. The country has large off-shore reservoirs of oil and gas, and exports of these commodities accounted for over one-fifth of total GDP in 2007, helping to make Norwegian per capita GDP the highest in the OECD area after Luxembourg. Figure 1.1 shows both the increasing distance in GDP per capita between Norway and the rest of the OECD, as well as the role that offshore resources have played in the superior economic performance.[1] However, Norway has not escaped the global economic downturn, and economic growth is expected to slow down considerably in 2009 and 2010.

Figure 1.1. **GDP per capita, Norway and OECD, 1970-2006**



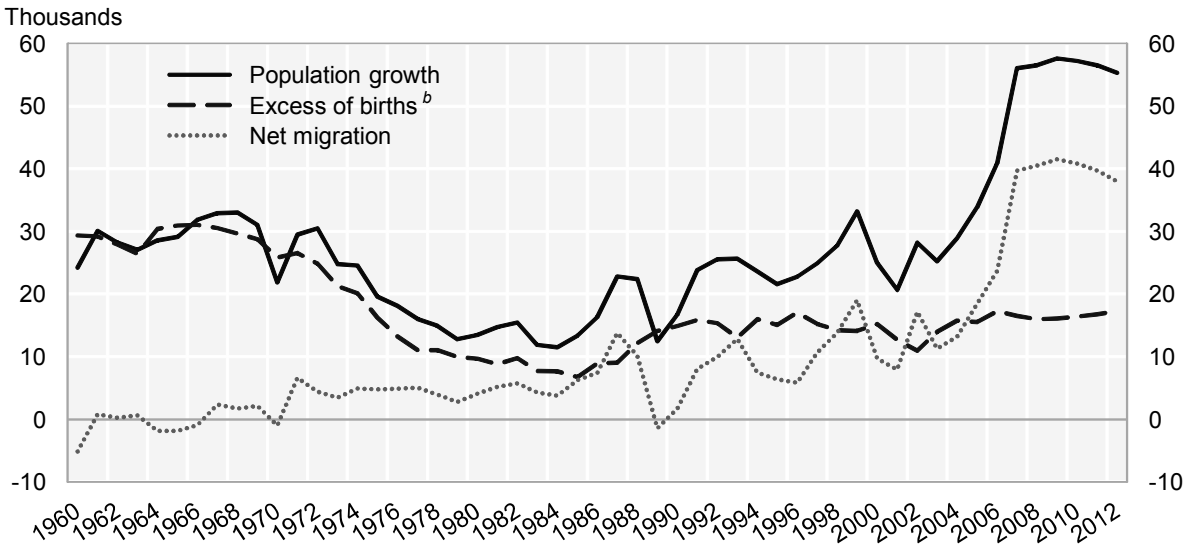
a) Weighted average of OECD countries.
Source: OECD National Accounts database for Gross Domestic Product per capita (USD, constant prices, 2000 PPPs); and *OECD Economic Outlook database* for GDP at market prices for Norway and Norway mainland.

1. As a fiscal tool to support long-term management of the increasing oil and gas revenues, the Norwegian authorities created a Petroleum Fund in 1990 (later renamed Government Pension Fund).

1.2. Demography, immigration and education

52. The total fertility rate, at between 1.7 and 2.0 since the 1980s, is relatively high in comparison with the rest of Europe (although it remains below reproduction level), and there has been consistently an excess of births over deaths. Population has grown slowly, by about 20 000 persons per year on average, from 4.1 million in 1980 to 4.5 million in 2000 and 4.8 million today. As evident from Figure 1.2, population growth was particularly strong after 2005, mainly due to an upsurge in immigration. On the basis of continuing high fertility, increasing life expectancy and continuing immigration, the population is projected to reach five million by 2012, with the age group 65+ having the highest growth rate (Statistics Norway, *www.ssb.no/english/subjects/02/befolkning_en/*). Nevertheless, Norway remains a country with low population density (14 inhabitants per km^2), and experiencing population decline in many rural areas and in the north of the country.

Figure 1.2. **Elements of population growth,[a] Norway, 1960-2012**



a) Population growth is the difference in population on 1st January between two subsequent years. For certain years, population growth does not fully equal the excess of births *plus* net migration.
b) Excess of births is defined as live births net of deaths.
Source: Statistics Norway.

53. The net number of immigrants reached 40 000 in 2007, the highest level ever, representing almost 1% of the Norwegian population. About 8% of the total population are first-generation immigrants, and altogether 15% (over 700 000 people in January 2008) are of some "immigrant background" (Statistics Norway, *www.ssb.no/innvandring_en/*); and OECD, 2008a].[2] The great majority of immigrants are of non-western origin, but since 2004 there has been a surge in the number of immigrants from the new EU member states.[3]

2. Persons with "immigrant background" are mainly first-generation immigrants and persons born in Norway with one or both foreign-born parents. Their number is increasing rapidly, for example from 665 000 in January 2007 to 717 000 in January 2008.

3. Although the country retained some immigration controls, there was more labour migration to Norway after 2004 than to Sweden, which allowed complete freedom of movement for citizens of new EU member states.

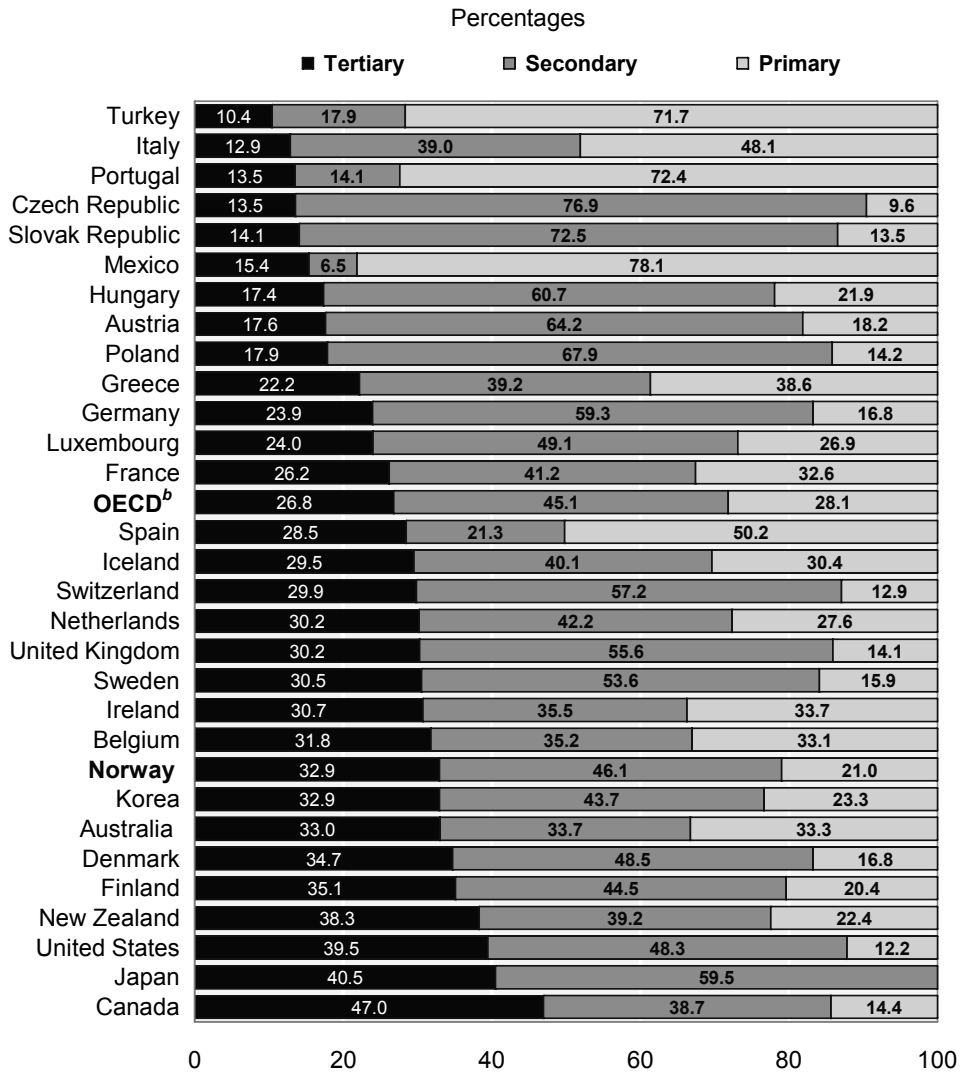
54. As in other countries experiencing labour shortages, ensuring sufficient immigration in order to tackle labour shortages is a declared strategy of the Norwegian government, with recruitment efforts for specific occupations being undertaken inside and outside Europe (*e.g.* medical doctors from Germany, IT specialists from India, nurses from the Philippines). Nevertheless, family ties remain the most important source of long-term immigration. Through the *Introductory Programme*, intensive integration efforts for new migrants from outside the EU are underway, with the aim of providing language and citizenship skills to facilitate integration.

55. Immigration notwithstanding, Norway – like the large majority of OECD countries – will experience significant ageing in the next few decades. Pension spending is projected to rise quickly as the currently large economically active cohorts will eventually retire and also in view of the high life expectancy (above OECD average). The old-age dependency ratio (the ratio of the population above age 65 to those aged 20 to 64) is set to increase from the current level of 26% to about 45% in 2050 (although it may well remain below the EU average). Decreasing growth rates of the working age population also imply a risk of increasing labour shortages. Promoting high labour force participation among older people and keeping the average retirement age high will therefore play a key role in responding to the economic imbalances caused by population ageing, and in maintaining a relatively favourable (if declining) ratio of workers to retirees (OECD, 2004).

56. Educational indicators for Norway tend to show relatively good outcomes, with some exceptions. First, public expenditure on education, both as a percentage of total public expenditure, and as a percentage of GDP, is above the OECD average – 7% of GDP in Norway, compared with an OECD average of 5.4% (see OECD, 2008b). Figure 1.3 shows that Norway is also among the top-10 OECD countries, when it comes to tertiary educational attainment: one-third of all Norwegians aged 25 to 64 have a tertiary degree. Norway has slipped somewhat, however, in terms of the percentage of recent tertiary graduates among the population at the typical age of graduation, due to some extent to a comparatively high share of students who enter a tertiary programme, but leave without a tertiary degree (OECD, 2008b).

57. Participation in adult learning has consistently been above average in Norway, as measured by surveys as different as the EULFS, the Eurobarometer, the IALS and ALL. A calculation by the OECD that combined information on adult learning participation and its duration also showed Norway at an above-average level, although behind its Nordic neighbours Denmark, Finland and Sweden (OECD, 2000 and 2005a). While Norway has performed well in surveys quantifying adult skills, there have been poor results from the PISA surveys of 15-year olds, who have tended to score below the OECD average in science, mathematics and reading literacy (OECD, 2005b and 2007a).

Figure 1.3. **Educational attainment in OECD countries,[a] 2006**



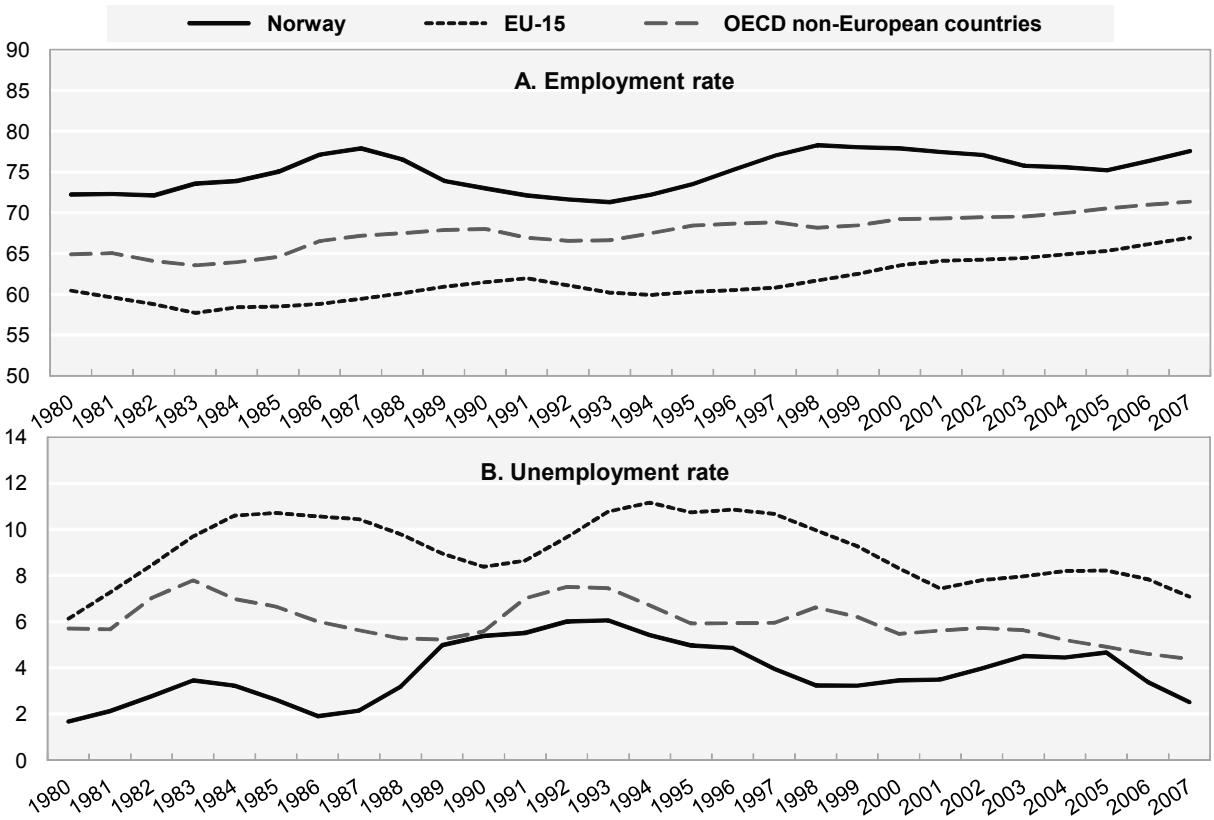
a) Persons aged 25-64.
b) Unweighted average.
Source: OECD Education database.

1.3. Labour market trends

58. The current labour market situation is marked by labour shortages and very low unemployment rates, while labour force participation (at 78.9% in 2007) and the employment rate (at 76.9%) are among the highest in the OECD area (figures refer to persons aged 15 to 64). The employment rate is now the fourth-highest in the OECD, 10 points higher than the OECD and EU-15 averages (see Figure 1.4). Employment grew by almost one-third since 1980. Job growth has been particularly strong in the years after 2004, reaching over 3% annually between 2006 and 2008 (current projections by Statistics Norway indicate stagnating employment in 2009/2010).

Figure 1.4. **Employment and unemployment rates,[a] Norway, Europe[b] and OECD non-european countries,[c] 1980-2007**

Percentages



a) Employed as a percentage of the population aged 15-64; unemployed as a percentage of the labour force in the same age group.
b) Unweighted average of EU-15 countries. Data for Austria are available from 1994 onwards.
c) Unweighted average of Australia, Canada, Japan, Korea, New Zealand (from 1986 onwards) and the United States.
Source: OECD Labour Force Statistics database.

59. The female employment rate of 74% in 2007 is second only to Iceland and 17 points above the OECD total. Contrary to many other OECD countries, the employment and labour force participation rates of the 55-64-year olds, both male and female, have kept growing during the past decade. There is nevertheless an issue of underutilisation of labour, partly due to extremely low average working hours per employee[4] (due to a combination of low contractual hours, a high part-time rate and a high number of days lost due to sickness), but also in view of the fact that practically all persons outside the labour force receive an income-replacement benefit – mainly for illness, rehabilitation and disability.

60. The evolution of employment shares by industrial sector reflects the tertiarisation of the economy. In 2007, very little employment remained in agriculture (about 3%), while the services sector had a share of 76% and industry (manufacturing, construction and utilities) 21% of total employment. Since 1980, the largest employment increases occurred in business services and property development (280%), health and social services (104%), and education (53%), while employment decreased mainly in agriculture, forestry and fishing (–55%), power and water supply (–27%), and in manufacturing, mining, extraction of oil and gas (–16%) (Statistics Norway, *www.ssb.no*).

4. Average annual working hours of Norwegian employees (full-time and part-time combined) in 2007 were 1 411, compared with 1 562 in Sweden, 1 651 in Finland, and close to 1 800 in Japan and the United States (OECD, 2008c, Statistical Annex).

61. The labour force survey unemployment rate fell from 5.8% in 1990 to 3.4% in 2000 and to 2.4% in the summer of 2008, and is currently the lowest in the OECD area – although it is expected to rise again to over 4% by 2010, as a result of the global economic downturn. The number of registered full-time unemployed also fell substantially since 2000; it amounted to 46 000 in 2007 (1.9% of the labour force), on top of which there were 23 000 part-time unemployed. A quarter of the survey unemployed were out of work for over 6 months, and less than 10% were long-term unemployed – much below the OECD average, and lower than any other country in OECD Europe. Among the registered unemployed, less than half get unemployment benefit, and a small additional proportion gets other labour-market benefits (including rehabilitation benefits).

62. There is, however, a big contrast between the low unemployment rate and the high share of welfare – in particular, sickness and disability – benefit recipients. Unemployment is in fact to a large extent disguised by health-related issues. High numbers of people out of work stay on extended sick leave and medical/vocational rehabilitation, and then move on to disability. The fact that only 2 to 3% of the working-age population are (either registered or survey-based) unemployed, while some 18% receive health-related benefits, illustrates the very specific nature of the benefit dependency challenge in Norway (see further details in Chapter 4). An important share of those on long-term sick leave and disability benefits would probably be counted among unemployment benefit recipients or social assistance recipients in other OECD countries.

63. Among some other labour market features, the part-time employment share (20.4% in 2007) is higher than the European average, and also higher than in the other Nordic countries; in particular, one-third of women work part-time, but part-time employment among men has also increased. By contrast, fixed-term and temporary employment decreased between 1996 and 2000 and has remained stable since, at about 10% of total employment. Over the past decade, average job tenure has been between eight and a half and ten years, somewhat lower than in Sweden and Finland, but higher than in Denmark. Finally, Norway is among the top-10 OECD countries in terms of the overall strictness of employment protection legislation.

1.4. The labour market situation of specific groups

People with disabilities

64. In 2007, about 333 500 people received a disability benefit, representing 10.8 % of the working-age population. This number increased by almost half between 1990 and 2007. Almost nine out of ten beneficiaries were entitled to permanent disability benefits and the remainder received a time-limited disability benefit. Moreover, four out of five disability pensioners were certified to have 100% degree of disability.

65. According to administrative data provided by the Norwegian authorities, in 2006, about 31% of beneficiaries received disability benefits on the grounds of a mental illness. The number of new benefit recipients for mental illness increased by 39% between 1990 and 2005, while total inflows have been relatively stable (around 25 000-30 000 persons per year).

66. In 2007, about 3.1% of disability pensioners were aged between 18 and 29 years, and 26% between 30 and 49 years. Thus, seven out of ten recipients were over the age of 50, suggesting that disability tends to be used as an early retirement scheme. But these figures also indicate that younger and prime-age workers represent an important group among disability recipients, and without targeted reintegration measures they will face a long period of labour market exclusion before reaching retirement age.

67. Just about one in six disability benefit recipients works (in the context of partial disability benefit receipt). Further, an insignificant share of disability benefit recipients exit disability because they found a job. Thus, in 2006, only about 0.2% of disability benefit recipients left the benefit scheme for employment, in most cases because part-time workers on a disability pension found full-time work.

Social assistance recipients

68. Close to 110 000 people received social assistance at some point during 2007 (corresponding to an average stock of 48 400 recipients). The number of single men receiving social assistance was nearly twice as high as the number of single women, and single men aged between 25 and 44 years represented almost one-fifth of all social assistance recipients. A further fifth consisted of single parents (Statistics Norway, *www.ssb.no/soshjelpk_en/*).[5]

69. About half of social assistance recipients have no more than compulsory schooling and a third has little work experience. Almost two out of five have criminal records. Half of recipients have physical and 60% have mental health problems (Lorentzen, 2006). More than a quarter are immigrants from non-OECD countries. There are a number of reasons why these immigrants are overrepresented among recipients, above all their comparatively low labour force participation and their above-average probability of long-term unemployment. Further, the high proportion of immigrants among young social assistance recipients (also around a quarter) is linked to greater difficulties they typically experience in the school-to-work transition.

Immigrants

70. Employment rates of immigrants vary significantly by country of origin and by length of stay. In the last quarter of 2007, employment rates of first-generation immigrants aged between 15 and 74 years amounted to 63% (as against 72% for the whole population of the same age). Employment rates were lowest for immigrants from Africa (49%) and Asia[6] (56%), and highest for those from other Nordic countries (75%). On average, employment rates of first-generation immigrants who stayed for less than one year in Norway reached 58% (30% for immigrants from Asia and Africa); they reached 63% for those living in Norway for over 15 years (55% for Africans and 61% for Asians). Employment gaps decrease further with the length of stay in Norway, and the gap between second-generation immigrants and the total population is far lower. (Statistics Norway, *www.ssb.no/soshjelpk_en/*).

71. Immigrants have a much higher probability to be unemployed than the Norwegian-born population. In May 2008, the share of first-generation immigrants among all registered unemployed was over 25%. While the registered unemployment rate of native Norwegians was close to 1.2%, it was over three times as high (4%) among first-generation immigrants (Statistics Norway, *www.ssb.no/innvandring_en/*).

72. A major concern for the integration of young immigrants of the first and second generation is their higher school drop-out rate; in addition, high numbers drop out of vocational training. Further, unemployment rates among young non-OECD immigrants far exceed those of native youth (OECD, 2008d).

Youth

73. In 2007, in the context of buoyant labour market performance, the youth (15 to 24 years of age) unemployment rate amounted to 7.3%; while relatively high in the Norwegian context, it is 6 percentage points below the OECD average (OECD, 2008d). The youth employment rate stood at 55% in 2007, more than 11 points above OECD average. Further, the so-called NEET rate (neither in education nor in employment or training) of the age group was fairly low (5.9%), as compared with the OECD average (12%). One worrying development of recent years however, is the growing risk of younger people to become excluded from the labour market as increasing numbers enter the disability scheme.[7]

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5. It is interesting to note that there are only slightly more couples with children receiving social assistance than couples without children, and that the duration of benefit receipt does not differ much between those two groups.

6. Including Turkey.

7. For example, between 2000 and 2007 the share of 18-34-year olds among new disability benefit recipients increased from around 8 to 12%. From 2000 to 2006, the number of 18- and 19-year-old recipients increased by almost 50% (from 544 to 802) (administrative data provided by the Norwegian authorities).

Older workers

74. The labour market for older workers provides a highly contrasted picture. Older workers' employment rates are among the highest in the OECD, and the effective retirement age is also comparatively high (Table 1.1). While it seems, therefore, that companies are successful in retaining older workers, the available data show that, once they have quit or lost their job, they face considerable difficulties to get hired (Table 1.1, right-hand column).

Table 1.1. **Employment rates, average exit age and hiring rates of older workers, selected OECD countries, 2007**

Percentages and years

	E/P ratio 50-54-year olds	E/P ratio 55-59-year olds	E/P ratio 60-64-year olds	Effective exit age men[a]	Effective exit age women[a]	Hiring rates 50-64-year olds[b]
Denmark	84.6	78.4	39.4	63.5	61.3	9.8
Finland	82.0	67.8	39.1	60.2	61.0	7.3
France	79.9	55.4	15.7	58.7	59.5	5.3
Germany	78.3	66.7	32.9	62.1	61.0	5.6
Ireland	72.1	61.5	45.2	65.6	64.9	6.8
Norway	**83.4**	**78.4**	**58.8**	**64.2**	**63.2**	**5.7**
Sweden	85.0	79.8	60.7	65.7	62.9	6.6
Switzerland	85.2	79.9	53.2	65.2	64.1	4.2
United Kingdom	80.2	69.0	44.7	63.2	61.9	7.4
United States	78.0	69.7	51.7	64.6	63.9	..
EU-15[c]	**76.2**	**60.0**	**30.7**	**62.0**	**61.4**	**..**
OECD[c]	**74.6**	**63.4**	**41.6**	**63.7**	**62.3**	**..**

E/P Employment to population.
.. Data not available.
a) Effective exit age over the five-year period 2002-2007.
b) Data for 2006. Hiring rates for 50-64-year olds refer to the percentage of employees aged 50-64 with less than one-year tenure among all employees aged 50-64 one year earlier.
c) Columns 1 to 3 refer to weighted averages, columns 4 and 5 to unweighted averages.
Source: National labour force surveys, for effective exit age; *OECD Labour Force Statistics database* for E/P ratios; and Secretariat calculations based on Eurostat, European Union Labour Force Survey, for hiring rates.

1.5. The role of social policies, the social partners and the local level

75. In 2005, the Ministry of Labour was renamed the "Ministry of Labour and Social Inclusion", to reflect the government's objective to reverse the trend of an ever-increasing number of people on inactivity benefits. The government has become increasingly concerned that, despite the high labour force participation rate, Norway is among the OECD countries with the highest proportions of the population outside of the workforce due to illness and disability (Ministry of Labour and Social Inclusion, 2006).[8]

Major policy reforms and action plans

76. Several major reforms are currently under way in Norway. First, an institutional reform is being implemented to provide integrated services to persons out of work, implying a closer co-operation of health-related services, municipal services and the public employment service by means of the new, integrated Labour and Welfare Service (NAV). Other reforms concern the health-related benefits system, where a new single temporary benefit will merge the medical rehabilitation, vocational rehabilitation as

8. The population on disability benefits continues to grow "in spite of the fact that the overall health of the population has improved", as the Ministry itself has noted (p. 6).

well as the temporary disability benefit aiming to enhance the flexibility of the system. A third string deals with pension reform, aiming to introduce more flexible pension provision. From 2011, an early retirement scheme applicable to all employees at age 62 will be introduced (previously early retirement schemes were agreement-based, with partial state funding). In addition, in July 2008, Norwegian employees were given a statutory right to reduced working hours as from the same age. The objective is to ease combining pension and work income, with the aim of motivating people to stay at work longer (EIRO, 2008).

77. Further, already in 2002, the government launched an Action plan against poverty, assigning an important role to inclusion in the labour market. The employment and social welfare services were to contribute to reaching this goal by a vocational rehabilitation programme. The target groups are long-term and repeat social assistance recipients, young people on social benefits, single parents, immigrants and people who receive drug substitution treatment. The programme was expanded to include all municipalities in 2006. A new Action Plan was presented in 2006, emphasising that its approach was "… aimed at ensuring that as many people as possible can live on income derived from employment" (Ministry of Labour and Social Inclusion, 2006).

78. In 2006, the Ministry also set up an Action Plan for integration and social inclusion of immigrants, listing a series of special measures. These include measures to improve the education of young immigrants and second-generation immigrants, starting at pre-school age. Integration subsidies to local authorities for the settlement and integration of refugees are being expanded, and specific language courses and integration training for this target group (the so-called "introductory programme") are being set up. The action plan further includes promoting entrepreneurship and promoting employment of immigrants in the public sector.

79. One of the more long-standing social policy measures favouring high employment rates has been the provision of childcare facilities. This has allowed female employment rates to rise far above EU and OECD averages and surpass even those of the neighbouring Nordic countries.[9]

80. By contrast, health-related policies, in particular past practices of granting disability benefits and pensions, have had a negative impact on employment. The Norwegian labour market and society are characterised by a "medicalisation" of labour market problems and overly large outflows into the disability benefit system. This has created a notable labour market segmentation between "incapacitated" persons and those facing neither health nor social problems. The former group has a high probability of being permanently excluded from the labour market.

Role of social partners

81. The social partners are key actors on the labour market, although trade union density is lower in Norway than in other Nordic countries (usually attributed to the absence of union-administered unemployment funds in Norway, which drive up union membership in Denmark, Sweden and Finland). In 2004, 53% of Norwegian wage earners were union members and about 70% were covered by collective agreements. Union density is highest in the public sector (81%) and lowest in the private services sector, in particular in small companies (EIRO, 2006).

82. The wage bargaining system in Norway is usually considered one of the most highly centralised and co-ordinated in the OECD, with tripartite framework agreements deciding on major parameters, although plant-level wage top-ups also play a role. The centralised bargaining has produced a flat income distribution,

9. Even though attendance rates of children in childcare facilities are lower in Norway than in other Nordic countries, they are still well above those in most other European countries (OECD, 2007b).

with wages varying relatively little from sector to sector. As a result, Norway has the lowest earnings dispersion among 20 OECD countries where such data are available.[10]

83. In the tradition of tripartite agreements between the government and the employer and trade union federations, an agreement known as the Inclusive Workplace (IW) Agreement was signed in 2001 to enhance active measures taken at the workplace. The three main goals of the agreement were to: *i)* reduce sickness absence; *ii)* increase the employment disabled people; and *iii)* raise the effective retirement age. Despite the limited success of the agreement, it was renewed in 2005/2006. More broadly, the government is aiming for a "more appropriate distribution" of responsibilities between the social partners and the authorities in combating labour market exclusion *via* illness and disability, in line with the premises of the Working Environment Act (Ministry of Labour and Social Inclusion, 2006; see also Box 2.1 below).

Role of municipalities and their approach to activation

84. Traditionally, municipalities have been involved in the implementation of active labour market policies for their employable clients, with a focus on target groups that are not covered by the PES (such as social assistance recipients). There have, however, tended to be large differences between municipalities in their involvement in ALMPs. Some of them are running labour market or qualification programmes, in particular for disadvantaged groups. The largest cities have had special arrangements with the county public employment services for getting financial resources for activation programmes, mainly related to expenses in the context of training measures (and some public sector work programmes) for social assistance recipients. All municipalities have been entrusted with organising the introductory programmes for newly arrived immigrants.

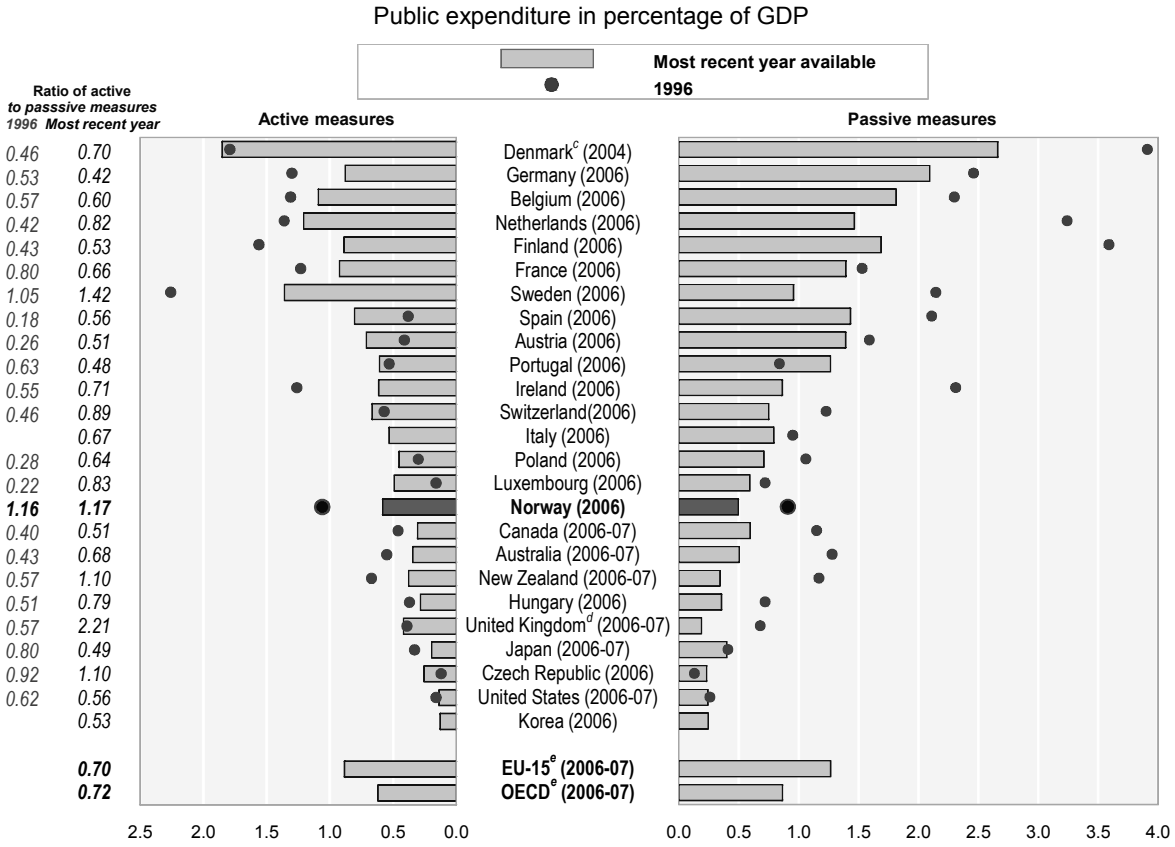
85. By the 1990s, the need for better linkages between municipal social policies, health-related services and the central government's labour market policies had become increasingly apparent, which ultimately led to the major institutional reform consisting of the merger of the different services into one new institution, the National Labour and Welfare service, NAV (see Chapter 2 for more details).

1.6. Patterns of labour market spending

86. Figure 1.5 shows patterns of labour market spending in OECD countries, where such data are available. In terms of spending on active measures, Norway's spending as a percentage of GDP is around the OECD average, but considerably below the EU-15 average. At the same time, Norway is one of those OECD countries with the lowest shares of expenditure on passive measures. Expenses for active measures were more important than those for passive measures and the Norwegian ratio between these two categories of expenditure was the third-highest among OECD countries, behind the United Kingdom and Sweden. A decade ago, when Norway and Sweden were the only two countries where expenses for active measures were more important, the Norwegian ratio of active to passive measures was in fact the highest in the OECD.

10. The ratio of the 9th to the 1st earnings decile was at 2.11 in 2006, compared with an average of 3.33 for OECD countries. It had, however, increased slightly from 1.95 a decade earlier (OECD, 2008c, Statistical Annex, Table H).

Figure 1.5. **Active and passive labour market measures[a] in OECD countries,[b] 2006-2007 *versus* 1996**



Countries are ranked in decreasing order of the total of both active and passive measures.

a) Active measures refer to Categories 1-7, passive measures to Categories 8-9 of the *OECD database on Labour Market Programmes*.

b) For Greece, Iceland, Mexico, the Slovak Republic and Turkey, only incomplete data were available.

c) Data for 2004 include benefit administration by the Unemployment Insurance funds.

d) Data for 2006 include the administration of working-age benefits other than unemployment benefits.

e) Unweighted averages, shown only for the most recent year.

Source: OECD database on Labour Market Programmes.

87. However, it needs to be taken into consideration that not only unemployment benefit recipients are taking part in active labour market measures, but also recipients of other types of benefits, in particular health-related benefits. The more participants in active labour market measures come from other benefit schemes, the more positive the balance of active to passive measure will appear. In Norway, real expenses of the society for people out of work are much higher than expressed by the measure of public spending on "passive" labour market policies, and given the high numbers of persons receiving disability and other health-related benefits, it seems that the relative importance of active measures is lower than expressed in the above figures.[11] A quantification of the ratio of active labour market measures to a more encompassing concept of passive measures for Norway is, however, problematic, due to the difficulties involved in assessing the share of those on health benefits who could be activated.

11. Norwegian expenses for disability benefits are approximately ten times as high as the expenditure on active labour market programmes.

CHAPTER 2

INSTITUTIONAL ORGANISATION

2.1. Introduction

88. This chapter discusses the institutional structure of the Norwegian PES and related institutions. It starts by outlining the roles of the main actors in labour market policy. It then presents the main characteristics and the recent reform processes of the employment and welfare services and discusses its office structure and internal organisation. The chapter concludes with some discussion of office procedures and resources, against the background of the challenge of "activating" the unemployed and recipients of other welfare benefits with the help of high-quality and well-resourced employment services.

2.2. Actors in labour market policy

89. It is useful to set the Norwegian employment service within the context of the variety of actors on the labour market that play a role in "activating" the unemployed and other recipients of social welfare payments.

The Ministry of Labour and Social Inclusion

90. The main government department with responsibility for labour market policy is the *Ministry of Labour and Social Inclusion* that, *inter alia*, oversees the recently reorganised Norwegian Labour and Welfare Service (NAV). The Ministry was established in its current form in 2005. It is responsible, *inter alia*, for labour market policy and employment programmes; the working environment; family and health-related benefits; pensions; social assistance; and immigration. With a little over 300 employees, the Ministry is not particularly large. Total expenditure under its authority amounts to about 30% of the state budget, the bulk of it funded under the national insurance scheme.

91. Among the Ministry's seven substantive departments, two are of particular relevance for the topic of this report. The first is the Department for Welfare Policy which oversees the Labour and Welfare Service, evaluates its operational results and ensures that political objectives and priorities for employment services are achieved efficiently (see below for the steering mechanisms between the Ministry and NAV). The Department also manages income security and rehabilitation policies.

92. The second is the Department of Labour Market Affairs which designs delivery systems for active labour market policies, and manages incomes policy arrangements in collaboration with the social partners, labour immigration and macro aspects of labour market policies. Through this department, the Ministry also plays a role in coordinating wage formation with a view to moderating wage growth and inflation pressures. In particular, it provides underlying statistics to the social partners to support collective bargaining. To this end, the Ministry has administrative responsibility for a technical committee that provides (by means of bi-annual technical reports) the underlying economic data for wage bargaining. The

relatively low Norwegian unemployment rate is often credited, at least in part, to the efficient operation of such income policies.[12]

93. There is also the Working Environment and Safety Department that oversees the Labour Inspectorate and the National Institute of Occupational Health. Responding to its remit to control sickness absenteeism, the Ministry shares responsibility with the Ministry of Health and Care Services for the Directorate for Health and the National Board of Health.

94. Further, the Ministry's Department for Integration and Diversity plays a role in responding to the government targets for inclusion of immigrants into working life. It aims, in particular, at: *i)* increasing the ties of immigrants (and their descendants) to the labour market; *ii)* reducing the proportion of immigrants with persistently low income; and *iii)* ensuring sufficient language capacity for them to function effectively on the labour market and in Norwegian society.[13]

Other Ministries

95. The *Ministry of Education* performs a labour-market-related function through its involvement in the training of the unemployed, vocational rehabilitation and its design of adult education and life-long learning policies. The educational authorities are a central partner for the PES which buys training courses for its clients from educational institutions. As to adult education, the Ministry's educational policy emphasises opportunities for adults to raise skill levels with a view to meeting the needs of the labour market for skills and competences.

96. The Ministry's "Strategy for Lifelong Learning" calls for improved collaboration between education and working life and for strengthening learning in the workplace. Against the background that in Norway, as elsewhere, unskilled workers participate less in further education, the Ministry has developed a programme on Basic Skills in the Workplace, aiming to prevent the exclusion of employees and jobseekers from today's knowledge-based society owing to a lack of basic skills (Ministry of Education and Research, 2007). Other institutions of relevance in the education field are VOX – the Institute for adult education, created as a tool for implementing the Government's Competence reform – and NOKUT – the Norwegian agency for quality assurance in education.

97. The *Ministry of Health and Care Services*, through its four health service regions, has co-responsibility with the Ministry of Labour and Social Inclusion for services to assist people on sick leave back to work as soon as possible. It does so, in particular, through its medical rehabilitation services. With the high rate of absenteeism for reasons of illness and reduced working capacity, coordination between health services and labour market measures is of prime importance in Norway. In its 2007-2010 National Health Plan, the government recognises the role of work and wages as vital for health and rehabilitation, and stresses the role of prevention and rehabilitation for which purpose co-operation between work, welfare and health services is vital (Ministry of Health and Care Services, 2007). It also aims to strengthen occupational health services at enterprise level, as part of the fight against sickness absenteeism.

98. The *Labour Inspectorate*, with its 500 employees and 7 regional and 16 local offices, is another important player in labour market policy and regulation. With the general aim of ensuring a healthy

12. For example, in 2001, the IMF Executive Board noted "… that Norway's centralized wage bargaining system has contributed to its long record of strong employment growth and low unemployment." (*www.imf.org/external/np/sec/pn/2001/PN0110.htm*).

13. See the measures on work and employment outlined in the government's Action Plan for the integration and social inclusion of immigrants (Ministry of Labour and Social Inclusion, 2007a).

working environment and safe working conditions for all, the Inspectorate controls enterprises' performance in accordance with the Working Environment Act, including their activities to help the sick return to work *via* personal follow-up plans, and to adopt the working environment to employees with reduced work capacity. It provides guidance to enterprises not only by means of inspections, executive orders and penalties, but also by teaching best practices in health and safety and in combating sickness absence. Finally, the Inspectorate controls contractual status (*e.g.* as self-employed contractors or temporary agency workers), and adherence to collective bargaining agreements and work permit regulations relating to the Immigration Act.

Social partners and municipalities

99. The *social partners* have a considerable influence on labour market and social policy in Norway, whatever the particular make-up of the government. They are, for example, represented in an Advisory Council on Labour and Pension Policies (*Arbeidslivspolitisk råd*) to the Ministry of Labour and Social Inclusion. Of particular relevance for activation policies is their involvement in the government's strategy to reduce absenteeism from work for reasons of illness and incapacity. Rather than opt for a government proposal to increase employers' financial responsibility for sickness absenteeism, the social partners favour an approach based on social dialogue at the company and workplace level. They are therefore an active partner in the Inclusive Workplace (IW) policy and the agreement of the same name that was signed in 2001 and renewed in 2006 (see Box 2.1 below). Employers, for example, have agreed to intensify training of all managers and supervisors in occupational health and safety and on methods to prevent exclusion *via* long-term sickness absence. The employers association NHO has created a website with a "bank of ideas" as to how to combat sickness absence and ensure an "inclusive" workplace.

100. *Municipalities* are a long-standing labour market actor in so far as they provide social services within the framework of the Social Services Act and its associated regulations and guidelines, and work to ensure that individuals are capable of supporting themselves, if possible *via* paid work. Municipal social services benefit from the municipal-owned labour market enterprises and co-operatives active in the field of sheltered employment, targeted at people with disabilities and other labour market barriers.

101. Norway's 430 municipalities are political entities with a significant degree of autonomy regarding their repertoire of services and how these services are provided. In carrying out the mandate of the Social Services Act to give assistance and guidance enabling clients to live autonomous lives (under the assumption that the social assistance benefit is subsidiary and temporary), they:

- Have considerable autonomy in setting benefit payment levels, responding to local conditions;[14]
- Can use their resources for counselling, housing subsidies and various activation measures as alternatives or supplements to sustenance support.

102. The variation in "activation" policies among the municipalities has therefore been large, but a considerable number have introduced employment or training programmes for their benefit recipients. For these purposes, they have been able to use money from the PES budget. For example, in 2006, about 7% of the budget for active labour market measures was transferred from the Labour and Welfare Service to the municipalities. There has been a long-standing practice of transferring social assistance clients to the municipal "sheltered workplace" projects. The principle of "work before income" was strengthened in the

14. The Ministry of Social Affairs and Health in 2001 set governmental guidelines on reasonable amounts, but municipalities can issue further guidelines and have maintained their prerogatives in rate setting. Clients have a right to appeal to county governors if they feel that their social assistance is set at a level that fails to satisfy the requirement of "a dignified life" set down in the law (OECD, 1998).

early 1990s by a modification in the Act on social services, whereby recipients could be required to work for the municipality. Later in the decade, some municipalities like Oslo started their own miniature employment offices, trying to place people through their own contacts with employers and temporary agencies (Backer-Roed and Mannsaker, 2000).[15] Other municipalities would routinely send social assistance applicants to the local PES (Aetat) office, although it seems that many of them were sent back for lack of employability.[16]

Box 2.1. **Working Environment Act, IW agreement, and the institution of Workplace Centers**

A range of policy reforms has attempted to reduce sickness absence and the uptake of disability pensions. For example, sanctions are now possible for general practitioners who do not comply with the rules for sickness absence certification; individuals can now only change their general practitioner twice a year; and NAV has been warning medical doctors who issue above-average numbers of sickness certificates.

A tripartite agreement (the IW-agreement) was signed for 2001-2005 and renewed for the period 2006-2009 between the central government and the social partners to reinforce joint efforts with a view to reducing sickness absence and inflow into disability, and to securing employment of people with disabilities (OECD, 2006). This agreement defined the workplace as the main arena where progress should be made, and consequently the social partners as the main agents of change. Special co-operation agreements can be drawn up between individual enterprises and (previously) the National Insurance Agency/(now) NAV. Such enterprises will be recognised by the authorities as "inclusive workplace enterprises"; they will receive assistance from the newly-established local Workplace Centres at the NIA/NAV in their efforts to systematically reduce sickness absence. The occupational health services in such IW enterprises will also be assisted financially. The renewed agreement of 2006 further stressed the joint evaluation of results and increased the staffing of the Workplace Centers.

Revisions in the Norwegian Working Environment Act and National Insurance Act shave strengthened requirements for sound conditions of employment and guarantees of a healthy, safe and meaningful working situation. Recent amendments aim to reduce sickness absenteeism by requesting that employers implement measures to enable employees with reduced work capacity (through sickness, fatigue or as the result of an accident) to retain or be given suitable work. More specifically, the employer/line manager needs to prepare as soon as possible (at the latest after 6 weeks) a follow-up plan for return to work following an accident, sickness or fatigue. This plan is supposed to contain a review of the employee's work capacity and an outline of appropriate measures for a rapid return to work. After 12 weeks at the latest, the employer needs to organise, in collaboration with the company's occupational health service, a dialogue meeting with the employee to discuss the follow up plan. The local NAV office needs to be notified of the dialogue meeting in writing and later receive a written report on the results of the meeting. After a period of 6 months, the local NAV office will call a meeting itself with all parties concerned to discuss a renewed follow-up plan and the need for rehabilitation. A medical doctor and trade union representatives can participate in the meeting, if this is the wish of the employee.

This is a very resource-intensive approach to containing sick leave, but the government has shown its commitment by creating over 400 posts responsible for this matter in the NAV Workplace Centres. Overall results of the new procedures still need to improve — in the 3rd quarter of 2007, doctor-certified sickness absence was only about 12% below its level of the 3rd quarter of 2001 when the original IW agreement was signed (in mining and manufacturing, it had almost reached the 20% decline targeted in the original IW agreement). A disappointing development is that IW enterprises hardly perform any better than those that have not signed an agreement with NAV. The NAV 2007 Annual Report notes that further progress needs to be made to implement the individual follow-up: for example, many follow-up plans established by companies are reportedly of poor quality, and NAV has difficulty setting up all required dialogue meetings at 6 months. Both the IW agreement and the sickness follow-up scheme clearly lack in implementation and enforcement (see Chapter 3 for a discussion of compliance with follow-up requirements).

Source: OECD (2006); NAV (2007a); Ministry of Labour and Social Inclusion (2005a); and *Working Environment Act*.

15. "Each year, Oslo districts refer a large number of social assistance recipients to regular jobs. Often, these were people state employment offices had written off…" [Backer-Roed and Mannsaker (2000), p. 284].

16. See Aetat (2003), p. 112, and Steen and Halverson (2007) for further detail about the referral of unemployed social assistance clients to Aetat offices.

103. In any event, the prevailing feeling was that the national PES and the municipalities did not work together very efficiently in the past. In the process of creating common front-line offices, municipalities and the PES have now been brought closer together. However, under the new structure municipalities retain a separate role and are given separate programme responsibility; for example, the Action Plan for integration and social inclusion of immigrants and the Introduction Programme for immigrants set up under that plan are both administered by the municipalities within the NAV structure, assisted by the counties.

2.3. Main characteristics of the Norwegian Labour and Welfare administration (NAV)

104. Launched on 1st July 2006, NAV, the Labour and Welfare Service (*Arbeids- og Velferdsetaten*) is the largest public body in Norway, responsible for labour market policies and employment services. Throughout the post-war period, there were three different welfare agencies, situated at the national and local level: the National Employment Service (Aetat), the National Insurance Administration (NIA) and the municipal social assistance services. Aetat served as the major government instrument for ensuring full employment, through its placement services and referral to labour market measures. Although it captured only a part of the vacancy market, it had a placement monopoly up to the year 2000, when private job providers were allowed to compete in the market. Apart from its unemployed clients, it was also made responsible for individuals on vocational rehabilitation. Before the most recent reform outlined below, Aetat had about 3 500 full-time equivalent staff and was organised into 19 regional and approximately 120 local offices covering "labour market areas", supplemented by 30-40 locations with reduced, part-time or ambulatory presence.[17]

105. The National Insurance Administration and its decentralised services were established to provide economic security through benefits in the case of, *inter alia*, illness and injury, disability, old age, pregnancy and maternity. Before the recent reform it had about 7 600 full-time equivalent staff and serviced close to 2 million Norwegians with regular benefits. The NIA had at least one office in each Norwegian municipality.

106. As outlined above, the last-resort social safety net was ensured by the social welfare services organised at municipal level, with about 4 100 full-time equivalent staff (so that the 3 services together employed about 16 000 full-time equivalent staff). These took care of social assistance benefits, and services related to health, child welfare and housing needs.

107. This three-fold organisation was considered sub-optimal and became a source of debate in the 1990s and early 2000s. One concern was that many users encountered a divided and fragmented administration – a concern particularly for those (estimated at 15% of all clients) that needed help from more than one agency.

108. In the late 1990s, the Norwegian Parliament (Storting) instructed the government to develop proposals for a more coordinated social security system. After some discussion of various reform proposals[18], the government finally suggested merging the employment and insurance/pension services into one comprehensive service and establishing a one-stop-shop system at local level together with the municipal social services, where all claimants for unemployment, social assistance and sickness,

17. Figures given for the number of Aetat offices tended to differ since the definition of what constitutes a "complete" PES office varied between counties.

18. See, for example, the different alternative proposals laid down in NOU (2004), and the government proposal of yet a different model (later adopted) in Ministry of Labour and Social Affairs (2004).

rehabilitation and disability benefits, as well as those wishing to participate in active labour market measures, would address the same services, located in the same building. In other words, NAV is set up as a front-line service that functions as the user's gateway to all services on employment and income. In return, the Aetat employment administration and the National Insurance Service were closed down. The merger process will run over a period of four years, and the service will be fully merged by the end of 2009. In late 2008, about 280 out of planned 460 joint local offices had been set up.

109. The increased co-operation and set-up of one-stop arrangements between the employment authority and social welfare offices corresponds to similar reforms in other OECD countries (*e.g.* Denmark, Germany and to some extent Finland and the Netherlands; while in other countries, such as the United Kingdom, the two services are merged completely). Such institutional arrangements aim to overcome institutional redundancy and improve the preconditions for activating a larger variety of benefit recipients. However, the one-stop idea was to a certain extent compromised by not fully merging the municipal social welfare services with the government agency (the Labour and Welfare Service). In fact, local co-operation agreements were to be concluded between the local NAV offices and the municipalities, defining which services each individual municipality would include in the local NAVoffice. The main argument for keeping social services separate was that this could facilitate coordination between municipal social assistance services and other municipal services such as housing or assistance with drug addiction. Further, the government put forward the argument that "the municipalities are not natural entities in the employment context… [and that] the responsibility as a general rule must remain with central government" (Ministry of Labour and Social Affairs, 2004).[19]

NAV legislative mandate and mission statements

110. The 2006 Labour and Welfare Services Act (*Lov om arbeids- og velferdsforvaltningen*) gives the organisation responsibility for a wide range of clients and issues: unemployment, sick leave, vocational rehabilitation, disability, social assistance, and old-age pensions. It entrusts NAV staff with a wide range of tasks, including:

- Carrying out labour market, social insurance and pension policies;
- Providing incentives to benefit recipients to take up employment wherever possible;
- Assisting in job search and mitigating the effects of unemployment;
- Following up and controling benefit payments; and
- Providing advice and guidance to employers and employees to prevent sickness absence and labour market exclusion.

111. The act specifies that common local NAV offices will be established by agreement between the labour and welfare authorities of central government, on the one hand, and municipalities, on the other. The joint offices are also responsible for implementing the provisions of the pertinent parts of the Social Services Act (*Lov om sosiale tjenester*). Further, the act makes NAV responsible for administering the

19. The observation by Christensen *et al.* (2007, p. 399) is therefore pertinent: while the set-up of NAV constitutes a radical departure from the traditional management of employment and welfare in Norway, the division of responsibility between central and local authorities has not changed in a fundamental way. As before, the responsibility for employment and insurance services lies with central government, while financial social assistance remains mainly under municipal management. The challenge is to develop, despite the different chains of command, a joint model or culture of client treatment in the merged organisation.

health reimbursement system for the Ministry of Health, and child and parental benefits for the Ministry of Children and Equality.[20]

112. NAV officials, in presenting the new organisation, tend to define its underlying goals as providing a more "holistic" service to users; providing a more user-friendly service tailored to individual needs; and as the ultimate goal, "more people at work and fewer on benefits". The annual goals and targets for the organisation are laid down in the state budget and further operationalised in the annual "letter of allotment" (see Section 2.4 below for more detail).

Financing and budgeting

113. Sources of finance for NAV are mixed. In the area of labour market policy, while benefits to the unemployed and the vocationally disabled plus some labour market measures are financed by insurance contributions (*via* the NIA), the state budget finances most active programmes as well as NAV administrative resources. NAV manages benefits and services for several ministries and has an annual budget of almost NOK 300 billion (equivalent to over EUR 37 billion)[21] – in fact it administers one-third of the national budget –, with the largest budget items being retirement pensions, disability pensions, sickness benefits and vocational rehabilitation benefits. With NOK 10.7 billion (EUR 1.3 billion) in 2006 for out-of-work income maintenance and NOK 12.5 billion (EUR 1.5 billion) for ALMPs, labour market programmes, as defined by the OECD/Eurostat labour market expenditure database, represent only a relatively small part (around 8%) of the overall budget. Another source of finance – about NOK 4 billion annually – comes from municipalities that pay for social assistance (both the benefits and the social worker staff).

114. The state budget is approved by parliament, and thereafter the different ministries – among which the Ministry of Labour and Social Inclusion – allocate the budget to the Directorate for Labour and Welfare. The Directorate is responsible for channelling the funds to the 19 county/regional labour and welfare offices, while the county offices decide how to distribute funds between local districts, both according to the goals laid down in the "letter of allotment" from the Ministry. Given the combination of state and municipal funding, offices need to work with two different budget lines, which may sometimes cause managerial difficulties.

2.4. Steering mechanisms and performance management

115. General political objectives for labour market policy are set out in the annual state budget (for example, "maintain a well-functioning labour market" or "create an inclusive workplace"). More specific objectives for Labour and Welfare Services are laid down in the letter of allotment (*Tildelingsbrev)* which the Ministry sends to the Labour and Welfare Directorate at the beginning of the year (Ministry of Labour and Social Inclusion, 2008a).

116. This document contains not only the organisation's annual budgetary allocation, but also a set of policy directions and performance objectives that it needs to meet. (The goals and targets in the letter of allotment concern the central government line. The municipalities set the objectives for their social services.) The Ministry is responsible for setting these objectives, but the process is not completely top-down, since the Ministry first discusses the draft objectives and performance indicators with the Labour and Welfare Service. Afterwards, NAV can add its own targets for its regional offices and finally

20. The health reimbursement system related to fees for general practitioners, medical specialists and policlinics will be transferred to the Directorate of Health in 2009.

21. The present text uses an exchange rate NOK/EUR of 8.07, which is the average of exchange rates valid in late December 2005, 2006 and 2007.

all local offices will get a set of performance indicators (attached to the budget allocation) that they need to meet. In principle, the local offices are free to, and in fact are encouraged to decide what measures are most appropriate to get good results; they can therefore move to a certain extent between budget lines, reflecting a certain degree of local-level autonomy.

117. In practice, however, both the Ministry and the Labour and Welfare Directorate limit the freedom of local offices to shift funds between measures, either directly or through the design of their performance objectives. Some allocations have very specific numbers attached to them, from which it is difficult to deviate. Some of the Ministry's policy directions are quite explicit concerning measures for particular target groups.[22] Also, some labour market measures are reserved by law to people who are vocationally handicapped.

118. Nevertheless, on the whole the system of performance management leaves NAV considerable leeway in applying allocated grants and choosing appropriate measures to achieve the targets more efficiently. For example, the county/local offices can in principle shift from, say, sheltered workshops to supported employment. The Ministry's supervision is usually (with the exceptions outlined above) limited to first defining concrete objectives for NAV to achieve and afterwards, measuring indicators of performance and comparing them to the objectives. In addition, for a better follow-up of NAV's achievements, various types of formal meetings are held, in particular four meetings a year between the NAV Director and the top Ministry-level, to assess the state of affairs *vis-à-vis* the objectives and indicators set forward in the letter of allotment. However, there seems to be a widespread feeling that more Ministry oversight is desirable, in particular to counter the existing information asymmetry between the two actors.

The 2008 allotment

119. The 2008 allotment lists 13 performance targets, each broken down into a varying number of quantitative and qualitative indicators. They range from cost control to prevention of benefit fraud to user satisfaction. They are all important in their own right, but the first three may be considered of overriding importance:

- Target 1, entitled "ensure high transition rates to employment" includes indicators for the percentage of unemployed and long-term unemployed who find a job; and assigns quantitative targets as to the percentage of those with immigrant background (at least 65%), and of the vocationally disabled (at least 50%) who find a job.
- Target 2, entitled "counteract exclusion from the labour market, promote return to employment", includes, *inter alia*, indicators for the control of the average time spent on sick leave and on vocational rehabilitation.
- Target 3, entitled "prepare for active job seeking and targeted recruitment assistance", includes as success indicators, *inter alia*, the percentage of registered unemployed who receive assistance from NAV; the share of unemployed who register on the agency's web site; and the number of vacancies registered by employers on the agency's website, and of those receiving a direct referral.

120. To be an efficient leadership tool, management-by-performance targets needs to be built on a set of incentives and penalties for reaching or not reaching the objectives set. However, there does not seem to be any incentives or penalties for NAV offices to encourage them to meet their targets. Norway might find helpful to consider the experience of Switzerland, which has an explicit system of performance rating for

22. In 2007/08, the target groups with a priority in participating in labour market measures are: persons who have been unemployed for more than six months, young people (under 20 years of age), immigrants, and the vocationally disabled or handicapped.

PES offices. Here a bonus/malus system was defined in principle, although not finally implemented in practice. However, performance ratings are published and reputation effects are strong; and individual cantons that repeatedly show below-average performances (or that in a single year show performance far below the average) can be submitted to an in-depth performance evaluation by the national authorities (Bertozzi *et al*., 2008; Vassiliev *et al*., 2006).

Two lines of governance

121. Norwegian municipalities being independent political units, central authorities cannot use performance targets to control results in areas where the local or county municipality has the decisive authority. Thus, despite the integration of local offices, the goals and targets in the letter of allotment concern only the central government line, and municipalities continue to set the objectives for their social services. Therefore, few openings exist for the central government to impose specific performance targets on the municipal social services part of NAV. As a result, there are two lines of governance in the organisation: One line goes through the *county NAV office* to the local NAV offices and covers laws and regulations pertaining to NAV as a central government agency (former PES and NIA). Specific performance targets, as outlined above, are used within this governmental line of administration. The other, more loosely connected administrative line goes through the *County Governor* to the municipality and the municipal part of the NAV office. The County Governor is a government representative who *inter alia* oversees the health and social services; however, labour market policy performance, social insurance and other responsibilities of the state agency are not issues within this line of governance. The NAV reform has not changed the roles or responsibilities of the central government, the County Governor, and the local municipalities, and to this extent, the merger of the former employment office, insurance agency and the municipalities has remained incomplete. The challenge remains of how to develop a shared identity and of pushing for integration, beyond the sharing of office space.

2.5. NAV office structure and resources

122. The 2006 Act laid down that local offices will be established by agreement between NAV and municipalities. The agreement is supposed to contain provisions relating to the design and operation of the office and the interaction between the two sides. Subsequently, the Ministry of Labour and Social Inclusion and the Norwegian Association of Local and Regional Authorities signed a framework agreement in April 2006 to support the establishment of local partnerships between the central administration and the municipalities (NAV, 2006). On that basis the local NAV offices have entered into agreements with the municipalities regarding the specific nature of local co-operation. These agreements regulate the establishment of the local one-stop shop and can further determine that, beyond social assistance, other municipal social services will also be provided. Thus, as NAV offices are being created in all 430 municipalities, it is becoming increasingly clear that they will not all provide identical services.[23]

123. As a rule, two departments have been set up in NAV offices: reception (*Mottak*) and long-term follow-up (*Oppfølging*). The former department offers self-service and limited guidance to jobseekers and to employers with jobs to offer. The latter gives follow-up assistance to the unemployed, to people on long-term sick leave and with disabilities, and to those in need of vocational rehabilitation. The units and divisions comprise employees from all three of the former services.

124. There are two main office chains. The county "line of command" is organised in conformity with the Norwegian county structure. There is one county administrative office with a director responsible for all offices in the county. There is a direct line of command between the county administrative office and all

23. First evaluations show that most of the municipalities integrated more than the minimum, most often drug addiction care, housing to vulnerable groups, and integration of refugees.

local offices in the county. Thus, the county line structure is divided into three geographical levels: Labour and Welfare Directorate, County administrative office and local office.

125. Next, there are specialised "production units", some of them national, some regional and some present in every county. There are, for example, regional call centres, and a shared national services centre for information technology, human resources and accounting. Benefit payment is also handled in special "back-office" units, corresponding to an international trend to shift benefit administration away from front-line offices.

126. One of the special units operating at county level is the NAV Inclusive Workplace Support unit which runs the Workplace Centres (originally established in 2002) whose main goal is to coordinate with industries and firms to reduce sick leave (see Box 2.1). There is also an Employment Counselling unit, which includes psychologists who test clients preparing for new careers. This service is mainly used for those with special problems, who have been ill, etc. The psychologists follow up client interviews with a report to the local NAV counsellor. A special Office for complaints and appeals handles appeals once they reach the county level – they are first dealt with locally. (On average, 90% of appeals are judged to be unfounded.) An internal audit office cross-checks benefit spells and work history.

New challenges emerging from the merger

127. As noted above, this is a *partial* merger, and ensuring effective co-operation in local offices between the staff from the previously separated agencies is a challenge. Co-operation between the previous Aetat and NIA staff is not a major problem – many of the latter are now working on benefit administration in back offices. However, the municipal social workers, in particular, have brought with them a clear separate identity, and are reported, in some municipalities, to feel that "this is the state's reform", which threatens to reduce their autonomy and not fully respect their competence (Andreassen *et al.*, 2007).

128. Thus, there are still "two different owners" of NAV offices (municipalities and central government), and there is no single chain of command, which makes it difficult to build a common culture. The goals laid down in the framework agreement between NAV and the Municipalities Association, namely *i)* to have one contact point per client, who deals with all kinds of needs; and *ii)* to have the office experienced by users as a single unit, are therefore not easily implemented. As a preliminary evaluation[24] of the merger process by the Norwegian Work Research Institute has shown, services have indeed become more integrated in the sense that there is now increased co-operation across previous agency borders. However, integrated NAV offices still differ substantially in how they define a more "holistic" approach to client treatment, with some keeping more or less the pre-merger division of work, while in others caseworkers handle the whole spectrum of clients and problems (Andreassen *et al.*, 2007).

129. One important issue is office leadership. Regulations have tried to facilitate a more streamlined management of local NAV offices by allowing for the appointment of an overall office manager who can make decisions involving both the central administrative and the municipal chain of command. The office leader is accountable to municipalities for municipal tasks (social welfare branch of NAV) and to central government for employment services and benefit payment (labour branch of NAV). Joint discussion between the county NAV director and the general director or mayor of the respective municipality occurs as part of the selection process of the local office leader. It has turned out so far that one-third of the office directors are nominated and employed by the municipalities and two-thirds are civil servants employed by central

24. The Research Council of Norway is carrying out an evaluation of the NAV reform between 2006 and 2013. The goal is to evaluate whether the reform has achieved three primary objectives: *i)* get more people into work, and fewer on benefits; *ii)* more user-friendly services; and *iii)* efficiency improvement. So far evaluations focus on the "process" and efficiency of the reform, while "effects" will be evaluated as from 2010.

government. If no decision is reached on local leadership, then the local NAV office may have two general managers (which is currently the case in about one-fifth of all merged offices).[25] A central dispute resolution board has been set up to solve possible conflicts between the two chains of authority. The county governor will mediate in case local conflict prevents the signing of a co-operation agreement.

130. Other issues concern staff pay, staff training and the need for a joint client database. First, while the general aim is to develop a polyvalent staff able to handle a wider range of tasks, two NAV employees doing the same type of job can still be paid on two different salary scales, depending on whether they were hired by central government or the municipality. This problem is known from other countries that have integrated their employment and welfare services, and one solution can be to leave untouched the salaries of *existing* staff, but create a new salary scale for all *new hires*.

131. Next, it will be necessary to harmonise as soon as possible the computer systems in use by the former PES and the municipal welfare parts of NAV to facilitate better client follow-up. Experience from other countries has shown that harmonising computer systems during such merger projects can be long and cumbersome and threaten to hamper the efficient implementation of the reform. Finally, all partners to the reform are aware of the need to acquire new competences and skills to fulfil the current variety of office tasks, and co-ordinated training for PES, insurance and municipal staff is therefore essential to achieve a shared identity of staff and not the least, a shared approach to activation.[26]

Office resources

132. It is envisaged that by December 2009, around 460 local NAV offices will be established in all areas of the country with almost 11 000 employees in the front-line offices. After some new hiring of staff, the latest count (provided by the Ministry of Labour and Social Inclusion) reported almost 14 000 persons on the government payroll, and about 18 000 staff when the municipal social services are included. Many former employees of the NIA and Aetat were moved to county and other back offices, so that, when the merger process is completed, between 6 000 and 7 000 government staff will work in local offices, while the rest will work in general administration, top-level management (*i.e.* at the Directorate), and intermediate offices (for benefit payment, counselling, complaint procedures, etc.).

133. Staff/client ratios are not easy to determine in the current period of major change in services. Even based on the envisaged staff figures working in integrated NAV offices at end 2009, there is not sufficient information to enable an unequivocal judgment as to how many office staff will be in face-to-face contact with clients from the three major NAV categories (unemployed, the vocationally disabled and social assistance recipients). A prudent estimate could be that 2 000 to 3 000 municipal social workers and half of government staff in local offices (another 3 000 people) work on guidance, counselling and placement in direct contact with the three client categories. This would imply that (in 2008) almost 6 000 staff service a stock of about 150 000 benefit recipients.

134. The number of clients would rise to 250 000 if all jobseekers (not only benefit recipients) were included, but in any event the staff/client ratio, under these assumptions, seems adequate in international comparison. For example, not counting the social worker staff and the social assistance recipients, the

25. In Finland, nominating leaders for the merged LAFOS offices has also been an issue. The decision taken there was to rotate office leadership between the PES and municipal parts.

26. Staff involved in the run-up to the opening of a new office pointed out to the OECD review team: "We cannot simply tell people to work in a different way…. But we have a series of preparatory meetings where we try to orient them towards a common goal…. The day the local office opens, the staff should feel comfortable with their new tasks…".

staff/client ratio for government staff appears to be about 1 to 80.[27] This is on a level with the ratio of 1 to 80 encountered in UK Jobcentre Plus offices (relating to JSA clients) and superior to the target of 1 to 150 set for unemployment assistance recipients in Germany (see Tergeist and Grubb, 2006). The ratio of (government) staff in local offices to all wage and salary earners (1 to about 700) also compares favourably with other OECD countries.

2.6. Key points

- The close integration at local level between the employment office administration (placement and benefit services) with social welfare offices in the new NAV organisation corresponds to an emerging international trend. Among other things, this prevents the revolving-door practice of sending clients back and forth between unemployment and welfare administrations. The introduction of a single contact person per client at the new offices is a promising service tool (although not easy to implement). As to managing the new office structure, despite the one-stop system, NAV staff and offices still report to "two different owners" (*i.e.* central government for unemployed and sick/disabled clients, and municipalities for social assistance clients). Some merged offices even have two directors, with one addressing the needs of the municipalities, and the other in the command chain of central government.

- The system of performance management, with targets set by the Ministry and the Directorate for Labour and Welfare, leaves NAV considerable autonomy in applying allocated grants and choosing appropriate measures to achieve the targets more efficiently. Central targets apply to the former PES side, but not to the municipal actor which follows a separate line of governance. Further, NAV offices are not nationally "streamlined" in the sense that local authorities decide which municipal social services outside of social assistance are integrated under the "NAV roof".

- The integration of the previously separate agencies at local level represents considerable challenges. Much emphasis is needed on training caseworkers to better fulfil their more diverse tasks – which now include clients' work capability assessment – under the new arrangements. Other challenges include building a common pay structure, and harmonising the computer systems in use by the employment services and the municipal welfare parts of the organisation to facilitate better follow-up of clients.

- With its network of "workplace centres", and new administrative rules on the follow-up of individual cases of sick leave, NAV has been given extended responsibilities to support or enforce the required employer/employee dialogue and to contain long-term sickness absence. In view of the continuing high absence rates in Norway, much concern remains about implementation and enforcement of the follow-up approach.

27. Based on the figure of a stock of 164 000 ordinary jobseekers and 83 000 persons undergoing vocational rehabilitation in 2007 (NAV, 2007b).

CHAPTER 3

JOB BROKING AND ACTIVATION STRATEGIES

3.1. Introduction

135. The Norwegian public employment service has a fundamental role in reducing labour shortages and promoting access to jobs for under-represented groups. It does so by contributing to an efficient matching of jobseekers with available vacancies and by improving the employability of the labour force through the provision of specialised services, such as guidance and counselling. While these activities are necessary, they are not sufficient; they need to be complemented by a tightening of "mutual obligation" requirements and the extension of activation principles to those in receipt of passive benefits, if Norway is to succeed in significantly reducing benefit dependency among its working-age population, notably those on long-term sickness and disability benefits.

136. Until recently, the Norwegian public employment service was operating in favorable economic conditions which made it easier to place jobseekers. However, in the current economic downturn, the PES will have to tackle rising unemployment and is likely to experience increasing difficulties in finding employment opportunities for more marginalised groups. Nevertheless, it will have to ensure that they remain economically active and prepared to take the opportunities arising as the economy recovers.

137. This chapter first outlines NAV's main job-broking services and presents quantitative evidence on PES performance and market share. It then discusses the various policy approaches the Labour and Welfare Service uses for the activation of the unemployed and other labour market groups – in particular those on sickness and disability benefits.

3.2. The job-brokerage function

Overview

138. Until 2006, the prime users of the PES were the unemployed and the vocationally disabled, who were offered various individual services aimed at bringing them closer to the labour market. The recent organisational reform has extended the scope of the Norwegian employment service towards a wider range of target groups. NAV now has the responsibility for activating the unemployed as well as groups that are most at risk of being excluded due to health and social problems, including:

- People on sickness benefit;
- Vocational rehabilitation clients;
- Recipients of temporary disability allowances;
- Recipients of a permanent disability pension; and
- Social assistance clients.

139. The current framework offers an integrated service consisting of job placement, job counselling, benefits and active programmes for all the above groups. According to NAV's activation principle, the

major focus is put on job-search assistance and job clubs for easy-to-place clients, while skill-enhancing training and labour market programmes are targeted at those most distant from the labour market.

The active and self-service placement function

140. The ICT revolution has fundamentally changed the nature of job matching and placement services in the majority of the OECD countries. In line with this trend, the new NAV labour and welfare offices offer electronic equipment and web-based tools, enabling jobseekers to access available vacancies and related information to support their job search.

141. Job broking, by definition, involves arranging for jobseekers to find jobs and for employers to fill vacancies. Usually, this requires registering and advertising vacancies, interviewing and obtaining information about jobseekers, and liaison between employers and jobseekers to facilitate the matching process. NAV provides a wide range of such services, using procedures discussed below.

Vacancy registration procedures

142. The 1976 Act on employment services ("*Lov om arbeidsmarkedstjenester*") requires "…that the employer shall immediately notify a vacancy to the employment authority [now NAV]". When employers do not comply with the obligation, the Norwegian PES is authorised to use vacancy information from newspapers and other media and to distribute it through PES-channels. Employers can either register vacancies online, by reporting them directly to the local PES-office, or by notification to a NAV call centre. The vacancies are manually checked to confirm that they meet NAV's required standards. An increasing share of employers favour using the PES internet service over direct notification to NAV offices; the proportion increased from 48% in 2005 to 67% in 2007 (NAV, 2007c).

143. NAV's website (*www.nav.no*) is the most comprehensive vacancy database in Norway. This is largely due to its staff regularly collecting vacancies published in the media and inserting them into the NAV IT system. For instance, in 2007, only 32% of all vacancies registered by NAV were directly notified through employers, while 68% were captured *via* advertisements in the media. Employment services in a number of other countries, such as Denmark, France and Germany, are also following this procedure to enhance the market share of vacancies captured by the PES.

144. Jobseekers can obtain information about vacancies captured by NAV in many different ways. Most common procedures are the internet and self-service terminals in employment offices, as well as direct contact with a NAV employment counsellor. In the past, clients used to obtain vacancy information through vacancy boards, usually located in the lobby of PES offices (OECD, 1993); such vacancy boards are still in use in many NAV offices in Norway, but to a much more limited degree, reflecting the shift towards information technology.

Screening and matching of jobseekers to vacancies

145. The self-registration service for jobseekers and employers was established in 2004. Since then, all jobseekers, including the unemployed, can register over the internet. Once jobseekers register online, their data will automatically be entered in the case registry system at the relevant local NAV office. Jobseekers can also register their CV and are given full control over the type of information they wish to disclose to potential employers. Meanwhile, employers can enter vacancies and search among all unemployed persons for potential candidates. Jobseekers can also choose to present their CV anonymously (anonymous CVs do not include the jobseeker's name, contact information or names of previous employers). If employers want to contact an anonymous jobseeker, they can either use a private area of the NAV website called "My page" or contact an employment officer directly. The share of jobseekers who register themselves online is high – between 68% to 71% in 2006 and 2007, respectively.

146. NAV's internet services are linked to the casework management system, ARENA. Vacancy information entered into NAV's website and from ARENA's internal databases are continuously exchanged. Jobseeker CVs are automatically matched against available vacancies, and suitable job offers are emailed. The exchange of information between the two systems implies that caseworkers can retrieve all important information on unemployed jobseekers in advance of an interview.

147. Most of the matching process is carried out automatically, using the available information technology. In addition, local NAV officers tend to actively follow up clients whose skills are in demand. For example, in circumstances of acute labour market shortage and where specific skills are in high demand, job counsellors may call relevant jobseekers to inform them of the available vacancies.

148. Despite the prevalence of open vacancies, employment officers may also directly refer jobseekers to vacancies, either at the time of registration with the PES or later in their unemployment spell.[28] NAV administrative statistics show that around 38 600 referrals were made to the 46 000 vacancies directly notified to the PES in 2006. Usually, NAV officers send out letters to unemployed clients detailing the vacancy and including a warning of possible sanctions upon job refusal. The PES may also follow up the results of the referrals by contacting both the employer and the referred jobseekers. In case of direct referrals, the employer is asked to report back as to which candidate obtained the job and the reasons why certain jobseekers were not hired.

149. An open vacancy system as described above increases transparency and maximises jobseekers' opportunities for finding work. Such an approach can make the placement function more efficient, particularly when the PES faces a large inflow of jobseekers who are "ready for work". Nevertheless, more pro-active search is needed to identify vacancies suited for disadvantaged groups and more systematic contact with employers is necessary for this purpose. Naturally, when employers have access to all jobseekers registered at NAV and themselves make selections from groups of applicants, clients from disadvantaged groups may have less of a chance to be invited for an interview than when the PES is active as a mediator. Given that the share of short-term unemployed in Norway is relatively low compared with other benefit recipients, greater efforts should therefore be made to place disadvantaged groups into employment.

Job-search aids, vocational guidance and employer outreach

Job clubs

150. The aim of job clubs is to provide the participants with sufficient knowledge and self-confidence to strengthen their job search. Among other things, jobseekers are trained in interview techniques and computer-aided job search, and learn how to write CVs and job applications, to use personal networks, and to contact employers. Most job clubs are run by external providers and are targeted at unemployed aged 19 or above with minimum secondary school qualifications and at the long-term unemployed. The majority of the jobseekers are referred to a job club after three months of unemployment. In 2006, around 10 600 jobseekers participated in Job Clubs (Eurostat, 2008).

Vocational Guidance

151. Vocational guidance is one of the activities of NAV that is free of charge and unlike some other OECD countries, it is delivered within NAV's general placement service.[29] For the majority of jobseekers,

28. Direct referrals can have a number of advantages; for example, speeding up the matching process, helping jobseekers who use inefficient job-search techniques to make contact with employers with vacancies on offer that might otherwise be missed, and reduce unemployment spell duration (OECD, 2007f).

29. For example, the Finnish PES offers a comprehensive career and vocational guidance service delivered through some 250 psychologists based in "job seeking centres" (Sultana and Watts, 2005).

vocational guidance is mainly provided through a range of self help tools (many of them web-based) as well as through the NAV call centres. These include an interest inventory; a career choice programme which offers self-assessments of skills, plus an occupational matching facility; and a career learning programme ("Gradplus", known as Akademia in Norway) adapted from the United Kingdom, addressed mainly to higher education graduates (Sultana and Watts, 2005).

152. In addition, NAV provides help in special "Employment Counselling" units targeted at those unemployed that face particular obstacles and restrictions in relation to work and training, such as jobseekers with sensory loss. Clients may be referred to these units by their PES officer, where they are offered counselling sessions, educational mapping, information and technical aids, etc.

EURES services

153. In the context of growing labour shortages, NAV has been active in providing assistance to employers who want to recruit from other European countries. The EURES network (the European network for co-operation on placement services) is actively supporting Norwegian employers who want to recruit from EEA (European Economic Area) countries. The number of EURES staff in county and local NAV offices was 37 in 2007, almost twice the number several years ago; central management is located at the Directorate of Labour and Welfare. Assistance has been provided particularly with regard to recruiting medical doctors, dentists, nurses and engineers. To fill vacant positions for occupations characterised by labour shortages, recruitment activities are being extended to countries such as Poland, Germany and Sweden.

3.3. Quantitative analysis of job-broking activities

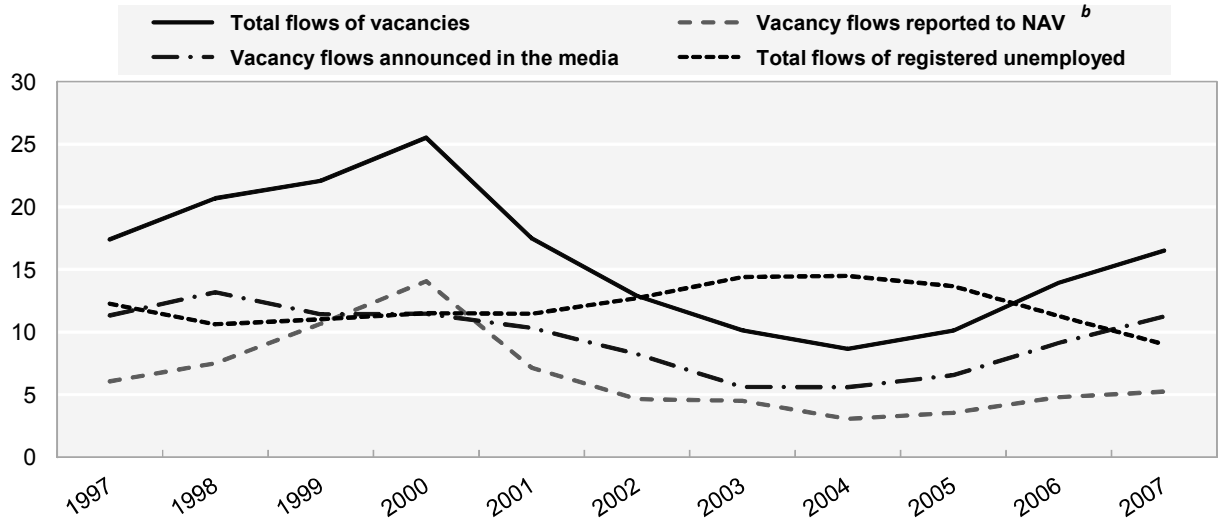
154. PES job broking operates in an environment in which most vacancies are filled through other channels. Under these conditions, the PES is constantly competing with other actors in the labour market and aims to acquire a strong position in the market to serve its clients. A number of indicators can be used to assess the performance of the PES against this goal. These include the number of jobseekers registered with the PES; registered job vacancies relative to all job openings; the number and share of openings filled with PES referrals; and the share of total new hires in the economy mediated by the PES.

155. NAV records statistics on *i)* jobs notified directly to NAV staff, *ii)* those reported on the NAV website, and *iii)* jobs advertised in the media. Figure 3.1 shows the annual inflow of vacancies and of registered unemployed over the past decade.[30] The total proportion of vacancies declined from almost 13% of the labour force in 2002, corresponding to about 300 000 vacancies, to 9% in 2004 – a fall of 100 000 vacancies. Jobs reported in the media started to increase again in 2003, and have subsequently increased at a significantly higher rate than the vacancies directly notified to NAV. This may reflect some perceived inefficiency of the PES which has led employers to substitute advertising to NAV by advertising in the media. Currently, the total inflow of new vacancies has reached 400 000 (of which 127 000 directly notified to NAV), equivalent to 16.5% of the total labour force. By contrast, the inflow of registered unemployed fell in 2007 to 219 000, its lowest level since over a decade, and the equivalent of 9% of the labour force.

30. A striking feature of the graph is the sharp increase in the supply of job vacancies reported to the employment service between 1999 and 2000. This was mainly due to a greater commitment by the PES to target the short-term market in collaboration with temporary agencies. The subsequent decline in this commitment contributed to the fall after 2000 (Aetat, 2000). It is also important to note that there is a break in the administrative statistics from May 2001 to October 2003 (NAV, 2007b). Thus, for consistency purposes the text concentrates on trends in the data mainly from 2003 to the current period.

Figure 3.1. **Flows of vacancies[a] and registered unemployed, Norway, 1997-2007**

Percentage of total labour force

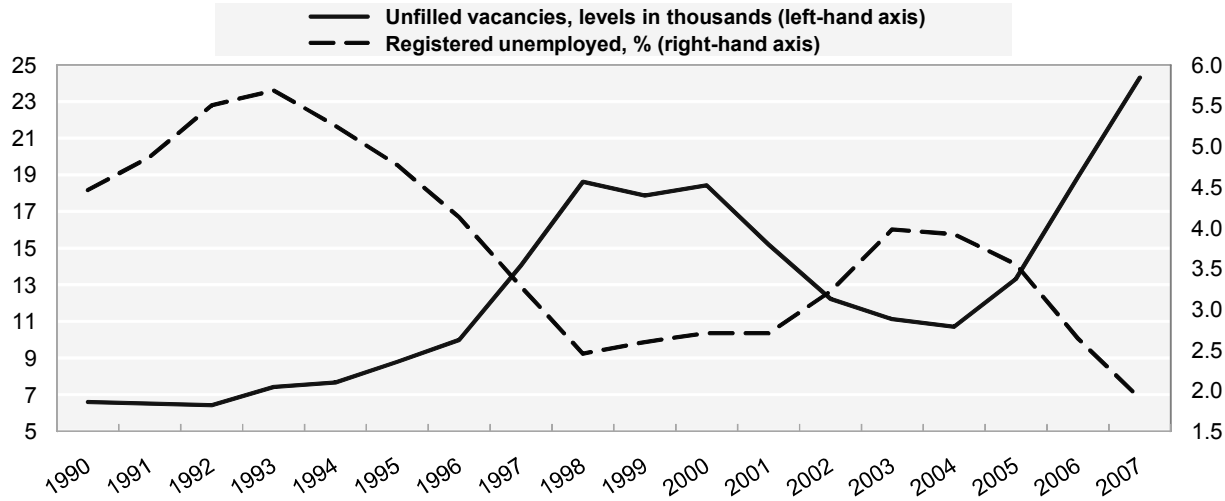


a) Break in series in May 2001.
b) Data refer to the sum of vacancies reported to NAV and the NAV website.
Source: NAV (2007b), *Historisk arbeidsmarkedsstatistikk* (Historical Employment Statistics), for inflows of vacancies and registered unemployed; and *OECD Labour Force Statistics database* for labour force.

156. Figure 3.2 shows the stock of unfilled vacancies and registered unemployment for the period from 1990 to 2007. In line with improving labour market conditions, the annual jobseeker stock as a share of the labour force fell from almost 4% in 2003 to 1.9% (the equivalent of 46 000 persons) in 2007. By contrast, the stock of unfilled vacancies rose from just around 11 000 to its highest recorded level of 24 000 in 2007, corresponding to 1% of the labour force.

Figure 3.2. **Stock of unfilled vacancies[a] and registered unemployed, Norway, 1990-2007**

Levels and percentage of total labour force



a) Break in series in May 2001.
Source: OECD Main Economic Indicators database for unfilled vacancies; NAV (2007b), *Historisk arbeidsmarkedsstatistikk*, (Historical Employment Statistics) for registered unemployed; and *OECD Labour Force Statistics database* for labour force.

157. The rising share of unfilled vacancies reflects the high labour demand which is not met by the pool of unemployed, which currently stand at its lowest historical levels. It may also show a mismatch between supply and demand, where the skill requirements of vacant jobs do not match the skills that the relatively few remaining jobseekers have to offer. This is consistent with the growing reported skill shortages particularly in the construction, engineering, health care and transport sectors. Results from NAV's latest business survey show that 44% of the companies reported having trouble recruiting 'the relevant labour', an increase of 15 percentage points from 2006 (NAV, 2007a, 2007d). Indeed, a rising mismatch between labour supply and demand is also a common phenomenon in other Nordic countries such as Denmark, Finland and Sweden (OECD, 2007e). The low levels of unemployment together with high labour demand provide a strong rationale to increase the labour supply from within the working-age population.

158. Table 3.1 compares several indicators of NAV market penetration over three different time periods. Such indicators are relevant measures of the PES performance in enhancing market transparency. The market penetration rate is the share of all vacancies in the economy handled by the PES (during a specified period). However, since direct information about the size of the total vacancy market is lacking, we use two different proxies to calculate this ratio. We first use the total number of vacancies captured by NAV as a proxy of the total vacancies in the economy.[31] Second, we use total recruitment in the economy as proxied by the number of workers with job tenure of less than one year from the labour force survey.[32]

Table 3.1. **Indicators of NAV market share, 1997, 2002 and 2007**

Percentages

	1997	2002	2007
Registered vacancies directly notified to PES/total vacancies	34.9	36.1	31.9
Registered vacancies directly notified to PES/hirings[a]	39.3	30.1	29.4
Registered vacancies captured by PES/registered unemployed			
Total vacancies[b]	1.4	1.0	1.8
Vacancies reported to NAV	0.5	0.4	0.6

a) Job tenure below one year.
b) Including vacancies reported to NAV, and those advertised in the media.
Source: NAV (2007b), *Historisk arbeidsmarkedsstatistikk* (Historical Employment Statistics); and *OECD Job tenure database* for hirings.

159. To measure PES market penetration, only vacancies directly notified to NAV (rather than the sum of vacancies advertised in the media and those reported to NAV) should be used. Accordingly, in 2007, NAV's market share in total vacancies, measured as the percentage of total vacancies reported to the employment service, can be estimated at 32%, while the share of registered vacancies in total hirings is estimated at 29%.

160. Another frequently-used performance indicator is the share of placements *via* the PES among the total number of vacancies occurring over a given period. In theory, the employment service is actively following up the results of its referrals, and jobseekers are obliged to report to NAV when they have found a job. While this should lead to information about placement rates, NAV in recent years has not published

31. Results from a NAV recruitment survey undertaken in 2005 show that vacancies directly notified to NAV and those captured by NAV from the media represent 92% of the total vacancies in the economy. The survey covered 7 000 Norwegian companies (Aetat, 2005).

32. Some estimates of all hirings and job quits in the Norwegian economy are available for the period 1990-2004 (see Dale–Olsen, 2006).

such placements statistics.[33] More generally, using this indicator as a performance measure has become increasingly problematic as it is often extremely difficult to clearly distinguish placements "with the active help of the agency" from job-finding and vacancy-filling through other channels. Moreover, there is no common definition of what constitutes a PES-initiated placement because the degree of intervention of the employment office will vary in the matching process.

161. The relationship between vacancies and unemployment gives a broad indication of the number of claimants competing for NAV vacancies. The annual flow of vacancies notified to NAV fluctuated between 108 000 in 2002 and 127 000 in 2007. During this period, there was less than one notified vacancy per registered unemployed. However, the vacancy-to-unemployed ratio is improved substantially when using total vacancies captured by NAV, including those advertised in the media. Using this definition, during 2007 around two vacancies were notified for every registered unemployed.

162. Overall, the use of NAV services by employers remains relatively limited. Results from a recruitment survey carried out in 2005 on behalf of NAV show that only 16% of employers use NAV as a recruitment channel. The most popular medium of recruitment was through the employer's own personal contacts (37%), followed by advertising in newspapers (Aetat, 2005).

3.4. The Norwegian policy approach towards activation

163. The idea of "work first" (whereby receipt of benefit is strictly dependant on active job search or participation in a labour market measure) has been at the forefront in Norwegian employment policies since the early 1990s, in particular for unemployment benefit and social assistance recipients (Lodemel *et al.*, 2001; Halvorsen and Jensen, 2004).[34] However, the contrast between the high share of people on welfare benefits – above all, sickness and disability benefits – on the one hand, and low unemployment on the other, underlines the need for stricter labour market conditionality for recipients of welfare benefits. Indeed, Norway has increased its commitment to this policy stance by creating incentives that affect the labour market behaviour of such groups. The text below discusses the different strategies for setting appropriate availability-for-work requirements that have been used to achieve the rapid return to work of recipients of the various welfare benefits.

Ordinary unemployed

164. Corresponding to an international trend, the initial period of unemployment tends to involve jobseekers seeking work on their own, with NAV providing assistance and guidance as required. If it becomes apparent that none of the self-activation tools are working, or the jobseeker from the start is evaluated to need special assistance, then jobseekers will be given an intensive follow-up service. The intensive follow-up service usually starts after about three months of unemployment and takes the form of greater contact with the unemployed, further guidance on job search (such as participation in job clubs) and referrals to labour market measures. The most commonly used measures are Labour Market Training (AMO), work experience and wage subsidies to employers. Among "ordinary unemployed", immigrants, young people and the long-term unemployed have first priority for places on the schemes (see Chapter 5 for more details on labour market programmes).

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33. There is some evidence that starting from 1996 PES placement statistics were exaggerated by local office practices that developed in response to "goal-oriented administrative procedures". In 2000, a controversial external audit estimated that "25% to 30% of Aetat's labour exchange activities have been registered falsely according to its own procedural rules", and a "clean-up operation" followed (EIRO, 2000, 2001). Following this controversy, the Ministry of Labour and Aetat/NAV have stopped disclosing figures on placements (*i.e.* vacancies filled with the help of the agency).

34. Later in the 1990s, most Norwegian social protection schemes were modified by reinforcing the link to employment (*arbeidslinjen*). See Lodemel *et al.* (2001), and Halvorsen and Jensen (2004) for more details.

165. NAV also uses a range of systematic interventions in the initial stages of unemployment that monitor job-search efforts and thereby ensure that individuals are actively seeking work during the unemployment spell (see Box 3.1). In addition, it seems that sanction rates are relatively high and tend to have positive effects on job search and job take-up (see Chapter 4).

Box 3.1. **PES interventions in the unemployment spell**

The public employment service can use various kinds of interventions designed to ensure that UI benefit recipients engage in effective job-search and monitoring. The following arrangements are operated by the labour and welfare services in Norway:

Employment status registration

When an unemployed person has registered as a jobseeker, he/she will receive an employment status registration card, known as *meldekort*. This card needs to be filled in and returned to NAV every two weeks until the jobseeker finds a job. This way, the jobseeker stays registered as an active jobseeker, and NAV is able to keep track of the number of jobseekers. It is possible to send the employment status forms electronically through the Internet or directly to NAV *via* mail.

Individual Action Plan

At the initial interview, all registered unemployed sign an "individual service declaration" which is akin to an individual action plan. This outlines the need for job-search activities to be carried out in the period up to the next interview with the employment officer.

Frequency of interviewing

Usually, the initial interview takes place within the first three weeks of registering with NAV. At the initial interview, the employment officer provides information on the jobseeker's rights and obligations, and a search is carried out in NAV's jobs database for suitable vacancies. In addition, the jobseeker is given tips and advice on job seeking.

The jobseeker will be called in for a follow-up interview no later than three months after the initial interview. The subject of this meeting is jobs, and the focus is on the jobseeker's opportunities in the labour market. The jobseeker is encouraged to be occupationally and geographically mobile. Any additional need for guidance and training is clarified, and jobseekers requiring more intensive follow-up may be offered participation in a job club, skills training or another labour market measure.

Reporting of job verification and job search

Jobseekers claiming unemployment benefit must report their independent job-search activities either by showing copies of job applications or by filling in a "job-log" which lists the jobs and employers contacted and their outcomes. Job-search activities are reviewed every three months during the intensive interviews outlined above.

Source: OECD (2007f).

Tackling youth unemployment

166. To ensure that young people are not falling through the "gaps", since 1994, all counties established a follow-up service and a "youth guarantee" for young people between the ages of 16 and 19, who are neither in education nor in regular work. Under the youth guarantee, such groups receive an offer for further education, training or for the participation in specific labour marked measures. The follow-up of these young people takes place through co-operation between various agencies, including the county offices, NAV, and educational authorities.

167. More recently, in 2007, the youth guarantee was extended with the objective of giving more targeted assistance and guidance through a "follow-up" guarantee for youth aged 20-24. The guarantee

implies that NAV shall contact and interview all jobseekers in this age group who have been unemployed at least during the last three months. In the meeting with the young jobseeker, the employment officer in charge shall first and foremost have a focus on active job search. The officer may ask the jobseeker to apply for specific jobs and provide help in this process. Further assistance from NAV shall be adapted to the jobseeker's individual needs and qualifications, with the aim of a quick transition to employment or further education. Jobseekers may be offered participation in an active measure, but only after a period of unsuccessful job search. In this case, youth are most often placed into ordinary enterprises with the help of a subsidy. Young people as from the age of 19 are also eligible to join labour market measures such as job clubs. From 2009, all 20-24-year olds that have been unemployed for more than 6 months will receive an offer for a place in an active programme.

168. In 2006 and 2007, about two-thirds of young jobseekers aged 20-24 years were followed-up with special measures. During the same period, unemployment in this age group decreased by over a quarter (NAV, 2007a). The extension of the youth guarantee to 20-24-year olds is a positive step towards activation of the unemployed. However, while the available documentation states that NAV "shall first and foremost offer motivation and recruitment assistance to young jobseekers in this age group", it is not known whether any benefit sanctions are applied in the case of refusal to participate in the measures offered (OECD, 2008d).

Tighter gate-keeping of entry to sickness and disability benefits

169. In Norway, a significant share of people on health-related benefits are activated *via* participation in rehabilitation measures. It is now widely recognised that long-term sick leave is the initial step to disability benefit in many countries (Carcillo and Grubb, 2006). This is indeed highly prevalent in the case of Norway. As a consequence, the Norwegian Government has introduced a range of measures implying, in particular, a closer follow-up of persons on sick leave.

Stricter monitoring of sick leave

170. Evidence suggests that for many people, early interventions help to prevent short-term sick leave from progressing to long-term absence. The importance of reducing sick leave to achieve the long-standing agenda of reducing reliance on disability benefits was highlighted in OECD (2006). A number of measures have been implemented in this regard. As noted in Chapter 2, the activation of persons on long-term sick leave is based on the tri-partite Inclusive Workplace Agreement (IW). Subsequently, new regulations (March 2007) in the Working Environment Act and in the National Insurance Scheme imposed stronger obligations on employees, employers and labour market authorities to monitor sickness absence.

171. The main tool of early intervention is the mutually binding follow-up plan agreed between the employer and employee. Recent revisions to the Working Environment Act require that *i)* a follow-up plan is prepared at the latest, when the employee has been wholly or partly absent from work for a period of six weeks; and *ii)* a dialogue meeting between the employer and the employee concerning measures to be taken under the follow-up plan is set up at the latest within twelve weeks.

172. As part of the NAV reform, the organisation has been given greater responsibility in monitoring and managing the sick leave follow-up. According to the National Insurance Act, NAV needs to, *inter alia*, *i)* control the employee's sickness certificate and the follow-up plan; and *ii)* arrange another dialogue meeting after six months with all parties concerned, possibly with the participation of the person's medical doctor and trade union representative.

173. Preliminary data recorded by NAV in relation to the monitoring and reporting of sickness absence show that there is still much improvement to be made both on the side of the labour authorities and of

employers. Table 3.2 shows some preliminary outcomes of the individualised follow-up of people on sick leave by employers and NAV in late 2007.[35]

Table 3.2. **Outcomes of sick-leave follow-up procedures, Norway, 2007[a]**

Units and percentages

Monthly average of people who have accumulated at least *6 weeks* of sick leave	**20 945**	
Number of plans set up between employers and employees	8 699	*(41.5)*
Number of plans employers submitted to NAV	6 319	*(30.2)*
Monthly average of people who have accumulated at least *12 weeks* of sick leave	**12 903**	
Planned meetings registered with NAV	2 491	*(19.3)*
Meetings held	1 755	*(13.6)*
Monthly average of people who have accumulated at least *6 months* of sick leave	**7 225**	
Planned dialogue meetings with NAV	3 781	*(52.3)*
Meetings held	1 154	*(16.0)*

a) Monthly average from September to December.
Source: NAV (2007a), *Årsrapport 2007,* Oslo.

174. As evident from the table, the number of follow-up plans and meetings held between the employees and the employers remain substantially below the number of cases of sick leave passing the six-week and twelve-week thresholds.[36] The number of meetings with the NAV offices has also remained low. For example, while NAV planned to hold dialogue meetings with the employer and the employee for around half of the employees on sick leave passing the six-month threshold, less than a third of planned meetings were actually held in 2007.

175. While some elements of the Norwegian follow-up model of sickness absenteeism seem promising, the lack of implementation and enforcement of its rules undermines the potential of such a policy. For instance, it is not clear what is being done if *i)* no follow-up plan is prepared; *ii)* a plan has been prepared but is not followed; and *iii)* the required dialogue meetings are not being held. Indeed, little is known about what sanctions, if any, there are either for the employer, the employee or particularly for the responsible NAV office. Thus, it is important that the right incentives and sanctions are built in to improve policy outcomes.

176. The problem of sickness absence is not unique to Norway. In recent years, Denmark and the Netherlands have also introduced guidelines for early intervention in monitoring their high sickness absence. Similar to Norway, in the Netherlands, the employer together with the employee needs to draw up a plan by week eight, which is reviewed every six weeks. In Denmark, the monitoring is more sophisticated and targeted at the category which is most at risk of a long period of illness endangering the ability to work. Since 2005, the Danish approach to decreasing sickness absence includes the classification of sickness into three categories. Follow-up occurs every 4 weeks for the category most at risk (every 8 weeks for the other categories) and a follow-up plan must be established within 16 weeks (OECD, 2008e). However, it is

35. So far, data have only been made available for the months of September to December 2007. Unpublished, preliminary data for 2008 seem to confirm the trends noted below.

36. There may be exceptions for submission of a follow-up plan if the employee concerned is likely to return to work soon or if the problem is of such a nature that he/she will not return to work. For example, employees on part-time sick leave and "active" sick leave (where employees on sick leave return to the workplace to perform tasks adapted to their needs) are not called for meetings. Indeed, at any point in time a third of those with at least 12 weeks of sick leave are on part-time sick leave. This implies that the proportion of cases where requirements are being met would be somewhat higher than shown in Table 3.2.

important to bear in mind that any sickness follow-up system, and in particular the role that employers play in it, depends on the extent to which the latter are responsible for paying sickness absence. Several other countries, among which the Netherlands, have adopted a gate-keeping model, which gives firms more incentives to control sick leave by shifting a larger part of the costs of absences on to them.

177. Furthermore, the statistics show that the model of sickness follow-up based on a consistent dialogue with the local authorities and employers is likely to be resource intensive. In this perspective, regular interaction with managers and employers *via* electronic exchanges seem important in the longer term to maintain the high pressure on follow-up.[37] This strategy may be particularly useful at times of higher unemployment, where PES resources are likely to be diverted towards the activation of the unemployed.

Increased focus on vocational rehabilitation

178. The vocationally disabled (those undergoing vocational rehabilitation) have been the fastest growing group registered at NAV. This has caused a shift in focus by the employment service in favour of a stronger emphasis on the vocationally disabled and their reintegration in the ordinary labour market. Thus, similar to the ordinary unemployed, the vocationally disabled can use the whole range of services available from NAV, from information and counselling to job-placement assistance and participation in Job Clubs.

179. In addition, where vocational rehabilitation is considered as appropriate and necessary to ensure that the person can enter or re-enter into ordinary work, an individual rehabilitation plan is drawn up. In this process the jobseeker's qualifications and vocational opportunities are considered before the NAV counsellor agrees with the client on the choice of measures to be undertaken. The plan describes the list of actions to be taken by the jobseeker and the assistance to be provided by the employment service. (Government of Norway, 2006).

180. As noted above, vocationally disabled jobseekers with special and complex needs may also be referred to an Employment Counselling office. These units are located in all counties and are staffed by rehabilitation specialists, including psychologists. The psychologist follows up with a report to the local NAV counsellor who is responsible for approving the action plan and its implementation.

181. The increased focus on vocational rehabilitation, combined with the tight labour market of recent years, also means that more vocationally disabled people succeed in going back to the open labour market. From 2005 to 2007, the proportion of vocationally disabled starting employment between two and three months after the end of their rehabilitation measure increased from 41% to 47% (Asland and Reiersen, 2006; NAV, 2007a).

Medical rehabilitation

182. Since 2001, the Norwegian Health Care Act provides persons undertaking medical rehabilitation the legal right to an individual action plan. The overall aim is to ensure that the primary health care, specialised health services and the municipal social services are considered as a whole, and are well co-ordinated. An individual plan is based upon personal needs and circumstances, and each individual is given the opportunity to play an active part in designing and implementing the plan. Although the municipal staff are obliged to inform individuals about their right to an individual action plan, there is a concern that many users do not ask for such a plan because they do are not aware of this right (Ministry of Labour and Social Affairs, 2005).

37. NAV is currently working on implementing IT solutions to improve such interactions with employers.

Temporary disability benefits

183. From 2004, a temporary (one to four years) disability pension scheme was introduced, aiming to increase the frequency of disability pension reassessment and thus reduce the growing proportion of persons drifting on to a permanent disability pension. For persons covered by this temporary scheme, an individual follow-up plan needs to be prepared. Receiving the allowance is contingent upon the participation of the claimant in the preparation and realisation of this plan, as well as on participation in any medical treatment and rehabilitation offered (Harslof, 2008).

184. It is apparent from the above that in the Norwegian social insurance system, more emphasis is being placed on claimants' active participation in the rehabilitation process. While this approach has its benefits, it may be possible to test a more stringent activation approach such as the Pathways-to-Work programme in the United Kingdom which requires mandatory work-focused interviews (WFI) for all new claimants of disability benefit.[38] The implementation of such a policy scheme may become more feasible in light of the new single disability benefit which merges the three previous benefits – medical rehabilitation, vocational rehabilitation and temporary disability (see Chapter 4 for more details).

Early identification and follow-up of individuals

185. As seen above, so far, activation measures at NAV have addressed target groups that NAV inherited from the previous three institutions. The set-up of the new one-stop shops has encouraged a more comprehensive and systematic approach to identifying individual needs and following up on NAV clients.[39] NAV is currently working on adopting a more standardised approach to setting up individual action plans based on a structured "work capability assessment". All jobseekers have a right to the workability assessment and within the new framework, an early identification and follow-up strategy is to be applied to all those receiving services from NAV (Box 3.2).

Box 3.2. **Profiling and selection for follow-up in the Labour and Welfare Service**

In line with the objectives of the work-oriented welfare regime, intensive follow-up of NAV clients is central to the Norwegian activation strategy. Norwegian authorities are currently developing a procedure aimed at rapidly assessing individuals' "work capability". The aim of the tool is to identify those that need more help at an earlier stage and to assess what measures are required to maintain attachment to the labour market. The new procedures will be implemented as from 1st January 2009.

The profiling tool will comprise the following minimum standards:

- **Judgment of the need for help**: The initial contact with the PES contains an assessment of the individual's needs for special support and follow-up. This is mandatory for all NAV clients who seek or demand help or support for employment. It includes a discussion of available job opportunities; the type of job sought; the need for assistance to find work; an assessment of any reductions of work capability; and the kind of assistance needed to overcome labour market barriers;
- **Client's self-judgment**: This is to ensure that clients are actively engaged and are given responsibility in mapping out their needs. Applicants for medical or vocational rehabilitation, time-limited disability benefit and social assistance recipients on a qualification programme are special target groups in this process; for these client groups the initial assessment will be a first step towards a more comprehensive evaluation;

38. See OECD (2007d) for more detailed information on the design and success of the Pathways-to-Work programme for disability beneficiaries in the United Kingdom.

39. The Labour and Welfare Directorate reports that previously, jobseeker assessments were done with a large degree of discretion on the part of the case manager. Further, there were large variations between offices concerning the right to participation in a labour market programme.

- **Establishment of resource profile**: The next stage is to produce a resource profile which indicates the client's barriers and competences. The resource profile will contain several elements such as work experience, education and personal interests. In addition, information about health and social circumstances is included. In some cases there will be a need for professional evaluation of the client's personality, health and competence levels in addition to the profile established by the case worker; and
- **Set-up of an action plan**: The activity plan will be produced in cooperation with the jobseeker and is binding for both parties. The basis for the activity plan is the resource profile. Activity plans are not produced for participants in the qualification programme and for persons on long term sick leave, where the employer is responsible for follow-up.

The new profiling and follow-up system could be a promising step towards enhancing activation measures. But the success of such a scheme is dependent on its rigorous implementation and its balance of carrots and sticks. This should involve setting clear goals that can be easily measured, and regular assessments of the system with a view to continuous improvement.

186. Given the heterogeneous nature of NAV clients, such a systematic strategy should strengthen the activation regimes that were previously fragmented, due to the multi-tier system of welfare services (as seen earlier in Chapter 2). Furthermore, the activation of a larger client group is likely to be labour-intensive. In this context, the envisaged methods of early identification and follow-up can channel the allocation of the employment agencies' scarce financial and staff resources to those that need it the most.

3.5. Key points

- The job matching and placement function is one of the core activities of the NAV Labour and Welfare offices. Until recently, the public employment service was primarily responsible for activating the unemployed and those on sickness benefits. However, under the new NAV offices, the scope of the Labour and Welfare Service has extended to a wider range of target groups, such as recipients of social assistance and vocational rehabilitation benefit. In this context, the Service faces the challenge of increasing participation and reducing inactivity of disadvantaged groups, as well as keeping unemployment low in the current situation of a global economic slowdown.
- Over the past few years, the Norwegian labour market faced high labour demand and growing labour shortages. To this end, the expanding electronic and self-service procedures have been efficient tools to speed up the matching process for employable clients. Nevertheless, employment officers need to pay attention to direct interaction between staff and individual clients, in particular those with a larger distance from the labour market. Furthermore, it could be helpful if the PES increased its co-operation with employers and played a more active role in acquiring vacancies that are suited for placing relatively disadvantaged groups.
- The high numbers of working-age people on disability and sickness-related benefits have been a striking feature of the Norwegian labour market. The tighter gate-keeping measures for entering sickness and disability benefits have delivered disappointing outcomes so far. The results from the intensive follow-up model of persons on sick leave show that more work needs to be undertaken both on the side of employers and of the Labour and Welfare authorities. The number of follow-up plans and meetings held between the employer and the employee on sick leave remains substantially below target, while the number of meetings between the employer, employee and the local NAV office also remains insufficient.
- Concerns remain around the activation or "mutual obligation" approach, given the underlying disincentive effect of relatively generous benefits in Norway. On the one hand, the joint front-line offices, to some extent, will provide better opportunities to obtain clarification of jobseeker status and appropriate follow-up services based on the individual's situation and needs, which is supposed to benefit NAV's various target groups. On the other hand, it is important that strong incentives backed by effective sanctions for the different actors involved in monitoring and follow-up are in place to improve future outcomes.

CHAPTER 4

UNEMPLOYMENT AND RELATED BENEFITS

4.1. Introduction

187. The Norwegian welfare model rests on a high labour force participation rate which in turn requires strong incentives to work. Therefore, it is essential to assess whether current work incentives are strong enough to ensure high participation. The objective of this chapter is to provide some insights into this fundamental question. The chapter starts with an overview of the Norwegian social benefit system from a comparative perspective and then looks in subsequent sections at unemployment benefits, health-related benefits and social assistance, while also discussing available approaches to "activate" benefits for social assistance recipients and marginal groups. More specifically, the chapter takes up eligibility rules, benefit duration, replacement rates and benefit sanctions, and analyses the impact of these various factors on labour market participation, enrolment in education and training, and transition to employment.

4.2. Main features of the Norwegian social benefit system

188. In Norway, social security is a *universal* system. Unemployment benefits, sickness benefits, rehabilitation (medical and vocational), disability and old-age pensions, as well as benefits related to pregnancy, birth and childcare, are part of the National Insurance System. Unlike most other Nordic countries, unemployment insurance is compulsory (NOSOSCO, 2007). The contributions to National Insurance amount to a rate of 7.8% for employees, farmers and fishermen, 0-14.1% for employers (differentiated by region), 3% for pensioners and 11% for the self-employed (Ministry of Labour and Social Inclusion, 2008). In addition, 29% of total expenditure is financed out of the national budget. Out-of-work benefits of the National Insurance System are generally determined in relation to a basic amount of annual earnings. This amount is adjusted by Parliament once or several times a year. The basic amount in January 2008 was NOK 66 812 (EUR 8 279)[40] (NAV, 2007a).

189. Those not covered by the Social Insurance System, or for whom benefits granted by this system are too low, can receive means-tested social assistance, financed by the municipalities with the help of government grants. Social assistance is considered as the last-resort, safety-net benefit.

The out-of-work benefit system in a comparative perspective

190. The main benefits granted in OECD countries to the out-of-work population of working age are unemployment benefits, health-related (sickness and disability) benefits, early retirement, social assistance and lone-parent benefits. The balance between these benefits varies significantly from country to country. Table 4.1 shows the share of the working-age population dependent on various types of out-of-work benefits in Norway. As evident from the Table, the share of the working-age population receiving unemployment benefit is very low, while the share of those getting a benefit due to sickness or disability is comparatively high.

40. At an exchange rate NOK/EUR of 8.07 (see Chapter 2, footnote 21).

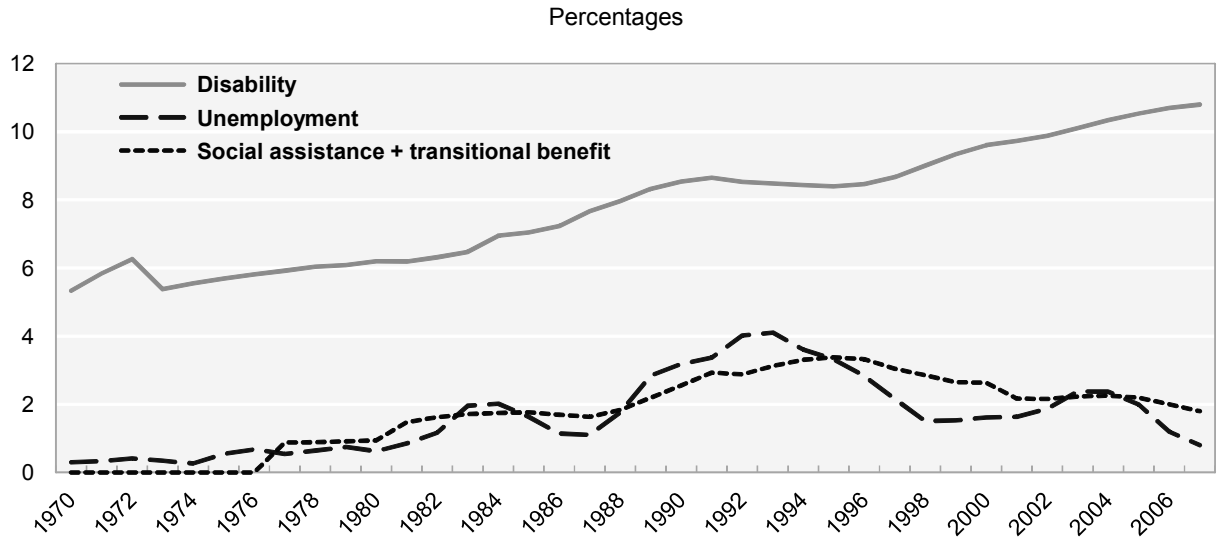
Table 4.1. **Working-age population by selected out-of-work benefits, Norway, 2007**

	Number	Percentage of working-age population (15-64)	Gross replacement rates (%)
Sickness benefit	121 500	3.9	100.0
Medical rehabilitation	47 100	1.5	66.0
Vocational rehabilitation	83 300	2.7	66.0
Time-limited disability pension	38 700	1.3	66.0
Permanent disability pension	294 900	9.5	53.0[a]
Unemployment benefits[b]	24 500	0.8	62.4
Social assistance[c]	33 500	1.1	Not related to previous income, but means-tested
Transitional benefits (for caring for children)	23 200	0.8	
Early retirement[d]	44 300	1.2	

a) Replacement rate in 2004.
b) Full-time unemployment benefits and half of part-time unemployment benefits (as a proxy for full-time equivalents).
c) For unemployed not participating in a measure, or for persons out of the labour force, but younger than 67.
d) Data refer to 2005.
Source: NAV (2007a), *Årsrapport 2007* for health-related benefits (data refer to December 2007); NAV (2007b), *Historisk arbeidsmarkedsstatistikk* (Historical Employment Statistics) for unemployment benefits; *www.ssb.no* for social assistance; and data provided by national authorities for early retirement.

191. In fact, nearly a fifth of the working-age population receive an income support on grounds of health problems or disability. Based on the sum of all out-of-work benefits, it can be concluded that nearly a fourth of the Norwegian population are granted benefits to support phases out of work.[41] Given the high employment rate (76.9% in 2007), almost all persons not working receive some kind of income support from government transfers. Figure 4.1 illustrates the long-term rise of disability benefit receipt in Norway, as well as the declines in unemployment and social assistance benefits since the mid-1990s.

Figure 4.1. **Trends in the share of working-age population receiving unemployment[a] and disability benefits, and social assistance,[b] Norway, 1970-2007**



a) Full-time unemployment benefit and half of part-time unemployment benefit recipients (as a proxy for full-time equivalents).
b) Recipients who are unemployed, but not participating in a measure, or out of the labour force, but younger than 67. Data include transitional allowance for parents caring for their children aged 0-8 years. Transitional allowance paid for children between the age of 3 and 8 is linked to an activation requirement.
Source: Calculations based on data from Statistics Norway (for disability, unemployment and social assistance); and NAV (for the transitional benefits included in social assistance).

41. However, recipients of rehabilitation benefits are usually required to participate in active labour market measures.

192. Earlier OECD work has presented cross-country trends in the receipt of unemployment, disability and sickness benefits, as well as social assistance and/or lone-parent benefits (Carcillo and Grubb, 2006). Based on this work, three types of countries can be distinguished when considering the evolution of benefit recipiency since the mid-1990s:

- Countries like Finland, France and Spain, where unemployment benefit and disability benefit rates have remained at similar levels (but in France the number of social assistance recipients has increased substantially);
- Germany, where the number of unemployed increased significantly while the share of the working-age population on disability pensions and on social assistance has remained relatively stable but at a much lower level;[42] and
- Countries where the disability rate increased while unemployment has undergone cyclical variations but remained at markedly lower levels (Norway, Denmark, Japan, the Netherlands, the United Kingdom and the United States).

193. While the comparability of the data in the OECD study is limited, Norway comes out on top of a dozen OECD countries in the combined share of recipients of sickness, disability, unemployment and social assistance benefits. The study also shows that countries make different choices regarding the role and use of different benefit schemes. The available data suggest that there is a trade-off between the different benefit types, and that the number of unemployment benefit recipients gives an incomplete picture of the excess labour supply in a country. To give an example, although in 2004 the share of unemployment benefit recipients within the working-age population in Germany was more than four times higher than in Norway, the sum of the share of social assistance, disability and unemployment benefit recipients was slightly higher in Norway (and this despite higher employment rates in Norway).[43]

Gross and net replacement rates

194. Table 4.1 above gave an overview of gross replacement rates for different types of benefits in Norway. As to unemployment benefits, Figure 4.2 allows a closer look at net (after tax) replacement rates. It shows that income replacement for Norwegians at their initial phase of unemployment depends both on the family situation and the previous wage level, and that net replacement rates for households with children tend to be higher than for households without children.

195. Without taking social assistance into account, in 2005, in the initial unemployment phase the net replacement rate of a single unemployed person in Norway who earned the average wage was 64%; it was 70% for a one-earner married couple with two children; 77% for a lone parent with two children; and went up to 81% for a two-earner married couple with two children.

196. A comparison of net replacement rates of unemployment benefits across OECD countries shows that at average wage levels in a majority of countries net replacement rates are higher for families with children than for single persons. Figure 4.2 shows that the gap between these two family types is in fact much less significant in Norway than in a number of other countries, such as Australia, Ireland and the United Kingdom.

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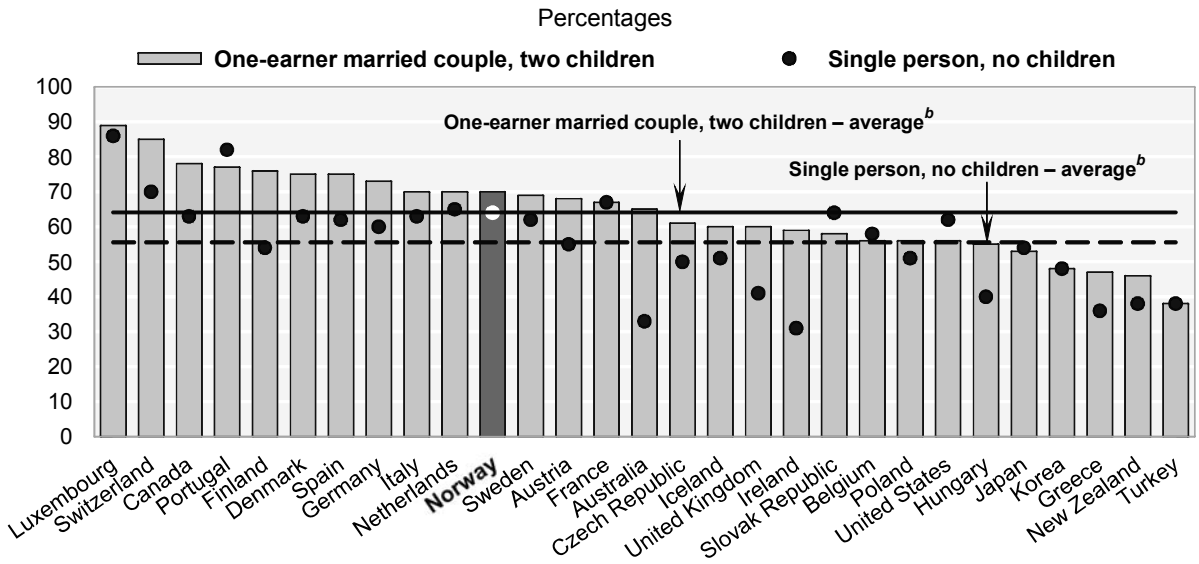
42. In 2005 a labour market reform was implemented which combined benefits for unemployment assistance and employable social assistance recipients. This change is not reflected in the Carcillo and Grubb publication.

43. This being said, in Germany early retirement is more widespread and the average labour market exit age is relatively low. In Norway, to some extent the disability benefit scheme has been used as an early retirement scheme.

Figure 4.2. **Net replacement rates[a] of unemployment, OECD countries, 2005**



a) Net replacement rates for two family types during the initial phase of unemployment. Data refer to the ratio of household net income after becoming unemployed to household net income on 100% of average earnings (AW).
b) Unweighted average of countries shown.
Source: OECD Tax-Benefit Models, *www.oecd.org/els/social/workincentives*.

197. Norwegian households with an unemployed person who earned two thirds of the average wage, had higher net replacement rates than average wage earners, ranging from 66% for a single person without children to 94% for a lone parent with two children. Naturally, rates are lower for persons who earned 150% of average wages (for example, 47% for single persons), but for practically all family types and income situations, replacement rates in Norway are above the OECD average (OECD, 2007c).

198. Turning to disability benefits, Table 4.2 compares gross and net replacement rates in ten OECD countries whose sickness and disability systems were reviewed by the OECD over the past few years. In some countries, a distinction is made between temporary and permanent benefits. Among these countries, the gross and net replacement rates of temporary disability pensions in Norway tend to be among the highest, while Norway occupies only a mid-field position with regard to net replacement rates of permanent disability pensions.

199. Finally, regarding sickness benefits, the Norwegian social security system is relatively generous on the account of both the level of replacement rates and benefit duration (OECD, 2006). The replacement rate of sickness benefit is 100%, payable from the first day of illness for a period of one year, after which rehabilitation benefits take over. While a few countries have similarly generous systems – for example, in the Netherlands the common replacement rate is 100% during the first year and 70% during the second year – in many other countries gross replacement rates are lower, at least after a short initial period.[44]

44. To give a few examples, in the United Kingdom, a flat rate is paid for a period of 28 weeks which the employer can top up. In Spain, sickness benefit amounts to 60% (75% from the 21st day) of insured earnings, paid normally for a period of 1 year and which can be extended to 18 months (OECD, 2007b). In Germany, employees on sick leave receive from their employer 100% of their wage during the first 6 weeks of absence, followed by 70% of gross wages paid by the health care insurance for a maximum period of 72 weeks.

Table 4.2. **Gross and net replacement rates for average earners, selected OECD countries, 2005[a]**

Percentages

	Gross replacement rate	Net replacement rate
Australia		
Disability support pension	30	39
Denmark		
Waiting benefit	50	61
Disability pension	55	66
Finland		
Disability pension	63	69
Ireland		
Disability allowance	47	55
Invalidity benefit	47	54
Luxembourg		
Disability benefit	61	74
Non-contributory benefits	33	43
Norway		
Temporary disability benefit	66	72
Permanent disability benefit	53	60
Poland		
Temporary disability benefit	35	49
Permanent disability benefit	47	45
Spain		
Partial incapacity benefit	53	64
Full incapacity benefit	96	121
Non-contributory benefits	20	25
Switzerland		
Disability benefit	59	68
United Kingdom		
Short-term incapacity benefit	32	43
Long-term incapacity (52 weeks and over)	44	60
Income support disability premium	44	60

a) Data refer to 2004 for Norway, Poland and Switzerland.
Source: OECD (2006, 2007, and 2008), *Sickness, Disability and Work: Breaking the Barriers, Vol. 1, Vol. 2, and Vol. 3.*

4.3. Unemployment benefits

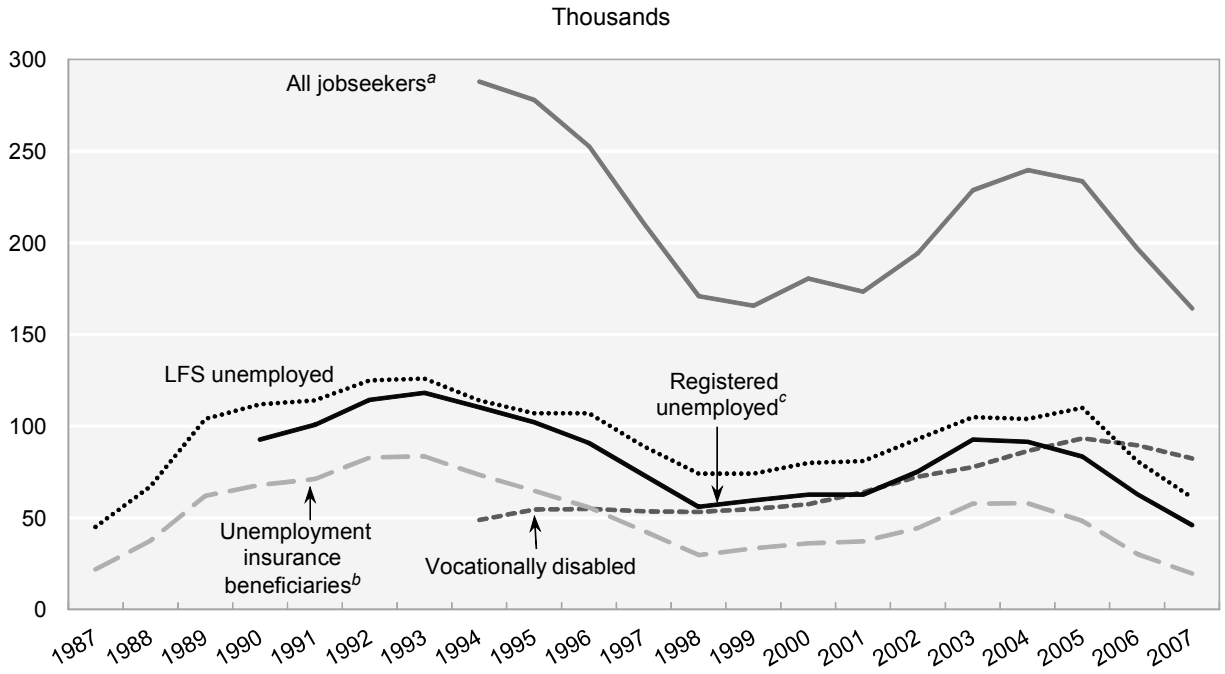
200. In the Norwegian context, unemployment benefits are considered to fulfill a double function: *i)* an insurance function, where the benefit compensates for income loss; and *ii)* a labour market function, *i.e.* as an instrument to improve the functioning of the labour market by facilitating job search. With respect to the latter, it can be argued that if the search period is too short, the matching process will be less efficient. Unemployment benefits should be designed in a way as to enable the unemployed to find jobs that correspond to their competencies. The key question is how to avoid unemployment spells becoming too long and beneficiaries losing their attachment to the labour market, and thus their employability.

201. The Norwegian unemployment benefit is separated into unemployment insurance and unemployment assistance, with the latter, following the Eurostat classification, consisting of two quite different types of benefits: (1) the "waiting benefit" for long-term unemployed, and (2) an allowance paid to vocationally disabled persons undergoing rehabilitation measures and in waiting periods before, between and after such measures. In 2006, expenditure for full-time unemployment insurance benefits amounted to 0.22% of GDP, and for unemployment assistance (including the passive elements of the rehabilitation benefit which make up 90% of the expenditure) to 0.21% of GDP (OECD database on labour market programmes). In 2006, the stock of unemployed receiving a waiting benefit amounted to only 700 persons, while the number of vocationally disabled waiting to be placed in a measure was 20 700.

202. Furthermore, *full* and *partial* unemployment benefits need to be distinguished, since a reduction of working time by at least 50% opens eligibility to partial unemployment benefits. In 2007, roughly 20 000 jobseekers received full unemployment benefits and another 10 000 partial unemployment benefits. Between 1990 and 2007, the share of partial unemployment benefit recipients varied between 30 and 45% of the total. Not all registered unemployed receive an unemployment benefit, however. In 2007, only about 43% of the full-time and part-time registered unemployed were receiving either full or partial unemployment benefits.

203. Figure 4.3 shows that in contrast to the category "all jobseekers" (including part-time unemployed, participants in labour market measures and other jobseekers) and to the category "registered unemployed", the number of registered "vocationally disabled jobseekers" increased up to 2005 and has decreased modestly since then, and there is now a widening gap between the number of vocationally disabled on the one hand and unemployment insurance benefit recipients or registered full-time unemployed (where numbers have decreased much more) on the other.

Figure 4.3. **Jobseeker trends, Norway, 1987-2007**



a) *All jobseekers* include registered full-time unemployed, part-time unemployed, ordinary participants in labour market measures and other ordinary jobseekers.
b) Full-unemployment beneficiaries.
c) Data refer to full-time unemployed.
Source: OECD Labour Force Statistics database for LFS unemployed; NAV (2007b), *Historisk arbeidsmarkedstatistikk* (Historical Employment Statistics) for other variables.

204. The difference between the number of unemployed, as measured by the labour force survey, and the number of full-time registered unemployed[45] shown in Figure 4.3, can be explained in large part by differential assessment of the availability of the jobseeker, for example of students and people with disabilities. For example, between the first quarter of 2007 and the first quarter of 2008, the number of registered unemployed fell by 10 000 persons, while the number of LFS unemployed only decreased by 1 000 persons. This difference can be decomposed into two factors:

45. In 2007, the LFS unemployment rate was 2.5%, while the registered unemployment rate was 1.8%.

- First, the LFS estimated a decrease in unemployment of 6 000 people (*i.e.* 4 000 less than emerged from the NAV unemployment register);
- Second, the LFS showed an increase of 5 000 persons who were not counted as registered unemployed by NAV; an increase in the number of vocationally disabled persons at NAV of 2 000 persons; an increase in the number of participants in labour market measures of 1 000 persons; and an increase of unemployed people not registered at NAV of 2 000 persons.

205. Table 4.3 compares the ratio of unemployment benefit recipients to the number of unemployed according to the Labour Force Survey. Over the past seven years, this ratio has been among the lowest in OECD countries where such time-series data are available, indicating that in Norway, only a comparatively low share of those who declare to be actively searching for a job received unemployment benefits. Further, the ratio has decreased considerably between 2005 and 2007, in the context of strong labour demand.[46] Possibly the share of voluntary job quitters who do not register with the PES was rising during that period, as an increasing number of persons saw a possibility to find a better job. Another explanation may lie in the structural features of the Norwegian National Insurance system, as the number of those receiving a health-related benefit but reportedly looking for a job might be comparatively high in a tight labour market.

Table 4.3. **Ratio of the number of unemployment benefit recipients to the number of labour force survey unemployed, 2000 to 2006**

	2000	2001	2002	2003	2004	2005	2006	2007	Average of years shown
Australia	1.12	1.01	1.06	0.98	1.00	1.00	1.01		1.03
Canada	1.03	0.99	0.89	..	..	..	..		0.97
Denmark	0.97	1.00	0.97	0.91	..	..	..		0.96
Finland	1.31	1.32	1.31	1.32	1.33	..	..		1.32
France	0.71	0.81	0.86	0.82	0.81	..	..		0.80
Germany	1.03	1.04	1.06	1.11	0.98	..	..		1.04
Ireland	1.55	1.94	1.79	1.76	1.56	1.48	1.36		1.64
Japan	0.29	0.29	0.26	0.21	0.19	..	..		0.25
Netherlands	0.79	0.79	0.72	0.66	0.67	..	..		0.73
New Zealand	1.22	1.21	1.08	1.02	0.82	0.63	0.48		0.92
Norway	**0.59**	**0.59**	**0.60**	**0.67**	**0.69**	**0.55**	**0.47**	**0.39**	**0.57**
Portugal	0.94	0.91	0.81	0.83	0.86	0.78	..		0.85
Spain	0.42	0.59	0.57	0.57	0.57	..	..		0.54
Sweden	0.83	0.74	0.68	0.73	0.73	..	..		0.74
United Kingdom	0.70	0.72	0.65	0.67	0.63	0.64	0.59		0.66
Unites States	0.40	0.47	0.45	0.42	0.38	..	..		0.43

.. Data not available.
Source: Carcillo and Grubb (2006), Annex 1, for unemployment benefit recipients data; and *OECD Labour Force Statistics database* for LFS unemployed.

Unemployment insurance

Eligibility to unemployment insurance

206. Eligibility for unemployment benefit depends on previous income and work experience. The person concerned must have had an income from work of at least 1.5 "basic amounts" [NOK 100 218 (EUR 12 419)] in the preceding calendar year or of at least 3 basic amounts [NOK 200 436 (EUR 24 837)] during the three preceding calendar years. These thresholds reflect the attachment of the claimant to the labour market. Thus, young people with no work experience and newcomers to the labour market are not entitled to unemployment benefits.

46. The number of unemployment benefit recipients in Norway corresponds to the sum of those receiving a full benefit, and half of partial unemployment benefit recipients. If the comparison was limited to full unemployment benefit recipients only, the ratio shown would be lower.

207. Persons can claim partial unemployment benefits when their working hours are reduced by at least 50 % of the contractual working hours. Importantly, geographical and occupational mobility requirements (see below) also apply to part-time unemployed; thus, benefits are only paid to those who are available for a full-time job.

208. The basic condition for entitlement to unemployment benefit is whether the claimant is "capable of work", *i.e.* mentally and physically fit to work. This also implies that persons with reduced work capacity do not receive an unemployment benefit, but either a disability or sickness benefit, or a vocational rehabilitation benefit if they take part in a labour market programme. The work capacity of an unemployment benefit claimant is assessed by the local PES (NAV) office.

Availability and job-search requirements

209. Three sets of different requirements can be distinguished, linked to: *i)* mobility and flexibility; *ii)* availability for work; and *iii)* independent job search. In general terms, unemployment benefit claimants need to be available for work at short notice and should not be engaged in any type of activity that would prevent them from taking up a job immediately.

210. Next, the unemployed needs to be "*willing to take… any employment … anywhere*" (National Insurance Act). Thus, in principle high occupational mobility, as well as wage and working-time flexibility, are required. Jobs unrelated to the qualification level, occupation and previous wage category have to be accepted. Further, the unemployed must accept shift and night work, as well as part-time or full-time employment. "Suitable" employment is offered if possible, but what is considered suitable may change in the course of a long unemployment spell – apart from the requirement that wages must broadly conform to prevailing wage agreements in the specific sector, or to custom. It is possible that the compressed wage structure in Norway (see Chapter 1) has a positive effect on the acceptance of occupational mobility.

211. Furthermore, high regional mobility is required of jobseekers. The fact that a spouse would have to give up his or her job and look for other employment does not represent an argument against requiring regional mobility of a couple. Some exceptions are nevertheless set down in the unemployment benefit regulation (National Insurance Act, Section 4-5, § 2): "If warranted by age or other important social considerations related to health, responsibility for caring for small children or persons in the immediate family in need of nursing care, the member may be regarded as a "bona fide job seeker" even if he or she is applying for part-time work or is only seeking employment within a limited geographical area." There also seem to exist varying practices as to the extent to which the regional mobility requirement is implemented. But in case there are obvious labour shortages in a specific region (often in the North), the local PES (or NAV offices) have tended to apply strict mobility criteria.

212. Jobseekers have to either commute or move if they find the travel time inconvenient; if they have the status of "local jobseeker" (*e.g.* due to caring responsibilities), they must accept one-hour commuting time each way. Upon request by the PES office, jobseekers must participate in a labour market measure if they have been unsuccessful in job search. As noted in Chapter 3, they need to report unemployment status every two weeks, and their job-search activities are, as a rule, reviewed every three months.

Benefit level

213. The calculation of the daily cash benefits is based on previous income from work and any benefits during unemployment, sickness, maternity and adoption. The calculation basis is the income of the preceding calendar year or the average over the three preceding years. The maximum benefit corresponds to six basic amounts [NOK 400 872 (EUR 49 674)]. The benefit rate per day is 0.24 % of the calculation

basis and is paid five days a week.[47] On average, the gross replacement rate is 62.4% and net replacement rates are higher for low-wage earners (see above).

214. Research results by Røed and Zhang (2003, 2005) concerning the impact of unemployment benefits on job take-up suggest significant disincentive effects of unemployment benefit. The authors find that increases in compensation reduce the exit rate from unemployment significantly, irrespective of business cycle conditions and spell duration. They also confirm previous research from other OECD countries that exit rates rise sharply in the months just prior to benefit exhaustion. According to estimates from the authors' 2005 study, a 10 percent cut in the benefit level reduces the expected duration of insured unemployment for a randomly selected entrant by three percent. In addition, it increases the probability that the spell ends in a transition to employment (rather than alternative transitions, such as to sickness/disability or complete loss of benefits) by two percentage points (from 44 to 46%).

Duration

215. The maximum duration of unemployment benefit depends on the previous attachment to the labour market. The duration of unemployment insurance varies by annual income from previous work. Income amounting to at least two basic amounts [NOK 133 624 (EUR 16 558)] entitles to a benefit period of 194 weeks. Income of less than two basic amounts reduces the benefit period to 52 weeks. The period may be broken up in shorter spells in case of temporary work opportunities, opting out of job search for a period for personal reasons, etc.

216. There are exceptions for older workers. Persons over the age of 64 are guaranteed a calculation basis of at least three basic amounts, and receive unlimited benefits up to the statutory retirement age of 67. This regulation anticipates labour market problems faced by older workers and, to a certain extent, reflects the acceptance of their lower employment probabilities. This exceptional benefit regulation can be regarded as equivalent to an early retirement pension. (In 2008, around 350 persons aged 64 years and older were covered by this regulation.)

217. Together with Finland, France and Spain, Norway is part of the group of OECD countries with a relatively long maximum unemployment benefit duration of (approximately) 2 years. Most other OECD countries shown in Figure 4.4 have maximum benefit duration ranging from 10 to 18 months. In the Czech Republic, the Slovak Republic, the United Kingdom and the United States, unemployment benefit duration is only 6 months.

218. Some Norwegian researchers argue that the benefit period is too long. Research by Røed and Westlie (2007) found significant inertia at the beginning of unemployment, while the exit rates from unemployment to work rose after 18 months of benefit receipt. For most unemployed persons, exhausted benefits can be replaced by income support associated with ALMP participation. The authors argue, therefore, that imposing shorter maximum durations would enhance job-search activities.[48]

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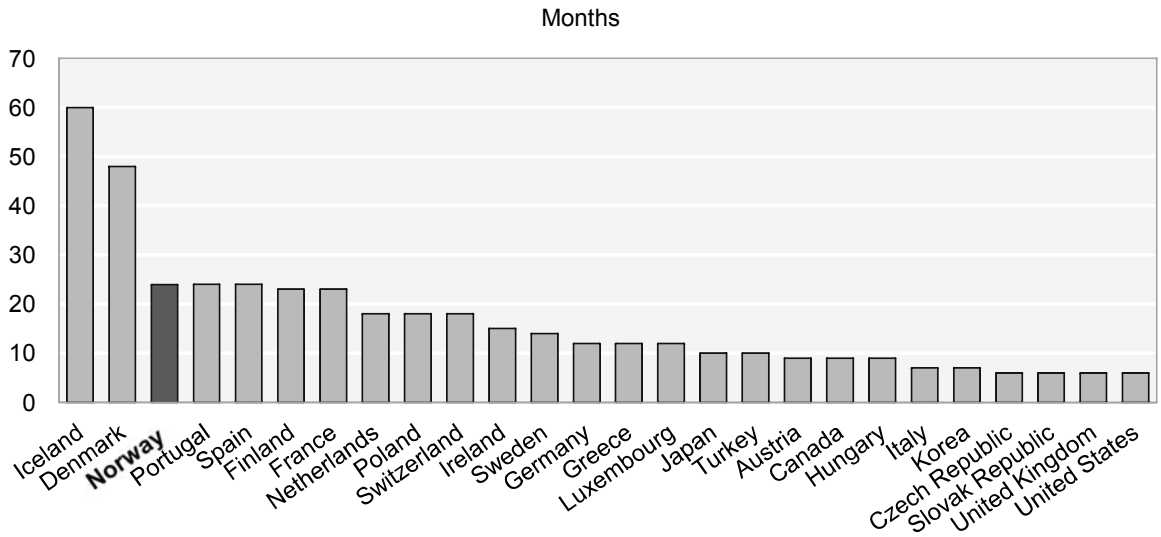
47. A supplement of NOK 17 (EUR 2) per day is granted for each dependent child under the age of 18 (Ministry of Labour and Social Inclusion, 2008). In addition, persons who have received unemployment benefits for more than eight weeks in the preceding year are given a holiday supplement of 9.5% of unemployment benefits received in the preceding year.

48. Before 1997, as a rule 80 weeks of receipt of unemployment insurance benefit were followed by a "quarantine" period of 13 weeks, after which a new 80-week period began. However, *de facto*, the quarantine period was rarely applied. Nevertheless, Røed and Westlie argue that such a system would be more efficient if properly implemented.

Figure 4.4. **Maximum unemployment benefit duration,[a] 2005**



a) Maximum duration refers to a 40-year-old single worker without children, with a 22-year employment record.
Source: OECD (2007c), *Benefits and Wages 2007 – OECD Indicators*.

Sanctions

219. Benefit sanctions have a role to play in an effective activation strategy. In Norway, sanctions are applied to jobseekers *i)* having quit work without acceptable reasons or having been dismissed for reasons they are responsible for; *ii)* having given incorrect or insufficient information while receiving benefits; and *iii)* not willing to accept a job offer or to participate in a labour market measure. Sanctions are always complete benefit suspensions, as opposed to a reduction in their amount.

- At the start of the approved benefit, a waiting period of 8, 12 or 26 weeks may be imposed in the case of voluntary quits or dismissal for fault (National Insurance Act, Section 4-10);
- A temporary suspension of benefit payment for 4 or 8 weeks may be implemented if jobseekers refuse to meet with their employment officer without reasonable grounds (Section 4-20);
- Further, a temporary suspension of benefit payment for 8, 12 or 26 weeks can be decided in cases where the unemployed refuses to take up an employment offer, or to participate in an active measure, without reasonable grounds (Section 4-20);
- Benefits will not be paid for a period of 12 to 26 weeks in situations where a jobseeker has provided incorrect or insufficient information. Unlawfully received benefits must be repaid; and
- Finally, unemployment benefit can be permanently withdrawn in case the recipient is no longer considered a "bona fide job seeker". This is the case if the jobseeker is not willing to accept work offered, has repeatedly failed to report to the PES or is engaged in paid employment while receiving benefit payment.

220. As in other countries, employment officers have some discretion as to whether or not a particular sanction will be applied, although the National Insurance Act gives some guidance as to availability requirements. Interviews with employment officers conducted by the OECD team revealed that there are differences at the local level in the propensity to apply the rules strictly. Nevertheless, sanctions appear to be relatively frequent (see Table 4.4).

221. Since statistics by reason and type of sanction are not available, the data in Table 4.4 only show developments in the total number of sanctions applied between 2003 and 2007. Their number increased between 2003 and 2005 and has decreased since then. In 2007, over 12 000 sanctions were imposed on a stock of 32 000 benefit recipients. Ideally, sanction rates are determined separately for cases of voluntary quit (where sanction rates are calculated as a percentage of the inflow to benefits) and for behaviour during the benefit period (where they are calculated as a percentage of the average annual stock of beneficiaries). Assuming that as much as half of all sanctions were applied to voluntary quits, the remaining sanctions for behaviour during benefit receipt (*i.e.* refusal of job or training, insufficient job search, or certain types of administrative infractions) would imply a sanction rate of about 20% – quite a high number in international comparison. Sanction rates for Norway were also high in the late 1990s when available data allowed a distinction between the two sanction rates mentioned above (Gray, 2003).

Table 4.4. **Sanctions applied to unemployment benefit recipients, Norway, 2003-2007**

Year	Number of sanctions	Average number of unemployment benefit recipients (full + partial)[a]
2003	13 911	88 876
2004	15 847	90 011
2005	16 336	77 188
2006	14 897	48 811
2007	12 494	32 112

a) The share of partial benefit recipients is approximately 30%.
Source: Administrative data supplied by the Norwegian authorities for sanctions; and NAV (2007b), *Historisk arbeidsmarkedstatistikk* (Historical Employment Statistics) for the number of unemployment benefit recipients.

222. The decreasing number of sanctions after 2005 is possibly explained by the declining stock of unemployment. However, the fall in the stock of benefit recipients was far greater than the decline in the total number of sanctions.[49] This could indicate that in the context of a tight labour market the remaining unemployment benefit recipients are more likely to refuse job offers or to not fully comply with job search requirements. On the other hand, it may reflect a tendency of employment counsellors to implement sanctions in a stricter way in order to overcome labour shortages.

223. Research carried out by Røed and Westlie (2007) shows that sanctions have positive effects on job-search activities and activation rates. According to this study, a sanction causes an immediate rise in exit rates from unemployment of 80%, a rise in the probability of enrolling in an active labour market measure of 22%, and in an education measure of 200%. After the sanction is completed and the jobseeker receives benefits again, the probability to enrol in an active labour market measure, but also to receive a new sanction remains higher than before the initial sanction took place. The authors further argue, on the basis of an analysis of the effects of different types of sanctions over time, that the severity of the sanction is less important than the mere existence of a sanction and the threat of their possible imposition. While they admit that the severity of UI eligibility rules has not varied much over time (given the existence of alternative types of benefits), this does not affect the finding that mild sanctions have a positive impact on job-search activities.

Unemployment assistance (waiting benefit)

224. Up to July 2008, a so-called "waiting benefit" (*ventestønad*) was paid to long-term unemployed. The waiting benefit was paid if the claimant had worked at least three years during the past four years, and had exceeded the period of entitlement to unemployment insurance benefit. It amounted to about two-thirds of previous unemployment insurance benefits, but had no maximum duration. Nevertheless, the benefit was intended to be temporary while waiting for suitable labour market measures or work.

49. Note that one unemployed can get sanctioned several times.

225. Many participants never entered an ALMP or gainful employment but continued to receive the benefit on a permanent basis. Since the incentives to take up work were not considered strong enough, the benefit was finally abolished. It can be assumed that many of those long-term beneficiaries will now try to get on social assistance or on a temporary disability benefit.

4.4. Sickness, rehabilitation and disability benefits

Overview of benefits – benefit structure and development

226. Health-related benefits can be broken down into *i)* sickness benefits paid to sick persons in employment; *ii)* medical and vocational rehabilitation benefits; *iii)* temporary disability benefits; and *iv)* permanent disability benefits. The underlying concept for receipt of a rehabilitation benefit, and of a temporary or permanent disability benefit, is that of "work incapacity". The different benefits are linked to the probability that the incapacity can be reduced over time. Full or partial incapacity to work may have various reasons: while entitlement is based on a medical diagnosis, in fact different reasons, such as social problems and symptoms of physical or mental health, are often interlinked. Also, vocational rehabilitation may be granted to a person with learning deficiencies, which again can be caused either by social background or health-related factors.

227. The number of disability benefit recipients has increased from 60 000 in 1960 to 334 000 in 2007 and is projected to continue to rise to over 400 000 in 2030. Further, the number of recipients of vocational rehabilitation benefits doubled between 1994 and 2008 – there was a strong increase between 2000 and 2005, followed by some decline. Thus, inflows into rehabilitation benefits seem to depend to some extent on the business cycle (employment stagnated between 2000 and 2005 and grew sharply between 2005 and 2008). Table 4.1 already showed the number of recipients under the various schemes in 2007; in total, about 560 000 persons, *i.e.* 18% of the working-age population, received health-related benefits (121 500 persons on sickness benefit, 47 100 persons on medical rehabilitation and another 57 500 on vocational rehabilitation benefits, 38 700 persons on temporary disability benefits and almost 295 000 persons on a permanent disability pension) (NAV, 2007b).

228. In 2005, Norway displayed the highest rate of inflows into disability among 11 countries reviewed by the OECD, with about 11 new entrants annually per 1 000 persons of working age (OECD, 2006, 2007d and 2008a).[50] The ageing of the population is one important reason for this growth. Redundancies following industrial restructuring have also contributed to the inflow. There are examples of redundancies in state companies, as a result of which former employees, in particular low-educated women, developed strain effects and were awarded disability (or vocational rehabilitation) benefits (EIRO, 2006). Increasing stress at work may also be a reason; however, it is questionable whether this can explain the difference in inflows into disability between Norway and other OECD countries over time. The substantial inflow of young people into disability is of particular concern; the reasons for this inflow are yet unclear and there is uncertainty as to what extent this increase is linked to the incidence of high school drop-outs (OECD, 2008d). Further, it is alarming that about 80% of disability benefit recipients are recognised to have a 100% degree of disability.

229. The typical "sickness string" involves a person moving between several different phases of benefit recipiency. For example, an employed person may start by being on sick leave benefit for one year and then on medical rehabilitation for a maximum of another year. While receiving medical rehabilitation benefits, some individuals apply for a disability benefit, whereas some may return to their job. If they are

50. The inflow rates were lowest in Spain and the Netherlands (ranging between 2 and 4 ‰). In Switzerland, Poland, Australia, Luxembourg and the United Kingdom, inflow rates ranged between 4 and 6 ‰, while they were between 8 and 10‰ in Ireland and Finland.

not granted a disability benefit and are unable to return to work, they are referred to the local employment office for possible inclusion in a vocational rehabilitation programme (Ekhaugen, 2007). The main issue is that up to reforms starting in 2009 (see below), vocational rehabilitation in most cases does not start before the end of these two years. It may then last up to three years, and a sizeable portion of recipients will end up qualifying for temporary or permanent disability benefits.

Sickness benefits

230. The number of weeks of absence due to sickness per person and per year is higher in Norway than in any other OECD country (OECD, 2009). When comparing sickness absence rates, it must, however, be taken into account that the replacement rate of sickness benefit, as well as its maximum duration, vary quite significantly across countries. According to Statistics Norway, and excluding maternity leave, the sickness absence rate (sickness absence man-days in per cent of scheduled annual working days) in Norway amounted to 6.8% in the third quarter of 2007. Most of them were certified by a medical doctor (the certified absence rate was 6%).

231. An insured person who has been employed for at least four weeks, and who has an annual income of at least 0.5 basic amounts [NOK 33 406 (EUR 4 139)] is entitled to a daily cash benefit in case of sickness. Income exceeding 6 basic amounts is not taken into account. The benefit is paid by the employer for the first 16 calendar days, and thereafter by the National Insurance Scheme.

232. An insured employee is entitled to take sick leave for 10 days to care for sick children under the age of 12 (and 15 days where there are more than two children).[51] Single parents are entitled to twice those amounts. To create incentives for employers to implement measures aimed at reducing sick leave, it would be more effective to have a longer period of sick pay by the employer when his own employees fall ill, rather than to have employers pay sick leave for children, since they have no or very little influence on the health status of the children of their employees.

233. The total number of sickness absence days certified by a medical doctor decreased by 12% between 2001 and 2007 (from 6.8 to 6.0%; NAV, 2007a). The total amount (certified and not certified) decreased by 8% between 2001 and 2007 (from 7.4 to 6.8%, but back up to 6.9% in the 3rd quarter of 2008). Thus, the evolution of sickness absence was mainly due to variations in sick days certified by a doctor (as opposed to self-certified days), which constitute up to 90% of all sickness absence days.[52] Importantly, the target set by the 2001 IW agreement (-20%) has yet to be reached.

Rehabilitation benefit

234. Insured employees may be entitled to a rehabilitation benefit (medical or vocational rehabilitation) if they have been insured for the three years prior to claiming the benefit or have been performing ordinary work for one year prior to making the claim. As noted above, rehabilitation benefits are mostly granted in the case of a period of illness during which a person's work capacity has been reduced by 50% or more. In the later stages of a rehabilitation period, an allowance may be granted if a person's work capacity is reduced by at least 20% (Ministry of Labour and Social Inclusion, 2008b).

51. There are additional rules for hospitalised children. Further, an insured employee is entitled to 20 days of care for a close relative who is terminally ill.

52. A comparison by quarters shows that, during periods of a strong decrease of certified absence days, the number of non-certified days tends to increase somewhat, implying some substitution between the two categories of sickness absence.

235. The full benefit rate is 66% of the highest taxable monthly income earned during the year before the disability occurred, or of the average income over the three preceding years. The minimum rate is set at 1.8 basic amounts [NOK 120 262 (EUR 14 902)] and the maximum at 6 basic amounts [NOK 400 872 (EUR 49 674)].

236. As noted above, in most cases a person with reduced working capacity will first be granted medical rehabilitation for one year (which may in some cases be extended). Usually, only after this period can vocational rehabilitation be considered – quite late in the process, as reintegration into the labour market is normally more difficult after such a long period out of work. Westlie (2008), confirming earlier research, shows that people who enter vocational rehabilitation at an early stage of their illness show higher employment probabilities.

237. On top of a reduction of work capacity by 50% or more, eligibility for a vocational rehabilitation benefit is based on a judgment by the employment agency that the claimant needs to undergo vocational measures before he or she can get or keep a suitable job. Vocational rehabilitation benefits are paid during the participation in a vocational measure (in this sense it is an "active" benefit) as well as during waiting periods before or between measures (in this respect it is a "passive" measure according to the Eurostat/OECD classification). Waiting periods before the start of a measure may last from a couple of days to several months. Some spells end there if the person is granted a disability pension, returns to medical rehabilitation, or finds work. Finally, vocational rehabilitation benefits can be granted for up to three months following the vocational measure while a person applies for suitable work (Ministry of Labour and Social Inclusion, 2008b).

Disability benefits

238. Disability benefits comprise the basic benefit, the attendance benefit, the temporary disability benefit and the disability pension. An insured person with a disability is entitled to a basic benefit and an attendance benefit. An attendance benefit is granted if the person with a disability needs special attention or nursing.[53] The disability pension consists of a basic pension, a supplementary pension based on earlier income, and/or special supplements.

239. An insured person can get a temporary disability benefit if his or her working capacity is permanently reduced by at least 50% due to "illness, injury or defect", but with a likelihood that the income capacity can be improved. The benefit is granted for a period of one to four years and is reassessed at the end of the period (Ministry of Labour and Social Inclusion, 2008b). The temporary benefit is calculated in the same way as the rehabilitation benefit. In addition, there are income-tested child supplements. The temporary disability benefit may be granted before a final decision on the eligibility for a disability pension is made.

240. A disability pension is granted to insured persons whose working capacities are permanently reduced, provided they have been insured for at least three years prior to the pension claim (Ministry of Labour and Social Inclusion, 2008b). In the case of partial disability, the pension is reduced proportionally. In 2007, about 20% of disability benefits were partial benefits. As the OECD disability review of Norway has pointed out (OECD, 2006), it would be important to increase this rate significantly. In 2006, about 16%

53. There are six basic benefit rates ranging annually (in 2008) from NOK 7 020 to NOK 35 172 (EUR 918 to EUR 4 598) covering specified extra costs caused by the disability; annual rates for the attendance benefit are considerably higher.

of disability pension recipients were in employment.[54] Given the high volume of disability beneficiaries in Norway, policy should aim at increasing employment rates among disability pensioners.

241. The assessment as to whether a person's working capacity is sufficiently reduced to entitle him or her to a benefit is usually made by a general practitioner. The OECD disability review already commented critically on the significant influence of general practitioners in the assessment process. The recommendation to rely less on general practitioners and to implement sanctions for unsubstantiated medical certificates is still valid.

242. In 2007, about 6 280 disability benefit applicants were rejected, compared with an inflow of about 30 000 new beneficiaries. The number of rejections increased between 1998 and 2004 by approximately two-thirds but has since fallen back roughly to its 1998 level. No information is available from recent years on how many appeals by rejected claimants are successful, but previous information shows that about one in five was accepted between 1998 and 2003. It is therefore estimated that 14% of applicants for a disability pension were rejected in 2007 (data provided by the Norwegian authorities).

243. In comparison to the rules governing unemployment benefits, mutual-obligation requirements for work-incapacitated clients are less strict (see Chapter 3). To reduce inflows into the disability benefit scheme, requirements for both occupational mobility and for participation in vocational rehabilitation (in accordance with the judgement of a vocational doctor at NAV) need to be applied more strictly. Further, vocational rehabilitation should come into play earlier.

Recent reforms

244. From 1st October 2009, a new single temporary benefit will be introduced, merging the medical rehabilitation, vocational rehabilitation and temporary disability benefits (the scheme is likely to be called "work assessment benefit"). The rationale behind this reform is to make the system more flexible by breaking the sequence of the current three phases that lead up to permanent disability benefits. The aim of the single benefit is that it will allow more flexibility in the use of rehabilitative measures and intervene at an earlier stage, rather than waiting for up to two years (the case in the current system) before starting reintegration measures. This reform is certainly a step in the right direction. However, the success of the new single benefit will depend on whether it will be possible to activate persons with health problems earlier, and to activate a higher share of them.

245. A fundamental part of the new benefit scheme will be the work-ability assessment (a profiling tool) of all claimants which will be phased in during 2009. The aim of the tool is to identify those that need more help at an earlier stage, assess what measures would be required to maintain attachment to the labour market and develop an individual action plan. The regular implementation of the work-ability assessment would represent a key element for the success of the benefit reform. However, an efficient implementation would require an enlargement of the role and number of NAV's own occupational doctors and specialists in order to monitor the actions of GPs and benefit claimants.

246. Attempts to reform the sickness and disability benefit schemes, including the tripartite agreement to reduce sick leave, have so far shown only limited success. More efforts by employers could be devoted to improving occupational health services and to develop flexible tools in the area of human resource management, *e.g.* flexible working-time arrangements, or adaptation of the workplace to occupational handicaps.

54. Of these, 36 859 beneficiaries worked part time and another 6 245 full time. Furthermore, about 11 300 self-employed received disability benefits (data provided by Statistics Norway).

247. The government proposed to introduce an employer co-payment of sickness benefits by making them pay 20% of the benefits during the sick-leave period starting after 16 days; however, this was rejected by the social partners on the grounds that it might encourage employers to screen applicants and discriminate against those with health problems [OECD, 2007e). Such policy problems notwithstanding, it remains important – in Norway as in other OECD countries – to involve employers in the risk-sharing of health-related problems, since the workplace and working environment clearly affect health.

248. Other countries have put systems in place that impose more financial responsibility on employers and thus give them more incentives to control sickness absence. In the United Kingdom, employers finance full benefits for the first 28 weeks of sick leave (although benefits are lower than in Norway). Responsibility of employers is even stronger in the Netherlands, where they bear the full costs of sick leave for a period of 2 years (OECD, 2008e). This provision, combined with other reforms directed towards increasing the responsibility of employers, has resulted in declining numbers of new disability benefit claims. In Finland, large companies need to pay up to 80% of disability and "unemployment" pensions (for persons aged 60-64) until the person is transferred to an old-age pension at age 65. These rules appear to have helped to retain older workers in employment and to limit inflows into sickness and in particular long-term sick leave. The reverse of the coin is that the rules in place may encourage large companies to avoid recruiting older workers.

249. Overall, results from the disability policy review carried out by the OECD between 2006 and 2008 indicate that increasing employer's responsibility through sharing financial risks of illness, may lead to a lower sickness absence rate and help to reduce inflows into disability, although benefit duration and replacement rates also play a role. The social costs of this policy, however, consist in an increased labour market entry risk for jobseekers with health problems.[55]

250. Some of the engaged reform pathways go in the right direction, but the reforms could be more encompassing. Following up on the recommendations of the OECD's 2006 disability review of Norway, the following reform projects (by no means an exhaustive list) remain on the agenda:

- More efforts should be put into using partial work capacity and partial disability benefit awards;
- Requirements to participate in vocational rehabilitation should be strengthened;
- Incentives for people with disabilities to take up work (*e.g.* part time) should be enhanced;
- Incentives for employers to invest in preventive measures need to be increased; and
- The requirement to engage in vocational rehabilitation should start earlier (during long-term sick leave, in particular if the high benefit levels are to be maintained), and periods of rehabilitation benefit payment without any intervention measure should be avoided.

55. In order to reduce the risk of this policy for unemployed with health problems of not being hired, a so-called "no-risk" policy was introduced in the Netherlands. For a predefined group of newly hired workers the social insurance authority bears the costs in case of illness. This guarantee usually holds for the first five years of a new contract (OECD, 2008e).

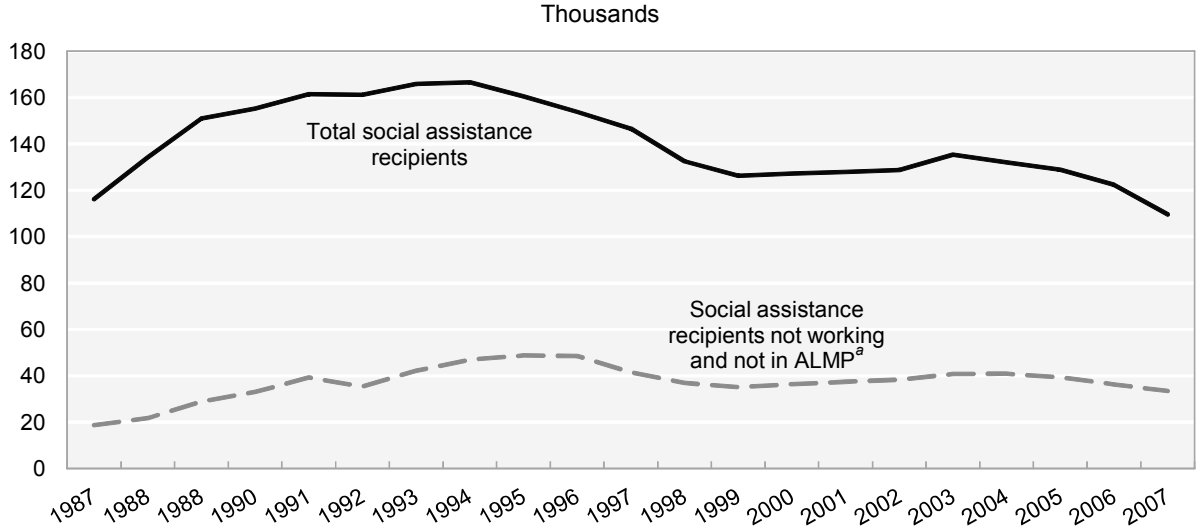
4.5. Social assistance and incentives to participate in the labour market

Benefit level, eligibility and duration

251. Social assistance is conceived as a measure of last resort. In 2007, the average level of the monthly social assistance payment was NOK 7 200 (EUR 892) (*http://www.ssb.no/soshjelpk_en/tab-2008-06-17-03-en.html*). Social assistance is means-tested and is subsidiary to all types of income of an individual and their dependent children. Social workers evaluate each case. The municipalities are free to issue their own criteria regarding the size of the social assistance benefit and supplements to it, and to define what kinds of State benefits will be regarded as income. The central government only defines some general regulations and guidelines on reasonable amounts.[56] Social assistance is financed by the municipalities (or by the contribution of municipalities to the NAV). The block grant from the State to each municipality has a component containing an estimate of the expected expenses for social assistance. Compared with other expenditures under Labour and Welfare Services, social assistance represents only a minor part of the budget.

252. In 2007, the number of persons receiving social assistance amounted to 109 600 (representing a monthly average of 48 400 social assistance recipients). As shown in Figure 4.5, between 1987 and 1993 the share of social assistance recipients increased by a third. It then decreased by nearly a fourth until the end of the 1990s. The second phase of declining numbers of social assistance recipients was between 2003 and 2007, when the rate fell by 22%. This indicates that the progression of social assistance recipients has a cyclical component, since in a context of low unemployment and labour shortages it is easier for social assistance recipients to be activated and fewer people will find themselves in a situation in which they need to claim social assistance. It was mainly the number of social assistance recipients in employment, participating in an ALMP or in retirement that has decreased since the mid-1990s. By contrast, the number of social assistance recipients below the age of 67, not working or not in the labour force, decreased only slightly.

Figure 4.5. **Trends in social assistance, Norway, 1987-2007**



a) Recipients below the age of 67.
Source: Secretariat estimates from data provided by Statistics Norway.

56. These rates cover daily expenses for food, clothing, etc. Expenses related to housing, health-related services and goods, sports equipment (for children), secondary education, childcare, transport, moving, etc., are covered in addition to the above rates, at the discretion of the case worker and municipal regulations. Further, additional daily rates may be granted, *e.g.* for assistance to youth up to the age of 20 or 25 living with their parents.

253. In 2007, social assistance recipients received benefits on average for 5.3 months. About 12% received social assistance during the entire year, but the largest group (21%) received benefits for one month only (*http://www.ssb.no/soshjelpk_en/tab-2008-06-17-04-en.html*). In contrast to many other Nordic and continental European countries, long-term social assistance plays a minor role in income support and seems to be paid only for the most marginal groups (Lorentzen, 2006), while the role of the comprehensive National Insurance System is more important. This again seems to suggest that certain clients with social problems are transferred to the category of "disability" or "incapacity to work". Although there are evident linkages between social and health problems, it is questionable whether a GP has the right competence to evaluate the possibility of increasing the work capacity in cases where incapacity is initially caused by social problems. More expertise might be necessary to tackle the different types of work incapacities with the aim of enhancing activation.

254. About 44% of social assistance recipients were not in the labour force and another 28% were registered unemployed (and as could be expected, only a minority of them received unemployment benefits). About 13% had a job, although in more than half of the cases, it was a part-time job; 7% were in employment measures,[57] 6% in education, and finally 3% took part in an introductory programme for newly arrived immigrants (figures for 2007, *http://www.ssb.no/soshjelpk_en/tab-2008-06-17-07-en.html*). Thus, for 72% of the recipients social assistance was paid during a passive phase and 16% received it while participating in an active measure.

Work requirements, sanctions and "active" benefits

255. With regard to social assistance, already in the early 1990s, the emphasis changed from income maintenance to measures designed to further self-reliance among recipients. The Social Services Act introduced in 1991 made it possible for municipalities to require that the recipients "carry out suitable work for the local authority for as long as the person receives benefits" (Lodemel *et al.*, 2001). Local authorities were given only few guidelines on how to implement this. Recipients of social assistance are normally under the obligation to document that they are searching for work, when this is relevant – this is up to the case worker to decide. In 2002, the government issued an Action Plan to combat poverty with the objective to better target marginal groups. The plan contained an activation programme targeted at long-term social assistance recipients (Rønsen and Skarohamar, 2007). However, figures cited above show that only one out of five recipients has a job or is participating in an employment measure.

256. As social assistance is meant as a safety net, sanctions are a matter of debate. Although there is a legislative framework for sanctioning social assistance recipients, in practice sanctions seem to be difficult to apply as individuals are perceived as having a right to a benefit securing "a reasonable subsistence". There is a strong political commitment to prevent poverty. Therefore, new specific labour market programmes for social assistance recipients, such as the qualification programme (see below), have been designed to activate social assistance recipients by setting incentives rather than sanctions.

257. Different types of benefits can be claimed while the participant is on an active labour market measure. Vocational rehabilitation benefits represent important benefits in this respect (see above).[58] In the following, we concentrate on "active" benefits granted to social assistance recipients if they participate in an activation measure. The rationale consists of granting a standardised and predictable income support while participating in active measures, rather than applying penalties for non-participation.

57. 82% of those were on employment measures run by central government and the remaining 18% on municipal employment measures.

58. On average, replacement rates of vocational rehabilitation are higher than those for unemployment benefits.

258. *Transitional benefit*: Norway is the only Nordic country with a benefit scheme (the transitional benefit) targeted exclusively at lone mothers. The benefit was initially characterised by poor work incentives. In 1998, since the welfare dependency rate of lone mothers was considered too high, leading in many cases to poverty, the transitional benefit was reformed. Most importantly, work and educational requirements were imposed for mothers with the youngest child being three years of age. The lone mother either needs to work part-time, enroll in education or a labour market programme, or be actively involved in job search. The transitional benefit can be granted up to the age of 8 of the youngest child. The maximum annual transitional benefit to a single parent is 1.85 times the basic amount [corresponding to NOK 123 602 (EUR 15 316) in 2008]. Single parents with children under three years of age are eligible for a supplement to the general family allowance if they receive the maximum transitional benefit (Ministry of Labour and Social Inclusion, 2008b).

259. Evaluation results indicate that the 1998 reform has resulted in increased earnings of lone mothers with young children aged between three and nine, but had insignificant effects on earnings of mothers with younger children. The reform also had positive effects on the participation in education of mothers with children under the age of three (Pronzato and Mogstadt, 2008).

260. *Introductory benefit*: In 2005, the Act on an introductory programme and Norwegian-language training for newly arrived immigrants came into effect. The aim of the Act is to promote the integration of newly arrived refugees (aged 18-55) into Norwegian society. The Act provides newcomers (refugees and asylum seekers, immigrants from the EU are excluded) with an "introductory benefit" which is conditional upon participation in an active training scheme – the introductory programme. The introductory benefit is equivalent to twice the basic amount under the National Insurance Scheme. Participants under 25 years receive two thirds of the benefit (see Chapter 5 for more details).

261. *Qualification benefit*: The main activation instrument for social assistance recipients is the newly introduced Qualification Programme (see Chapter 5). The idea is to build economic incentives into this programme. Participation in the programme entitles persons living off municipal social welfare to a qualification benefit, again equivalent to twice the basic amount under the National Insurance Scheme. Persons under 25 years of age are entitled to two thirds of the amount. The support is normally higher after taxes than social assistance. In case the qualification benefit is lower than the social assistance rate, the participant in the programme is eligible to supplementary social assistance. It is possible to combine work and participation in the qualification programme. The support is reduced against labour income, hour by hour. The benefit is offered for one year and can be extended up to a maximum of two years. As this programme started only in November 2007, it is impossible to assess its effectiveness at this stage.

4.6. Other types of benefits

Childcare benefits

262. Cash benefits for families with small children depend on the use of day-care centers. A family receives NOK 39 639 (EUR 4 911) a year for a child under the age of three if no use of a day-care centre is made. The benefit decreases with the number of hours the child is in a day-care facility that receives public grants. No benefits are paid for a child spending over 33 hours a week in day-care facilities (Ministry of Labour and Social Inclusion, 2008b). This system encourages mothers with small children to stay at home.

Early retirement pensions

263. Norway has had noticeable success in providing incentives for older workers to remain in the labour market. Not only was the regular retirement age raised to 67, but insured persons can continue to earn pension points until the age of 70. Nevertheless, the use of early retirement is relatively widespread.

Many employees have the opportunity to retire at the age of 62 through the agreement-based early retirement scheme (AFP). This scheme is based on financial contributions from the state budget, as well as from employers. A government White Paper on pension reform presented to Parliament in 2006, proposed to introduce flexible retirement schemes based on actuarial principles, and to reform early retirement provisions in negotiation with the social partners (OECD, 2007e), and the new scheme will be implemented as from 2011. Note, however, that in contrast to many other OECD countries, the main reason for being out of work in the age group 62 to 66 is incapacity for work and not formal early retirement.

4.7. Key points

- In Norway the main type of income-replacement benefit for the working-age population out of work consists of health-related benefits, received by nearly a fifth of the working-age population. Overall, a fourth of the working-age population are granted benefits to support phases out of work.

- The review of social benefits for the working-age population has shown that the Norwegian benefit system is among the more generous in the OECD. This feature calls for a strict implementation of job-search requirements and activation principles. It seems that this combination works relatively well for the unemployment benefit system; it may also be considered satisfactory for social assistance recipients, although certain social assistance recipients will not be sensitive to available incentives. However, the strict implementation of existing regulations is one condition for the continuing success of the system.

- Norwegian research has shown that activity-oriented unemployment insurance regimes (required participation in active labour market programmes, duration limitations, strict conditions for unemployment insurance entitlement and high sanction probabilities) deliver substantially shorter unemployment spells. Soft constraints in the form of activity requirements or small breaks in benefit payments after a specified benefit duration have many of the same behavioural consequences as threats of complete benefit termination. The early introduction of such constraints seems therefore important.

- Given the high share of persons receiving other types of out-of-work benefits, Norway has developed schemes to promote employment or participation in a labour market programme among these client groups. Over the 1990s, the introduction of more work-oriented social service regulations aimed to reduce sick leave and to bring social assistance recipients back to the labour market. While the number of health-related benefit recipients continued to rise, it was possible over the past decade to reduce the number of social assistance recipients. This development seems, however, largely due to a generous practice of granting health-related benefits and a less pronounced activation philosophy relating to those benefits.

- It seems likely that the comparatively good results obtained for unemployment benefit and social assistance to some extent have been realised at the cost of the health-related benefit system whose gate-keeping remains deficient. Many of the more problematic (but even relatively "mainstream") cases tend to be transferred to health-related benefits, so that they no longer appear as labour market problems. The requirements and incentives for these persons to go back to employment or other types of activity at an early stage remain weak. The current merger of three Norwegian health-related benefits (medical rehabilitation, vocational rehabilitation and temporary disability benefit) tackles this problem and facilitates intervention at an earlier stage. A condition for success will consist of the implementation of the new work-capability assessment on a regular basis. Furthermore, it will be important for vocational rehabilitation to start simultaneously with medical rehabilitation.

CHAPTER 5

ACTIVE LABOUR MARKET PROGRAMMES

5.1. Introduction

264. This chapter describes and analyses the role of active labour market programmes (ALMPs) to bring the unemployed and other out-of-work groups, such as people with disabilities and social assistance recipients, into employment.

265. Section 5.2 compares active and passive labour market expenditures and participants in selected OECD countries and gives an overview of the main active labour market programmes in Norway. Section 5.3 outlines the main ALMPs for ordinary unemployed and their targeting towards certain disadvantaged groups such as immigrants, youth and older workers. The main results of evaluation studies are presented. Section 5.4 is concerned with ALMPs for the vocationally disabled, describing their participation in programmes and noting the results of evaluation studies. Section 5.5 focuses on programmes for social assistance recipients, including specific programmes for newly-arrived immigrants from non-OECD countries.

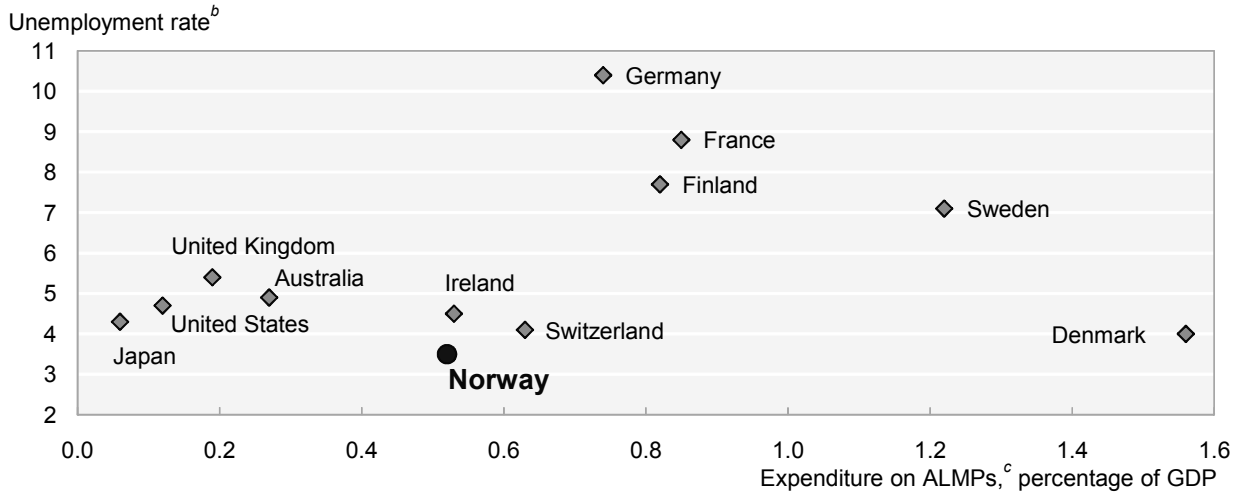
5.2. The role and shape of active labour market programmes

Active and passive labour market programmes

266. In Norway, the share of public expenditure for labour market programmes, including active and passive measures, as a percentage of GDP amounted to 1.08% in 2006. The share of total expenses for labour market programmes (active and passive) in GDP was considerably lower in Norway than in other Northern European countries such as Denmark (4.5% in 2004), Finland (2.5%) and Sweden (2.3%). The share was a bit lower than in Ireland (1.5%) and Switzerland (1.4%) but significantly higher than in the United Kingdom (0.6%).

267. Figure 5.1 shows for some selected OECD countries the relationship between expenditure on ALMPs as a share of GDP, on the one hand, and the level of unemployment, on the other. The figure demonstrates that Norway takes a lower-middle position among OECD countries regarding the share of active spending in GDP (see also Figure 1.5 in Chapter 1). Differences between countries are large and can only partly be explained by variations in unemployment rates, as political choices also play a determining role. In particular in OECD countries outside Europe, total expenditure on labour market programmes is far lower than in Norway despite similar or even higher unemployment rates. But also among European countries, including the Nordic countries, large differences exist as to the relationship between the unemployment rate and the share of ALMP expenditure.

Figure 5.1. **Unemployment rates and ALMP expenditure, 2006[a]**



a) Data for Denmark refer to 2004.
b) Unemployed as a percentage of the labour force.
c) Refers to Categories 1.1 and 2-7.
Source: OECD Labour Force Statistics database for unemployment rates; and *OECD database on Labour Market Programmes* for expenditure.

Overview of measures

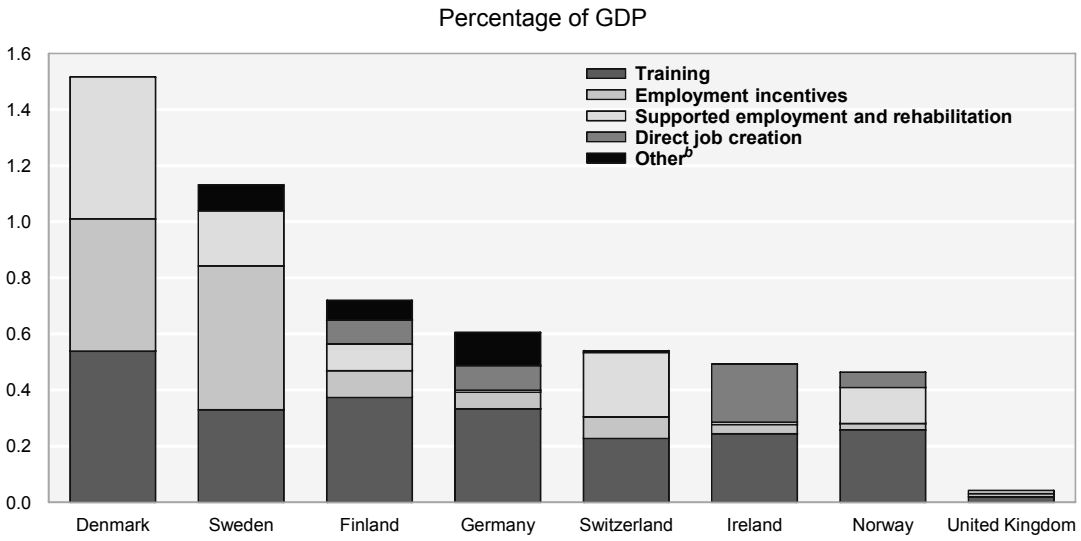
268. In 2006, the structure of expenditure on active labour market programmes (excluding placement activities and administration) in Norway shows that training measures are the most important labour market scheme (Figure 5.2). Norway was comparable in this respect to Germany and Finland, where the share of expenses on training was also above 50%.[59] In the United Kingdom as well, almost half of the expenses on active measures is directed towards training (although overall, ALMP spending is at a much lower level). A particularity of Norway, however, is that the vast majority of the training expenses are spent on the vocationally disabled, as will be seen below. The second-largest expenditure category was "supported employment and rehabilitation" (28% of the total). In contrast to these two categories, employment incentives only play a minor role in Norway. Direct job creation measures are more important, with 11% of total expenses allocated to these measures in 2006.[60] Note, however, that in Norway, direct job creation is targeted at the vocationally disabled, while in countries such as Finland, Germany and Ireland job creation refers to temporary employment of regular unemployed, primarily in the public sector and in jobs with social utility.[61]

59. As most of the training measures in Norway consist of education in regular schools for which the PES is not compensating costs for providing this training, the true full cost of retraining jobseekers is higher than indicated in the LMP database.

60. However, the distinction between programme categories is not always well defined: for example, Denmark's Job Training measures for UI recipients are classified as employment incentives, but occur mainly in the public sector, and the subsidy rates appear to cover at least 100% of the wages paid (Grubb and Puymoyen, 2008).

61. These jobs are generally in the public interest and are of either social, cultural or environmental nature. They are considered "additional" to existing jobs and are mostly intended to increase the number of employment opportunities in the context of high unemployment.

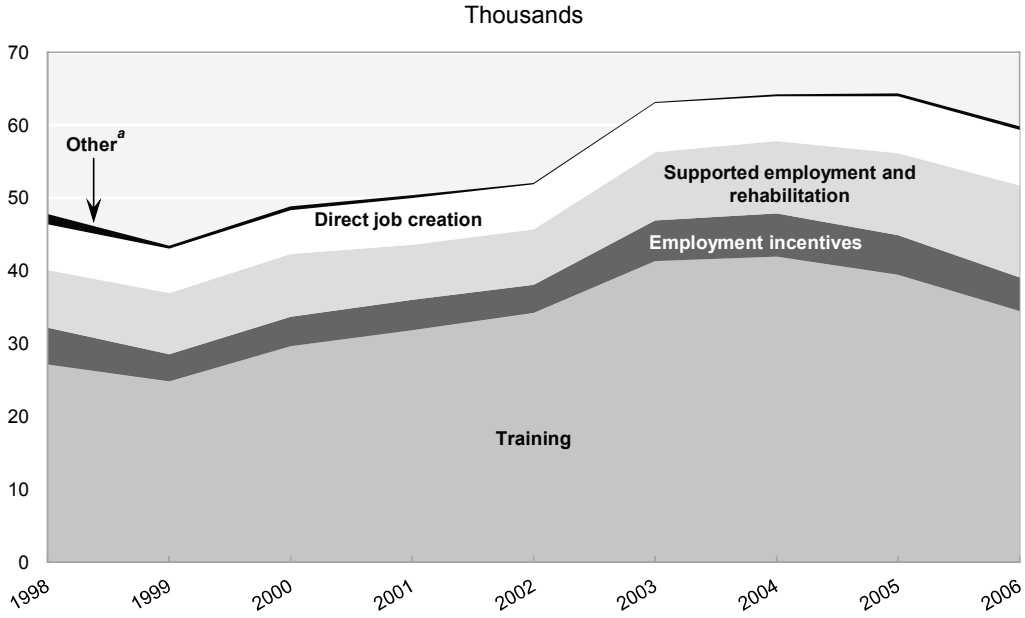
Figure 5.2. **ALMP expenditure by category, selected OECD countries, 2006[a]**



a) Data for Denmark refer to 2004.
b) Includes *job rotation* (only for Finland, Germany and Sweden), and *start-up incentives*.
Source: OECD database on Labour Market Programmes, Categories 2-7.

269. Figure 5.3, in combination with Annex Tables 5A.1 and 5A.2, shows that from 1998 to 2006 the number of participants in ALMPs increased by over 20%. The number of participants in training measures increased quite sharply between 1999 and 2004, to fall again modestly since. Over the full period, the greatest increase (+60%) was in the category "supported employment and rehabilitation". These trends reflect growth in the number on disability benefits. Annex Table 5A.3 reveals that costs per participant-year for active measures increased by 14.3% in nominal terms (but decreased by 1.8% in real terms) between 1998 and 2006.

Figure 5.3. **Stock of participants in ALMPs by main category, Norway, 1998-2006**



a) Includes *job rotation* (until 1999) and *start-up incentives*.
Source: OECD database on Labour Market Programmes, Categories 2-7.

270. The change in orientation of ALMPs is due to the decline in the number of unemployed and the parallel increase in inflows in disability. Currently, one major aim of labour market programmes is to bring more people into the labour market, by *i)* reducing health-related outflows, and *ii)* rehabilitating and integrating people who are outside or at the margin of the labour market. Given the overwhelming importance of the vocationally disabled among participants in active measures, Norwegian statistics distinguish between "ordinary" and "special" labour market measures, and between "ordinary" and "incapacitated" (vocationally disabled) participants.[62] In 2007, the Norwegian Labour and Welfare Service spent over two and a half times more on the implementation of "special" as compared to "ordinary" labour market programmes.

271. All ordinary labour market measures are in principle accessible for all target groups, but "special" labour market measures are only accessible for "incapacitated" (vocationally disabled) participants.[63] There are some large differences in the duration and the level of subsidies depending on the group. Participation in wage subsidy and work training schemes depends on whether the participant is an "ordinary" jobseeker (up to 12 months) or vocationally disabled (up to three years). Also, specific measures exist for immigrants. With decreasing unemployment, labour market policy is increasingly targeted at marginal groups (see sections 5.3 and 5.4 further below).

272. Although the statistics suggest strong targeting on the vocationally disabled and other disadvantaged groups (such as immigrants and young people), the philosophy of an individualised approach guides counselling in local offices. This might be linked to the objective of the NAV reform which is to provide more integrated and individualised services. However, it is important to stay aware of target-group-specific needs.

5.3. The principal "ordinary" labour market measures

273. The two main "ordinary" measures are wage subsidies and labour market training. The mobility allowance and specific training measures (*e.g.* in the context of industrial restructuring) play a minor role in terms of budget (see Annex Table 5A.1 for details).

274. In 2007, using the Labour and Welfare Service's own classification there were on average 10 000 "ordinary" participants, representing roughly 15% of all participants in labour market measures. While participants in training measures maintain their unemployment benefit or receive a training allowance, they receive the normal wage rate when participating in an employment subsidy scheme. In work-practice programmes participants receive income support or a subsistence allowance.

Employment subsidies

275. Subsidies are offered to employers who hire certain groups of unemployed on ordinary wage and employment conditions. Subsidies compensate a real or assumed productivity gap in comparison to other jobseekers. The lower productivity may be due to lack of work experience, skills deficits, a specific physical or mental handicap, or to other reasons which, however, are normally expected to be overcome after the subsidy has been granted.

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62. The term "vocationally disabled" (*yrkeshemmede*) is used in the Working Environment Act (WEA). The notion refers in the Norwegian context to an understanding of persons being "incapacitated". Therefore, some Norwegian statistics translated into English refer to the notion "incapacitated" instead of "vocationally disabled". There are mainly medical reasons for having a reduced work capacity, but there are also social reasons. The division between "ordinary" and "special" labour market measures, and between "ordinary" and "incapacitated" (vocationally disabled) participants will be discontinued as from 2009.

63. From 2009, programme categories have been changed. Only educational measures in ordinary schools and sheltered workshops will be reserved for persons with specific needs.

276. About 45% of all wage subsidies are paid for the employment of "ordinary" ALMP participants who were registered as unemployed (encompassing various groups like long-term unemployed, young people, older workers, immigrants, lone parents, etc), and another 55% are paid for employment of the vocationally disabled. A full wage subsidy is 50% of wages for "ordinary" participants. The subsidy rate can vary according to the specific situation of the unemployed (the Eurostat *Qualitative Report 2006*[64] notes that it cannot exceed EUR 100 000 over three years "as stipulated in EFTA's guidelines for incidental support"). In 2006, there were 1 400 "ordinary" unemployed participating in this measure. Since 1998, their number has decreased quite significantly.

Training

277. The main programme in the area of institutional training for "ordinary" jobseekers is *Labour Market Training* (AMO), which is also available for employees in an uncertain employment situation who require training.[65] Labour market training is mostly given as ordinary classroom education, provided either by the public school system or by private educational institutions and paid for by the Employment Service. The fields of education are diverse, but the vast majority of courses are at secondary school level. *Labour Market Training* modules can be interchanged with course modules offered by the public school system, but they do not include the full set of modules in a specific course (Eurostat, *Qualitative Report 2006*).

278. The labour market training measure lasts between three and ten months, depending on the participant's needs. Benefits are usually retained during the training period, but the unemployment spell is broken. The stock of participants decreased by over half since 1998 (see Annex Table 5A.2) and reached 3 400 in 2006.[66]

279. The measure *Work experience in ordinary enterprises* is a job placement programme in the public and private sectors aimed at providing the jobseekers with basic job qualifications. Typically, it is offered to youth and immigrants with little experience on the Norwegian labour market (Røed and Raaum, 2006). It aims to improve the participants' chances of finding work, or starting education, after the measure. An action plan must be prepared for each participant. The employee representatives in the enterprise must approve the creation of programme slots, and in professions covered by the Norwegian Industrial Training Act, the hiring of apprentices must be given consideration as a possible alternative: these rules aim to prevent displacement effects. Participating firms receive an operating subsidy for each approved job under this scheme; they have to be approved by the local NAV office in advance and have no influence on the choice of participants (Westlie, 2008).

280. Programme participants either maintain their unemployment subsidy or get a subsistence benefit. Between 1998 and 2006, the participant stock increased by 13%, and their number stood at 4 100 in 2006.[67] Thus, participants in workplace-related training outnumbers slightly the number of participants in Labour Market Training outside the work environment.

281. The largest sub-category of training measures in the OECD database on Labour Market Programmes concerns re-training ("education in regular schools"). As mainly vocationally disabled people engage in this type of labour market programme, it will be dealt with in Section 5.4.

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64. Qualitative Reports are not regularly published but reports can be generated from Eurostat's Access database on Labour Market Policy (see *http://europa.eu.int/estatref/info/sdds/en/lmp/lmp_base.htm*).

65. To participate in the programme, young people aged between 20 and 24 years need to have been registered unemployed at least for the last three months.

66. Over the whole year of 2006, about 18 500 new participants entered the measure.

67. There were altogether 15 000 new entrants in the measure during 2006.

Tailor-made measures by age and migration background

Immigrants

282. As pointed out in Chapter 1, immigrants have a significantly higher probability of being unemployed, and young immigrants (including second generation immigrants) also encounter problems in entering the labour market. Non-OECD immigrants represent more than a third of "ordinary" participants in ALMPs, although their share of registered unemployed amounts to a fourth. There are no major differences between the participation rates of immigrants coming from OECD countries (mainly Western Europe) and the Norwegian-born population.

283. In contrast to native Norwegians, immigrants participate mainly in "ordinary" measures rather than those for the vocationally disabled: the share of non-OECD immigrants, while 35% in ordinary measures, is only 8% in "special" measures for the vocationally disabled (and 12% in all measures combined). Among "ordinary" labour market measure participants, non-OECD immigrants are in particular involved in training and education measures, reflecting the importance given to language courses, but also to other measures aimed at adapting and developing the skills of migrants (see also Section 5.5 regarding measures for new recipients of social assistance).

284. Compared to the Norwegian-born population, non-OECD immigrants have on average lower educational attainment, and the training they received in their home countries may not correspond to the demanded skills. In 2007, they represented 31% of participants in work practice programmes, but they were less well-represented among those participating in a wage subsidy scheme (see Table 5.1).[68] Arguably, wage subsidies can be used as a measure to overcome discrimination, as employers are compensated during some period of time for what they might perceive as a risk when employing immigrants. Following this argument, ways to increase participation of non-OECD immigrants in wage subsidy schemes could be considered.

Table 5.1. **Non-OECD immigrants among ordinary ALMP participants,[a] 2007**

Percentages

	Wage subsidies	Training and education, language training	Work practice[b]	Experimental programmes and others	**Total**
Share of non-OECD immigrants among all participants[c]	25.6	41.0	31.0	17.3	**34.9**

a) Ordinary participants mainly receive unemployment benefits.
b) The notion of work practice in the Norwegian statistics sums up different measures oriented towards gaining work experience.
c) Immigrants are defined as those born outside of Norway.
Source: Ministry of Labour and Social Inclusion and direct contributions by the Labour and Welfare Service.

285. There are large differences between men and women with regard to the type of labour market measures non-OECD immigrants participate in. In 2007, about 40% of all non-OECD immigrant women participating in a measure enrolled in work practice schemes, 7% in a wage-subsidy scheme and 52% in training measures. For non-OECD immigrant men, these shares were 26%, 17% and 56% respectively.

286. Although labour market policies try to respond to the inequalities and discrimination faced by immigrants, still more efforts are needed in order to reach the objective of the Norwegian government "to be the most inclusive society in the world" as stated in the 2006 *Action Plan for Integration and Social Inclusion of the Immigrant Population*. The implementation of this Action Plan goes in the right direction, as it addresses, *inter alia*, problems of participation in education and training of young immigrants. Measures to increase the recruitment of immigrants in the public sector, which are mentioned in the action plan, may also be helpful although the segmentation of immigrants into public sector measures should be avoided.

68. Data provided by Norwegian authorities for Table 5.1 and Table 5.3 are classified into a partly different set of detailed programmes, as compared to the programmes reported to Eurostat/OECD LMP database.

Second-generation immigrants

287. The action plan for immigrants contains a number of measures oriented towards children and youth either of newly-arrived immigrants or born in Norway of immigrant parents. The NAV competence centre in Oslo has developed a project "Back to the future" for young immigrant school drop-outs. NAV itself has no data on second-generation immigrants as labour market participants or jobseekers. Although their numbers remain quite low, they will increase as a result of increased levels of immigration in recent years. Evidence shows that the risk of children of non-OECD immigrants becoming school drop-outs is more than three times that of native Norwegians (OECD, 2008d). Therefore, setting up a monitoring system for this target group, as foreseen in the action plan, would be useful.[69]

Young people

288. Young people are more likely to participate in "ordinary labour market programmes" than in vocational rehabilitation. In 2007, young people under 20 represented about 15% of participants in ordinary labour market measures, and 20-24-year olds another 15%.[70] They participate mainly in vocational youth programmes, training programmes and work practice schemes. The vocational youth programmes are targeted at newcomers to the labour market, mainly those below 20 years of age. They provide a combination of work experience and training, both on-the-job and off-the-job.

Older workers

289. Participation in labour market measures by older workers is rather low. In 2007, the share of workers older than 50 years in ordinary measures was 11%, although they represented 21% of the registered unemployed.[71] As employment prospects for older workers are poor and their potential additional time in employment is shorter than for other age groups, NAV officers may be less inclined to ask the older unemployed to take part in labour market measures. However, some of the older workers have significant human capital and work experience, and more efforts could be directed towards activating and placing them.

Evaluation results

290. Norwegian evaluation results are mixed as regards the effectiveness of labour market programmes. They generally find a positive employment effect of ALMPs (all programmes), while effects on unemployment are less clear (and displacement effects have so far not received sufficient attention). However, the extent of this effect differs, which may be linked to the different time periods covered, as well as the methodology chosen.[72] Employment effects are found to be lower when on-programme ("lock-in")

69. Germany, where the share of population with a migration background has been significant for many years, from 2001 to 2006 implemented a large Programme for Promoting Skills Development of Disadvantaged Youth (BQF) with a special focus on young persons with a migration background. This programme aimed at improving the services directed towards youth, identifying new training opportunities for them, and improving vocational training activities for young migrants (or children of migrants). One part of the programme promoted the development of "preparatory measures for vocational training", and a key element in these was the better continuity in vocational training programmes (Duell, 2008). This experience could be a source of ideas for further development of target-group-oriented labour market policy in Norway.

70. Data provided by the Ministry of Labour and Social Inclusion. The respective shares of these age groups in vocational rehabilitation were 1.8% and 9%.

71. Data provided by the Ministry of Labour and Social Inclusion and NAV (2007b). For comparison, the share of persons aged 50 to 64 within the working-age population was 28%.

72. Dale-Olsen *et al.* (2007), using data from the period 1985 to 2005, found that ALMPs strongly increased re-employment. Gaure *et al.* (2008), using data from the period October 1993 to 2001, found that ALMPs increased the probability that the unemployment spell ends with a job by 2 percentage points.

effects are considered in addition to the more positive "post-programme" effects (Gaure *et al.*, 2008; Røed and Raaum, 2006). The findings suggest that labour market programmes are more effective for target groups that are more difficult-to-place, in particular immigrants from non-OECD countries although for the most disadvantaged the employment effects remain modest (Røed and Raaum, 2006; Dahl and Lorentzen, 2005).

291. There is little evaluation evidence which would allow a comparison of the effectiveness of different types of measures. A few studies compare effectiveness for different target groups (*e.g.* young people or vocationally disabled, see below). For example, Hardoy (2005) shows some positive effects of employment programmes (mainly wage subsidies) in the case of young women and the youngest age groups (16-20-year olds). By contrast, she finds that for young people classroom-based training programmes – lasting only for a few months – were ineffective. For young women, participation in "vocational" programmes (combinations of training and work experience) had a very small positive effect on subsequent enrolment in education. However, these findings relate to short-term outcomes and the long-term effects of training programmes might be larger. Further, these evaluation results have their limits as they do not control for selection bias.

292. Evaluation studies point to a decreasing marginal impact of ALMPs (Dale-Olsen *et al.*, 2007). Two factors could explain this. First, when a high level of participation in ALMPs reflects high unemployment, it is more difficult to place unemployed people in jobs even if they have participated in ALMPs. Conversely, in periods of low unemployment and high labour demand, the prospects for tackling the specific weaknesses of the unemployed are better. Second, with a high level of ALMP participation the most difficult to place as well as those who would have found a job by themselves tend to be included, and for both these groups ALMPs are probably less effective.

5.4. Vocational rehabilitation

293. The objective of vocational rehabilitation is to bring people with reduced work capacity into employment. Integration into the regular labour market is certainly the priority, but measures may also encompass adapted work and work in sheltered enterprises. However, in the classification used by Eurostat and the OECD, permanent sheltered employment is not counted as an ALMP, as its aim is not to integrate participants in the regular labour market.[73]

294. In contrast to the number of "ordinary" ALMP participants, the number of vocationally disabled participants varies less with the business cycle and is more strongly determined by structural and institutional factors. The stock of vocationally disabled programme participants decreased after 2005, but in 2007 it was still up by more than a quarter from its 1998 level (NAV, 2007b).

295. The participant structure and its evolution over time illustrate the difficulties and challenges vocational rehabilitation has to face:

- In many cases, participants in vocational rehabilitation previously received sickness benefits and may have gone through medical rehabilitation. By the time they are referred to vocational rehabilitation and allocated to labour market measures, they may already have been away from the labour market for a long time;

73. This report follows the Eurostat classification, although it is not clear whether sheltered enterprises offering permanent employment to people with reduced work capacities should be excluded when they operate in a market-oriented way (*i.e.* pay an ordinary wage which is only partly subsidised, with the remaining costs being covered by sales).

- Vocational rehabilitation is considered to be more appropriate than ordinary labour market measures for some unemployed people without a history of sickness. This may include persons with learning difficulties and behavioural problems, drug addicts and released prisoners. There is some evidence that men are more likely than women to have social, as opposed to medical, reasons for participation in vocational rehabilitation (Ekhaugen, 2007);

- The most important group of participants in terms of numbers are prime-age workers. In 2007, 1.8% of vocationally disabled were younger than 20 years, 9% were aged between 20 and 24, 70% were aged between 25 and 50 and 19% were 50 years or older[74] (NAV, 2007b, p. 45);

- The number of young people aged 18-19, and to a lesser extent those aged 20-24, receiving a disability or vocational rehabilitation benefit increased strongly between 2000 and 2006. This development is most worrying (see also Chapter 4). Young people who received health-related benefits during their first year of unemployment were significantly more likely to stay on these schemes as compared to young people who gained some work experience (OECD, 2008d). Those with low educational attainment were particularly likely to receive health-related benefits;

- Older jobless persons tend to be more often in vocational rehabilitation than in ordinary labour market measures. A steady rise in the number of participants aged 50 and more can be observed between 2000 and 2005.[75] This is linked to the increasing focus set by the Government on assessing the situation of older workers to prevent them from going on disability pension. Consequently, many of them were sent to vocational rehabilitation so that they remain closer to the labour market. In addition, a time limit of one year on medical rehabilitation was introduced, which meant that more people were shifted onto vocational rehabilitation; and

- About 8% of participants in vocational rehabilitation are non-OECD immigrants. The share of non-OECD immigrants in vocational rehabilitation is only slightly above their share in the population. The discrepancy as compared to their high participation shares in ordinary labour market programmes may be explained by the age structure: immigrants are on average younger than native Norwegians. A further explanation could be that they are less often qualified for insurance-based health benefits.

296. The heterogeneity of the target group calls for a wide range of measures. In addition to ordinary labour market measures, several types of special measures have been developed to respond to the needs of specific groups:

- Training measures in an "ordinary training environment" (both institutional and workplace training, but with a clear focus on institutional learning);

- Training measures in an adapted learning environment (mostly workplace training);

- Employment programmes oriented towards ordinary working life; and

- Employment programmes that aim at integrating the vocationally disabled into ordinary work after they first go through measures in adapted workplaces.

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74. Note that the structure of the working-age population (16-67) differs from that of programme participants in that the number of both younger and older people is higher: age group 16-19 (8%), 20-24 (9%), 25-50 (52%), and 50-67 (31%).

75. And between 2000 and 2007, for those aged 60 or above.

Training

297. Among the programmes reported to Eurostat, the single most important measure for the vocationally disabled is *Education in regular schools*. The number of participants in this measure increased by 56% between 1998 and 2006 (see Annex Table 5A.2). As public education is free, the courses in themselves do not represent an extra cost to the Labour and Welfare Service, unless extra expenses linked to integrating the vocationally disabled in the schools arise. NAV covers benefits and expenses for books, which other students have to cover themselves. Until the end of 2008, the measure and related expenses have been refunded from the social insurance system, without any given limits on spending. The bulk of expenses (88% in 2006) are benefits paid to the participants and expenses per participant-year have remained fairly stable (see Annex Table 5A.3). In 2006 the maximum duration of participation was reduced from five to three years (Eurostat, 2008; and *Qualitative Report 2006*].

298. The stock of vocationally disabled participants in *Labour Market Training* organised by NAV (see Section 5.3) remains low as compared to those in *Education in regular schools*, although it doubled between 2003 and 2006 (see Annex Table 5A.2). Such training measures are shorter than education in ordinary schools, as they have a maximum duration of 10 months.[76]

299. Two specific measures provide work experience in ordinary enterprises for the vocationally disabled (Eurostat, 2008).[77] *Work experience in ordinary enterprises for the vocationally disabled* is organised the same way as *Work experience in ordinary enterprises* for ordinary participants (see above), except that for the vocationally disabled the maximum duration of participation is three years rather than ten months. But in 2006 this programme had nearly 5 600 entrants and an average stock of about 1 400 participants, implying that the average duration of participation was only about three months. Since its introduction in 2002, the number of participants, who continue to receive rehabilitation benefits, has approximately tripled.

300. A second measure, *Work experience in regular places of work for the vocationally disabled*, can also last for up to three years. Again, participants retain their rehabilitation benefit and no compensation is paid directly to the employer, unless a participant needs additional support. The stock of participants in this scheme increased significantly in recent years, and in 2006, the measure had 20 600 entrants and an average participant stock of 7 400. In the Eurostat/OECD classification the scheme is regarded as a job creation measure, since the participants take on tasks within companies or government agencies which are useful and meaningful but which would not have been carried out if employers had to pay a wage.

301. *Work training in sheltered enterprises* is for those vocationally handicapped whose chances to find gainful employment are particularly low, and who need intensive follow-up. Between 2001 and 2006 the stock of participants more than doubled (see Annex Table 5A.2). The sheltered enterprise must be organised as a private limited company in which the local authority/county council is a majority shareholder, or as a separate professional and financial unit linked to a provider that also organises other labour market schemes. Companies receive an adaptation subsidy for each approved job. Participants receive a rehabilitation grant or a subsistence benefit. Total costs of this measure have increased substantially since the beginning of the decade, as have costs per participant. Maximum length of participation is 20 months.

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76. While in 2006 the average annual stock of vocationally disabled participants in *Labour Market Training* was 2 200, there were about 9 100 new entrants (Eurostat, 2008).

77. This measure figures among the job creation programmes according to the Eurostat/OECD classification of labour market measures.

Wage subsidies, sheltered employment and supported employment

302. Temporary wage subsidies for the vocationally disabled are used as a recruitment incentive for ordinary enterprises. The rate of wage subsidy can be as high as 60%. In contrast to the work training programmes, employers do not need to accept every proposed participant (Westlie, 2008). This subsidy programme has been designed with the expectation that the subsidised worker will stay with the company after the subsidy runs out (it can be granted for up to 18 months). The average stock of participants has remained relatively low (1 600 persons in 2006).

303. Permanent wage subsidies, to compensate for permanently reduced work capacity, have been recently introduced as pilot projects. The decision to grant permanent subsidies needs to be based on a thorough evaluation of the specific case to control entry to this measure. As compared to permanent sheltered employment, the potential advantage of the permanent subsidy measure is that it offers more flexibility for allocating beneficiaries to tasks in which they are still relatively productive. Depending on the handicap, however, it may not always be possible to place a person with disabilities with the help of permanent wage subsidies.

304. Sheltered employment consists of three measures, of which only *Clarification programmes in sheltered workshops* and *Qualification programmes in sheltered workshops* are reported as active measures to Eurostat as Phases 1 and 2. The majority of participants in Phase 1 receive a vocational rehabilitation benefit. A small proportion (about 5%) get a so-called "individual benefit" (*individstønad*) paid during programme participation, while other participants receive either other types of benefit or a regular salary. The receipt of unemployment benefits represents the exception. *Clarification programmes* last up to twelve weeks, while *Qualification programmes* may last up to two years and can be extended if necessary. In *Qualification programmes* participants are temporarily employed and receive wages.

305. There are about 100 Labour Market Enterprises and 300 work cooperatives providing services for sheltered employment and training. These organisations can provide clarification, assistance and supported employment. The municipalities own half of these companies, some of which sell products on the market. In 2006, an annual average of 3 600 persons took part in Phases 1 and 2 of sheltered employment, while there were 10 000 entrants in Phase 1 and 2 300 entrants in Phase 2. Among the participants in sheltered employment there are also persons with serious social problems, and specific measures are tailored-made for this target group.

306. *Supported employment* including intensive guidance is offered to people with severe disabilities with a view to integrating them into the regular labour market. The number of participants increased fivefold between 1998 and 2006. Assistance may be given in the form of clarification and charting of the person's competence, help in finding a suitable workplace, or the adaptation of the workplace. Supported employment can be used in combination with work practice in ordinary enterprises, or with other labour market schemes if suitable, but it cannot be combined with training. The maximum duration is three years. The provider of supported employment must be organised as a part of a work cooperative, labour market enterprise or another sheltered enterprise. Participants may receive wages, rehabilitation benefits or subsistence benefits.

The structure of participants by measure

307. In 2007, there were on average 57 400 participants in vocational rehabilitation, and about 50 000 when those in permanent sheltered employment are excluded (data provided by NAV). About half of them took part in "education in regular schools" and are mainly retrained in a new profession. The high attendance of persons with disabilities in regular schools is rather unique. About 15% participated in work experience schemes in ordinary enterprises, about 9% in sheltered enterprises and another 9% were participants in supported employment schemes, while only 3% received a wage subsidy in ordinary

enterprises (see Table 5.2).[78] As compared to 1998, the number of participants in all measures listed in the Table has more than doubled (see the more detailed stock figures in Table A5.2).

Table 5.2. **Vocationally disabled participants[a] in ALMPs, 2006 *versus* 1998**

	Expenses in 2006 (Million NOK)	Stock of participants in 2006 (Units)	Participants by measure in 2006 (%)	Participants by measure in 1998 (%)
Clarification programmes in sheltered workshops (AMB phase 1)	368.7	1 845	4	5
Qualification programmes in sheltered workshops (AMB phase 2)	452.9	1 764	4	12
Wage subsidies	208.2	1 585	3	0
Education in regular schools	4 468.8	24 815	50	74
Labour market training for vocationally disabled	379.2	2 159	4	0
Work experience in ordinary enterprises for vocationally disabled	73.3	7 440	15	0
Work experience – Practice in regular places of work for the vocationally disabled	73.3	1 409	3	0
Work experience in sheltered enterprises	1 146.0	4 323	9	4
Supported employment	793.3	4 705	9	4
Total	**7 963.7**	**50 045**	**101[b]**	**99[b]**

a) Vocationally disabled are identified by their receipt of vocational rehabilitation benefit or *individual* benefits (in case of *no* or *very low previous income*).
b) Due to rounding, sums do not equal 100.
Source: OECD database on Labour Market Programmes.

308. Analysis of data concerning persons entering and exiting vocational rehabilitation between 1994 and 2003 carried out by Westlie (2008) shows that participants with long-term illness participated as much in workplace training in ordinary enterprises (this probably refers to the Eurostat/OECD programme *Work experience in ordinary enterprises for the vocationally disabled*) as in the education programme, while persons with short-term illness more often entered the education programme. Workplace training in sheltered enterprises was most frequently used by the unemployed. Often participants took part in several measures.

309. Table 5.3 shows participation patterns of non-OECD immigrants in vocational rehabilitation, in comparison with native-born Norwegians. The following features can be stressed: First, immigrants seem to participate much more often in sheltered workshops (phases 1 and 2), but less often in permanently adapted work. Next, immigrant women from non-OECD countries have the highest probability of participating in work practice; while men are more likely than women to be on a wage-subsidy scheme.

78. All programs have a maximum length of three years, but the duration of a vocational rehabilitation spell is often longer due to waiting periods and attendance in several programs.

Table 5.3. **Vocationally disabled participants[a] in labour market measures by migration background, 2007**

Percentages

	Share of non-OECD immigrant women by measure	Share of Norway-born women by measure	Share of non-OECD immigrant men by measure	Share of Norway-born men by measure	Share of non-OECD immigrants (both sexes) among all participants
Clarification programmes in sheltered workshops (AMB phase 1)	6	3	7	3	15.7
Qualification programmes in sheltered workshops (AMB phase 2)	5	2	8	3	18.0
Wage subsidies	2	2	5	5	7.7
Assisted work	10	9	12	10	9.5
Work practice	26	22	22	20	9.3
Training and education	43	47	35	35	7.6
Adapted work in rehabilitation enterprises	2	1	5	4	9.7
Permanently adapted work	3	11	4	19	2.3
Experimental programmes and others	2	2	3	2	9.6
Total	**100**	**100**	**100**	**100**	**8.1**

a) Vocationally disabled are identified by their receipt of vocational rehabilitation benefit or *individual* benefits (in case of *no* or *very low previous income*).
Source: Data provided by the Ministry of Labour and Social Inclusion and the Labour and Welfare Service.

Evaluation results

310. According to a study by Westlie (2008), covering the period from 1994 to 2003, vocational rehabilitation programmes increase the average employment probability by over 8 percentage points.[79] More particularly:

- The treatment effect reached 15.4 percentage points for participants in *Education in regular schools*;
- It amounted to 11.7 percentage points for participants in *Labour Market Training*;
- Workplace training in ordinary enterprises showed only a small treatment effect (5.8 percentage points);
- Workplace training in sheltered enterprises had no effect at all; and
- The positive impact of *Wage subsidies for the vocationally disabled* on employment amounted to 30.6 percentage points.

311. On the one hand, the positive effect of wage subsidies might be overestimated, as the author did not estimate the share of persons who would have been employed without the subsidy. It also needs to be taken into account that the wage subsidy programme is a low-scale programme. Thus, its impact could be lower if it

79. The empirical analysis included only persons below 56 years of age, which has a positive effect on the results of labour market policies. Although the evaluation study takes previous work history, educational attainment, family status and length of previous illness into account, there may still be selection bias, since the various types of disability and labour market barrier have not been considered in the study. The direct comparison between the treatment effects of the different programmes is therefore limited as the participants represent different groups of people with different disabilities, and results may be, to some extent, explained by individual characteristics.

was run on a larger scale. On the other hand, the impact of education in ordinary schools might be underestimated, as only a period of three months after completion is taken into account in the evaluation. It can be assumed that it takes longer for persons having learned a new profession to find a first job in this profession than for a participant in a wage subsidy measure who might be taken on by the company immediately afterwards.

312. As to older participants, another study based on programme participants during 2004 showed that one-third of those over 50 years of age received disability or retirement pensions after completing vocational rehabilitation (twice the average rate), and only 28% of them found a job[80] (OECD, 2006). Thus, there is room for improving the effectiveness of vocational rehabilitation for older workers. But given their high share among health-related benefit recipients, the issue needs to be addressed whether those aged 50 and more could not be activated more systematically, in particular those who are new entrants in the schemes. More flexibility in working hours and the combination of work and health-related benefits could be considered. However, international evidence shows that it is easier for companies to adapt their human resource management strategies to retain older workers than it is to recruit older workers (Lindley and Duell, 2006). Early intervention and an early start to vocational rehabilitation can be crucial in making it possible for companies to retain older workers.

313. OECD (2008d) provides evidence that only a third of young people on rehabilitation schemes were in employment five years later. These poor results could be linked to the fact that disadvantaged young people are integrated into regular vocational rehabilitation measures – mostly education and training in regular schools – and thus their particular problems might not be tackled adequately. However, it should be noted that training in traditional schools may not be the best solution to disadvantaged youth, as they have often already failed in this schooling system. Although it is not unusual for integration programmes for disadvantaged young people to show poorer results than programmes for other unemployed groups, it is worth developing specific measures for them. In Finland, for example, specific workshops for training and labour market integration for disadvantaged young people have been set up. A key element is the intensive follow-up of the young people during and after the training period.

314. As to non-OECD immigrants, the transition rate from vocational rehabilitation to work differs significantly by country of origin, length of residence and gender. About 39% of all participants (native-born Norwegians and immigrants) in vocational rehabilitation between 1995 and 2002 made a transition to work within six months. This rate was at least as high among immigrants from Eastern Europe and Latin America as among natives, but lower for immigrants from Africa and Asia.[81] Job durations of non-OECD immigrants are on average shorter than those of native-born. Upon ending employment, they usually become unemployed, but are only rarely sick, in contrast to native-born Norwegians (Ekhaugen, 2007).[82]

315. Generally, an early start with vocational rehabilitation is likely to enhance the effectiveness of the measures. The current reforms tackle this by merging medical rehabilitation, vocational rehabilitation and the temporary disability benefit into a single benefit. As discussed in Chapter 4, these reforms aim at making access to labour market measures more flexible and at allowing an earlier start of the measure. Further, the follow-up of employees on long-term sick leave should also promote early participation.

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80. On average (all age groups), in 2004 41% obtained a full-time or part-time job after completion of vocational rehabilitation. However, there are indications that these jobs might only be of short duration (OECD, 2006, p. 84).

81. Ekhaugen found women from Eastern Europe, Asia and Africa with less than ten years of residence to be 27% to 40% more likely to find work following vocational rehabilitation than native women.

82. The analysis of the transition from vocational rehabilitation to work was based on event history data (collected by Statistics Norway from different institutions), which register all relevant events (employment, education, various types of benefits) for the same person.

316. A further problem is the shortage of places in the different programmes, which again leads to suboptimal timing. Only about 70% of those having been admitted to vocational rehabilitation in fact go on to participate in a programme (Westlie, 2008). The remainder are waiting to be placed in a measure or are receiving vocational rehabilitation benefit after the completion of a measure. It seems that the efficiency of vocational rehabilitation could be enhanced by increasing the number of places in measures, proposing more flexible timing for the start of the measures and reducing waiting periods between the measures. The number of those not in a measure but waiting for one to start increased by nearly 50% from 2002 to 2005 and then decreased by 20% from 2005 to 2007, mainly linked to changes in the number of participants.

5.5. Labour market programmes targeted at social assistance recipients

317. Long term social assistance recipients represent a rather small group, which consists mainly of socially marginalised people or those in serious labour market difficulty due to low educational attainment. Immigrants of non-OECD countries who recently arrived in Norway are a specific group of social assistance recipients. It should be recalled that social assistance is considered a programme of last resort and in many cases people might be entitled to health-related benefit schemes (see Chapter 4).

318. In general social assistance recipients can be referred by NAV offices to regular ALMPs. In addition, the government has set up compulsory programmes for some target groups, and municipalities may have their own activation programmes. In the past, the social assistance programmes (as compared to regular ALMPs) have been found to have usually fewer financial resources and to be of lower quality (Lorentzen and Dahl, 2005).[83]

319. In 2003, the government initiated an activation programme to combat poverty with the objective of better targeting specific marginal groups, including long-term social assistance recipients (Rønsen *et al.*, 2007). In 2006, the government presented a White Paper on work, welfare and inclusion. Again, the objective was reducing poverty by getting people into work. The underlying principle of the new welfare-to-work regime is the notion of the "welfare contract". According to the White Paper these contracts are used to implement consistent and systematic principles for defining and following up mutual expectations, requirements and obligations in the interaction between the individual and the public administration. This implies that the individual has rights and duties, and that the state has duties with regard to its provision of welfare services. The White Paper also includes a plan to introduce a new Qualification Programme for social assistance recipients and some other groups with marginal links to the labour market.

The Qualification Programme

320. This Qualification Programme involves referrals, based on individual needs, to different types of labour market measures such as motivation courses, training and wages subsidies. Its duration is set to one year, with a maximum of two years. Participants in the qualification programme receive a qualification benefit which in general is more generous than social assistance. The programme has been delivered by NAV as from November 2007. The municipal branch of the local office is responsible for implementing the programme, although it can include all kinds of active measures available from NAV.

The Introductory Programme for new immigrants

321. In 2005, the Act on an Introduction Programme and Norwegian language training for newly arrived immigrants entered into force. The aim of the Introductory Act is to promote the integration of

83. Lorentzen and Dahl refer to "workfare" programmes, specifying that participation is a prerequisite for continued economic support. But this use of the term seems somewhat biased as some social assistance programmes involve training rather than work.

newly arrived refugees (aged 18-55) in Norwegian society. The Act provides newcomers (only refugees and asylum seekers) with an 'introductory benefit' which is conditional upon participation in a training scheme, the "introduction programme". European immigrants are not entitled to the introductory benefit as they should already have the skills to work before entering. The programme starts within three months of settlement in a municipality and involves full-time activity over a period of up to two years with the possibility of a one-year extension. An action plan is drawn up for participants. The introduction programme provides basic Norwegian language skills and insight into Norwegian social conditions, and prepares individuals for participation in working life.[84]

322. The Programme is implemented by the municipal services in local NAV offices. In 2006, about 8 800 persons participated in the Programme (Ministry of Labour and Social Inclusion, 2007b). Most participants were aged 26-35. A recent study on the implementation of the Introduction Programme shows that a majority of the participants either completed the programme or left the Programme before completion because they found work (Information provided by the Ministry of Labour and Social Inclusion). Most municipalities have participants with special needs which make it difficult to adapt the programme appropriately to individual needs and preferences. Also, not all municipalities have competencies and staff to set up an individual plan of good quality and to offer courses that are differentiated enough to correspond to the different needs (*e.g.* for participants with different educational levels).

The New Chance Programme for immigrants

323. The Government implemented a programme known as the New Chance Programme which is aimed at people who have been in Norway for longer periods and have been on social assistance. It is a three-year trial programme with approximately 1 000 participants. Results have not been satisfactory as only approximately 25% of the participants leaving the programme find employment. But this target group is particularly difficult to integrate into the labour market so it is plausible that its placement rates are lower than for other groups. The municipalities have to apply to the government to fund the programme. This programme functions like the Introduction Programme and the new Qualification Programme. It would be useful to evaluate its results in greater depth, to compare them with the results of the Qualification Programme and investigate whether results could be improved, *e.g.* by closer follow-up of the participant after the completion of the measure.

Evaluation results

324. Only a few studies have been carried out to evaluate the effectiveness of programmes for social assistance recipients. The evaluation results that exist suggest that active labour market programmes had smaller effects on social assistance recipients than on the average unemployed, but that positive effects can be discerned, although there are large variations among specific groups (Lorentzen and Dahl, 2003, 2005).[85] This is not surprising given the characteristics of social assistance recipients, which make this group particularly difficult to integrate into the labour market (Chapter 1). Further results indicate that the employment found is often of poor quality.

84. The Introductory Act also gives immigrants the right and obligation to receive language training. The municipalities are responsible for providing the language training and social studies free of charge for a minimum of 300 hours (and up to 3 000 hours if necessary) to foreign nationals between 16 and 55 years of age. This is financed through a per capita subsidy provided by the state. In 2006, about 25 000 people participated in this scheme.

85. Evaluation carried out on the basis of 1995 data.

325. The results indicate that programmes combining qualification and work-training measures, or qualification and wage subsidies, have strong positive effects both on income and employment. Temporary employment measures alone or in combination with qualification measures have weak or no effects. This suggests that many in this group need both basic skills and measures that help them enter ordinary employment in order to become self-sufficient. Lorentzen and Dahl (2005) also reports that there is positive selection ("creaming" of the more-employable clients) into state-run programmes and a negative selection of participants in municipality-run programmes.[86]

326. Evaluation results of the Norwegian activation plan to combat poverty launched in 2003[87] (which had long-term social assistance recipients as a specific target group) indicate varying programme effects on different types of participants, but generally positive effects for social assistance recipients (Rønsen and Skardhamar, 2007). No impact was found for immigrants and single mothers, and for youths the effect was even negative. By contrast, large positive effects were found for long-term social assistance recipients. The differences across the target groups may be linked to the different types of labour market measures offered to them. For immigrants the measures were often language training courses, and their positive labour market effects may only appear in the long run. A recent analysis of the introductory programme for new non-OECD immigrants (see above) shows that one year after the end of the programme approximately 60% of the participants were in work or education. An additional 15% are registered with NAV either as ordinary jobseekers or participating in a labour market measure. A quarter of the participants seek social assistance upon completion (information provided by the Ministry of Labour and Social Inclusion).

5.6. Key points

- The vocationally disabled are the most important target group for active labour market programmes, both in terms of the number of participants and expenditure. Labour market programmes for so-called ordinary participants have increasingly been targeted on the hard-to-place unemployed. More than a third of programme participants are non-OECD immigrants who face a number of disadvantages, mainly linked to their lower educational attainment and poor command of the Norwegian language. However, "ordinary" labour market schemes have not focused towards all disadvantaged groups. In particular, older jobseekers seem to participate less. Specific programmes have been set-up for marginalised groups and receiving social assistance.

- Evaluation evidence suggests that targeting labour market programmes at the hard-to-place jobseekers is a sensible approach in the Norwegian context. Although evaluation studies have shown a limited treatment effect of active programmes on employment outcomes, the effects are more positive for some disadvantaged groups such as immigrants, and labour market measures for the vocationally disabled have shown higher effectiveness than labour market measures for "ordinary" participants. Evaluations also indicate that labour market programmes for the marginalised and the hardest-to-place, who are more likely to participate in the programmes for social assistance recipients, are useful but the employment effects are not very large.

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86. Lorentzen and Dahl (2005) describe the positive selection of participants into state-run programmes as "selection bias", but they do not seem to mean that their estimates for programme impacts (which use propensity score matching without taking into account unobserved heterogeneity) are biased.

87. This activation programme, targeted at social assistance recipients and other groups, started in 2003 with 1 250 programme slots. For 2007 the government planned about 3 900 slots at a cost of NOK 600 million (EUR 78 million). Apart from long-term social assistance recipients, other target groups included young people aged 20-24, single parents, immigrants and people who receive drug substitution treatment. Central to the plan was a broad spectrum of rehabilitation and activation measures and close cooperation between the main institutions. Labour market courses were different from traditional courses in that participants were given much closer individual follow-up.

- Training measures, in particular for the vocationally disabled, are a clear focus of ALMPs. This group is referred on a large scale to regular schools for retraining or re-education. Although the results of these measures are promising, they are costly and it would be useful to verify in each case whether this is always the best solution. The suitability of education in regular schools for various types of work incapacity, in particular those linked to social or mental problems, is also not entirely obvious. An in-depth analysis of the different causes of work incapacity, in particular among younger age groups, would be useful.

- Wage subsidies have shown to be effective for specific groups. As compared to training measures a positive impact on transitions to employment may come into effect immediately after completion of the measure if the participant remains with the employer. Lock-in effects have been found to be lower than in the case of training, where the participants have an incentive to remain in training measures which increases their human capital. It could be concluded that wage subsidies are an attractive measure. However, the positive employment effects of wage subsidies may diminish if the programme was run on a larger scale. Most importantly, deadweight and displacement effects have been given little attention in Norwegian labour market analysis.

- Given the high number of persons receiving health-related benefits and the high risk of becoming permanently dependent on these benefits, there is a case for increasing the level of participation of this group in labour market programmes. Also, the effectiveness of vocational rehabilitation could be further increased if participants started measures at an earlier stage.

ANNEX 5A

Supplementary tables

Table 5A.1. **Public expenditure in labour market programmes, 1998-2006**

Millions of kroner (NOK)

Category	Measure	Programme name	1998	1999	2000	2001	2002	2003	2004	2005	2006
1Mixed	26	Services of the Public Employment Service (Aetat)	1 659.0	1 777.6	1 706.0	1 770.0	1 925.5	-	-	-	-
1Mixed	26	[Component] Services of the Labour Market Administration (NAV) - General services	-	-	-	-	-	369.0	499.0	512.0	521.0
1Mixed Subtotal			1 659.0	1 777.6	1 706.0	1 770.0	1 925.5	369.0	499.0	512.0	521.0
1.1	4	Job clubs	49.4	11.8	0.7	5.1	7.4	6.9	33.6	60.0	84.7
1.1	26	[Component] Services of the Labour Market Administration (NAV) - Guidance/service for occupationally disabled persons	-	-	-	-	-	408.0	521.0	534.0	553.0
1.1	26	[Component] Services of the Labour Market Administration (NAV) - Guidance/service for unemployed, partially unemployed and regular labour market measures	-	-	-	-	-	350.0	412.0	422.0	551.8
1.1	33	Job placement through service providers (KAT)	-	-	-	-	-	18.7	34.8	37.1	8.8
1.1	34	Job placement for unemployed from the government (VALS)	-	-	-	-	-	0.9	0.8	0.2	-
1.1 Subtotal			..	..	..	..	..	784.5	1 002.2	1 053.3	1 198.3
1.2	26	[Component] Services of the Labour Market Administration (NAV) - Administration of rehabilitation benefits	-	-	-	-	-	155.0	174.0	179.0	162.2
1.2	26	[Component] Services of the Labour Market Administration (NAV) - Administration of unemployment benefits	-	-	-	-	-	233.0	217.0	223.0	160.8
1.2	26	[Component] Services of the Labour Market Administration (NAV) - Recruitment	-	-	-	-	-	136.0	130.0	133.0	98.9
1.2	26	[Component] Services of the Labour Market Administration (NAV) - Other staff costs	-	-	-	-	-	291.0	239.0	245.0	352.5
1.2 Subtotal			-	-	-	-	-	815.0	760.0	780.0	774.4
1 Total PES and administration			1 708.4	1 789.4	1 706.7	1 775.1	1 932.8	1 968.5	2 261.2	2 345.3	2 493.7
2.1	7	Labour Market Training (AMO)	1 052.7	722.2	977.0	887.6	734.1	1 114.5	1 204.3	777.7	473.8
2.1	22	Education in regular schools[a]	2 820.0	3 077.9	3 435.1	4 097.5	4 990.5	5 234.7	5 229.9	5 528.8	4 468.8
2.1	35	Labour Market Training for occupationally disabled (AMO)	-	-	-	-	-	149.7	248.2	502.6	379.2
2.1 Subtotal			3 872.7	3 800.0	4 412.1	4 985.1	5 724.6	6 498.9	6 682.4	6 809.0	5 321.9
2.2	8	Work experience in ordinary enterprises	190.4	102.0	133.3	121.9	140.6	259.4	340.9	326.0	249.6
2.2	9	In-house training (BIO)	24.4	12.8	147.5	130.2	19.1	25.7	18.2	4.0	-
2.2	16	Job training groups (ATG)	31.9	26.6	17.9	11.3	3.1	-	-	-	-
2.2 Subtotal			246.7	141.4	298.7	263.4	162.7	285.1	359.1	330.0	249.6
2.4	10	Apprentices in government agencies	19.0	7.6	2.6	1.0	-	-	-	-	-
2.4 Subtotal			19.0	7.6	2.6	1.0	-	-	-	-	-
2 Total Training			4 138.4	3 949.0	4 713.5	5 249.4	5 887.3	6 784.0	7 041.6	7 139.0	5 571.5
3	12	Temporary substitute places	144.3	17.0	2.7	1.0	3.7	1.5	2.0	0.1	-
3 Total Job rotation and sharing			144.3	17.0	2.7	1.0	3.7	1.5	2.0	0.1	-
4.1	5	Mobility promoting grants	20.0	14.0	16.4	12.7	11.4	11.5	2.5	2.5	9.8
4.1	6	Wage subsidies to employers	460.2	326.3	373.2	136.9	196.4	429.9	465.4	266.4	171.7
4.1	13	In-house rehabilitation (BIA)	63.8	63.5	68.8	79.3	-	30.5	0.5	-	-
4.1	28	Wage subsidies for the occupationally disabled	-	-	-	245.2	241.3	246.9	228.4	279.7	208.2
4.1	30	Work experience in ordinary enterprises for the occupationally disabled	-	-	-	-	35.9	42.9	51.7	67.2	73.3
4.1	31	Flexijob	-	-	-	-	26.3	30.1	32.3	32.9	18.3
4 Total Employment incentives			543.9	403.8	458.4	474.1	511.4	791.8	780.7	648.6	481.3
5.1	15	Work experience in sheltered enterprises	130.1	172.3	179.2	279.2	294.3	660.7	833.4	1 154.7	1 146.0
5.1	18	Integration subsidies	13.3	11.2	11.2	11.9	6.8	-	-	-	-
5.1	19	Supported employment (AB)	71.6	101.5	108.8	166.5	159.1	443.7	564.2	757.0	793.3
5.1	20	Sheltered workshops (AMB) phase 3	273.3	269.7	259.8	-	-	-	-	-	-
5.1	23	Clarification programmes in sheltered workshops (AMB phase 1)	72.1	79.7	80.7	199.3	253.1	287.6	327.6	385.7	368.7
5.2	24	Qualification programmes in sheltered workshops	465.6	491.9	482.7	313.3	519.5	610.6	593.6	495.7	452.9
5 Total Supported employment and rehabilitation			1 026.0	1 126.3	1 122.4	970.2	1 232.8	2 002.7	2 318.8	2 793.0	2 760.9
6	11	Temporary public employment (KAJA)	4.7	0.1	-	-	-	9.3	13.3	7.5	2.5
6	12	Temporary employment measures	-	-	-	-	-	-	-	-	-
6	14	Temporary employment measures for the occupationally disabled	308.7	297.7	217.4	293.5	195.1	92.5	51.4	29.3	22.3
6	21	Work experience - Practice in regular places of work for the occupationally disabled[a]	799.2	769.9	770.3	890.9	853.0	919.1	1 007.5	1 320.9	1 159.3
6 Total			1 112.6	1 067.6	987.7	1 184.4	1 048.2	1 020.9	1 072.2	1 357.7	1 184.2
7	25	Start your own business	53.0	36.0	36.0	41.8	-	21.5	43.9	49.1	47.6
7 Total			53.0	36.0	36.0	41.8	-	21.5	43.9	49.1	47.6
8.1	1	[Component] Unemployment benefits - Full unemployment benefits	5 311.2	5 460.7	6 188.9	6 646.0	8 268.0	7 646.7	7 773.0	6 824.1	4 632.8
8.1	17	Special rehabilitation allowance (SPA)	94.5	99.4	88.0	95.7	15.9	-	-	-	-
8.1	27	Payments for occupational rehabilitation between measures[a]	571.5	801.5	1 139.0	1 475.1	1 787.5	2 207.2	3 396.0	4 002.0	4 193.2
8.1	29	Waiting benefit[a]	-	-	-	37.3	51.1	90.9	156.0	294.2	387.4
8.3	1	[Component] Unemployment benefits - Part-time unemployment benefits	-	-	-	-	-	1 858.2	1 999.0	1 888.7	1 322.5
8.4	1	[Component] Unemployment benefits - Redundancy compensation	-	-	-	-	-	1 377.1	1 005.0	691.2	182.8
8.5	1	[Component] Unemployment benefits - Bankruptcy compensation	134.0	137.9	20.0	41.7	-	590.0	351.0	247.0	19.9
8 Total			6 111.2	6 499.6	7 436.0	8 295.8	10 122.5	13 770.0	14 680.0	16 594.1	10 738.8
Total 1-7 Active programmes total			8 726.7	8 389.2	9 027.3	9 696.0	10 616.3	12 591.0	13 520.2	14 332.9	12 539.2
Total 2-7 Active programmes except PES			7 018.3	6 599.8	7 320.7	7 920.9	8 683.5	10 622.5	11 259.1	11 987.6	10 045.5
Total 8 and 9 passive programmes			6 111.2	6 499.6	7 436.0	8 295.8	10 122.5	13 770.0	14 680.0	16 594.1	10 738.8

.. Not available.
- Measure ended or not started (expenditure and stocks are equal to 0).
a) OECD estimate in 2005.
Source: OECD database on Labour Market Programmes.

Table 5A.2. **Participant stocks in labour market programmes, 1998-2006**

Units

Category	Measure	Programme name	1998	1999	2000	2001	2002	2003	2004	2005	2006
1 Total			Not calculated for category 1								
2.1	7	Labour Market Training (AMO)	7 177	4 529	6 402	6 367	5 369	6 027	6 698	4 512	3 374
2.1	22	Education in regular schools	15 932	17 910	20 048	21 548	25 621	29 018	27 889	27 071	24 815
2.1	35	Labour Market Training for occupationally disabled (AMO)	-	-	-	-	-	1 029	1 580	2 604	2 159
2.1 Subtotal			23 109	22 439	26 450	27 915	30 990	36 074	36 167	34 187	30 348
2.2	8	Work experience in ordinary enterprises	3 665	2 107	2 932	2 811	3 166	5 256	5 787	5 225	4 135
2.2	9	In-house training (BIO)	-	-	110	1 000	-	-	-	-	-
2.2	16	Job training groups (ATG)	263	209	136	118	34	-	-	-	-
2.2 Subtotal			3 928	2 316	3 178	3 929	3 200	5 256	5 787	5 225	4 135
2.4	10	Apprentices in government agencies	112	36	3	-	-	-	-	-	-
2.4 Subtotal			112	36	3	-	-	-	-	-	-
2 Total			27 149	24 791	29 631	31 844	34 190	41 330	41 954	39 412	34 483
3	12	Temporary substitute places	1 028	118	24	16	7	11	17	-	-
3 Total			1 028	118	24	16	7	11	17	-	-
4.1	5	Mobility promoting grants	-	-	-	-	-	-	-	-	-
4.1	6	Wage subsidies to employers	4 303	3 041	3 325	1 959	1 547	2 665	2 913	1 932	1 428
4.1	13	In-house rehabilitation (BIA)	730	706	739	838	167	-	-	-	-
4.1	28	Wage subsidies for the occupationally disabled	-	-	-	1 358	1 526	1 688	1 569	1 899	1 585
4.1	30	Work experience in ordinary enterprises for the occupationally disabled	-	-	-	-	463	992	1 176	1 379	1 409
4.1	31	Flexijob	-	-	-	-	192	244	270	265	177
4 Total			5 033	3 747	4 064	4 155	3 895	5 589	5 928	5 475	4 599
5.1	15	Work experience in sheltered enterprises	950	1 146	1 420	1 648	1 778	2 732	3 296	4 133	4 323
5.1	18	Integration subsidies	506	420	383	374	240	117	-	-	-
5.1	19	Supported employment (AB)	957	1 306	1 482	1 672	1 797	2 510	2 992	3 680	4 705
5.1	20	Sheltered workshops (AMB) phase 3	1 954	1 881	1 789	-	-	-	-	-	-
5.1	23	Clarification programmes in sheltered workshops (AMB phase 1)	1 048	1 102	1 138	1 458	1 433	1 472	1 420	1 474	1 845
5.2	24	Qualification programmes in sheltered workshops (AMB phase 2)	2 488	2 517	2 406	2 398	2 342	2 510	2 216	1 962	1 764
5 Total			7 903	8 372	8 618	7 550	7 590	9 341	9 924	11 249	12 637
6	11	Temporary public employment (KAJA)	30	1	-	-	-	57	78	44	17
6	12	Temporary employment measures	-	-	-	-	-	-	-	-	-
6	14	Public sector employment for the occupationally disabled	1 870	1 716	1 408	1 503	1 059	744	404	233	168
6	21	Work experience - Practice in regular places of work for the occupationally disabled	4 435	4 428	4 608	4 930	5 152	5 963	5 677	7 563	7 440
6 Total			6 335	6 145	6 016	6 433	6 211	6 764	6 159	7 840	7 625
7	25	Start your own business	339	293	498	389	168	144	262	368	477
7 Total			339	293	498	389	168	144	262	368	477
8.1	1	[Component] Unemployment benefits - Full unemployment benefits	60 796	57 541	61 606	61 807	69 890	88 878	90 015	77 188	48 826
8.1	17	Special rehabilitation allowance (SPA)	1 188	1 363	1 141	1 224	721	-	-	-	-
8.1	27	Payments for occupational rehabilitation between measures	-	-	12 673	15 903	21 799	15 025	22 903	25 204	20 708
8.1	29	Waiting benefit	-	-	-	375	257	741	1 227	2 116	721
8.3	1	[Component] Unemployment benefits - Part-time unemployment benefits	-	-	-	-	-	-	-	-	-
8.4	1	[Component] Unemployment benefits - Redundancy compensation	-	-	-	-	-	-	-	-	-
8.5	1	[Component] Unemployment benefits - Bankruptcy compensation	-	-	-	-	-	-	-	-	-
8 Total			61 984	58 904	75 420	79 309	92 667	104 644	114 145	104 508	70 255
Total 2-7 Active programmes except PES			47 787	43 466	48 851	50 387	52 061	63 179	64 244	64 344	59 821
Total 8 and 9 passive programmes			61 984	58 904	75 420	79 309	92 667	104 644	114 145	104 508	70 255

- Measure ended or not started (expenditure and stocks are equal to 0).

Source: OECD database on Labour Market Programmes.

Table 5A.3. **Expenditure per participant-year in labour market programmes, 1998-2006**

Thousands of kroner (NOK) per participant-year

Category	Measure	Programme name	1998	1999	2000	2001	2002	2003	2004	2005	2006
1 Total PES and administration			Not calculated for Category 1								
2.1	7	Labour Market Training (AMO)	147	159	153	139	137	185	180	172	140
2.1	22	Education in regular schools[a]	177	172	171	190	195	180	188	204	180
2.1	35	Labour Market Training for occupationally disabled (AMO)	-	-	-	-	-	145	157	193	176
2.1 Subtotal			168	169	167	179	185	180	185	199	175
2.2	8	Work experience in ordinary enterprises	52	48	45	43	44	49	59	62	60
2.2	9	In-house training (BIO)	..	..	1 341	130	..	..	..	..	-
2.2	16	Job training groups (ATG)	121	127	132	96	91	-	-	-	-
2.2 Subtotal			63	61	94	67	51	54	62	63	60
2.4	10	Apprentices in government agencies	170	210	876	..	-	-	-	-	-
2.4 Subtotal			170	210	876	..	-	-	-	-	-
2 Total Training			152	159	159	165	172	164	168	181	162
3	12	Temporary substitute places	140	144	111	61	536	140	120	..	-
3 Total Job rotation and sharing			140	144	111	61	536	140	120	..	-
4.1	5	Mobility promoting grants	..	..	..	..	..	..	..	..	..
4.1	6	Wage subsidies to employers	107	107	112	70	127	161	160	138	120
4.1	13	In-house rehabilitation (BIA)	87	90	93	95	-	..	..	-	-
4.1	28	Wage subsidies for the occupationally disabled	-	-	-	181	158	146	146	147	131
4.1	30	Work experience in ordinary enterprises for the occupationally disabled	-	-	-	-	78	43	44	49	52
4.1	31	Flexijob	-	-	-	-	137	123	119	124	103
4 Total Employment incentives			108	108	113	114	131	142	132	118	105
5.1	15	Work experience in sheltered enterprises	137	150	126	169	166	242	253	279	265
5.1	18	Integration subsidies	26	27	29	32	29	-	-	-	-
5.1	19	Supported employment (AB)	75	78	73	100	89	177	189	206	169
5.1	20	Sheltered workshops (AMB) phase 3	140	143	145	-	-	-	-	-	-
5.1	23	Clarification programmes in sheltered workshops (AMB phase 1)	69	72	71	137	177	195	231	262	200
5.2	24	Qualification programmes in sheltered workshops	187	195	201	131	222	243	268	253	257
5 Total Supported employment and rehabilitation			130	135	130	129	162	214	234	248	218
6	11	Temporary public employment (KAJA)	158	74	-	-	-	163	171	170	146
6	12	Temporary employment measures	-	-	-	-	-	-	-	-	-
6	14	Temporary employment measures for the occupationally disabled	165	173	154	195	184	124	127	126	133
6	21	Work experience - Practice in regular places of work for the occupationally disabled[a]	180	174	167	181	166	154	177	175	156
6 Total			176	174	164	184	169	151	174	173	155
7	25	Start your own business	156	123	72	108	-	149	167	133	100
7 Total			156	123	72	108	-	149	167	133	100
8.1	1	[Component] Unemployment benefits - Full unemployment benefits	87	95	100	108	118	86	86	88	95
8.1	17	Special rehabilitation allowance (SPA)	80	73	77	78	22	-	-	-	-
8.1	27	Payments for occupational rehabilitation between measures[a]	..	..	90	93	82	147	148	159	202
8.1	29	Waiting benefit[a]	-	-	-	99	199	123	127	139	537
8.3	1	[Component] Unemployment benefits - Part-time unemployment benefits	-	-	-	-	-	..	..	..	..
8.4	1	[Component] Unemployment benefits - Redundancy compensation	-	-	-	-	-	..	..	..	..
8.5	1	[Component] Unemployment benefits - Bankruptcy compensation	..	..	..	..	-	..	..	..	..
8 Total			99	110	99	105	109	132	129	159	153
Total 2-7 Active programmes except PES			147	152	150	157	167	168	175	186	168
Total 8 and 9 passive programmes			99	110	99	105	109	132	129	159	153

.. Not available.
- Measure ended or not started (expenditure and stocks are equal to 0).
a) OECD estimate in 2005.
Source: OECD database on Labour Market Programmes.

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