



WORLD BANK

Protecting the Poor and Promoting Employability

An assessment of the social assistance system in the Slovak Republic

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Executive summary

In 2011 the Slovak Republic initiated reform of the non-contributory social assistance system¹. A key concern of the government, as it launched broad ranging reforms, was whether social assistance cash transfers, and in particular the poverty targeted 'Benefit in Material Need', created disincentives to work. To enhance the evidence base for the reforms, the government engaged the World Bank to evaluate the performance of non-contributory social assistance cash transfers, and in particular the Benefit in Material Need (see Annex 1 for the terms of reference). This paper summarizes the social safety net assessment conducted by the World Bank,² including (a) spending on and coverage and adequacy of social benefits; (b) review of the main design parameters, draft legislation, and implementation arrangements for the Benefit in Material Need program; and (c) analysis of the incentive structure created by the tax and benefit system, and a profiling of the recipients of the Benefit in Material Need, to identify potential barriers to greater participation in the labor market. In order to better understand the broader causes behind persistent unemployment, the assessment goes beyond the required terms of reference to also profile all of the unemployed and inactive population in the Slovak Republic, developing indicative groups that can be targeted using tailored programs to move them closer to employment.

Context

Two significant concerns for the social protection system in the Slovak Republic are the adequacy of protection to the existing poor, and more importantly, the ability of the system to promote employment. Poverty rates in the Slovak Republic are relatively low, but pockets of concentrated poverty remain. Unemployment has been high since the early years of the transition; youth unemployment rates and the share of the long-term unemployed are particularly high. Employment rates for women remain quite low, and have remained virtually unchanged in the last twenty years. Geographic dispersion of economic activity, poverty, and unemployment is large and growing.

The social assistance system in the Slovak Republic is fairly well consolidated and well designed. The main findings and recommendations in this report involve further improving the design and critically linking the system to the labor market. There are three main non-contributory cash transfers: (a) Family allowances; (b) Disability benefits; and (c) Benefit in Material Need (BMN). The Benefit in Material Need (BMN) is the primary means-tested program in the Slovak Republic that is targeted to the poor and vulnerable. The current structure of the BMN includes a basic benefit amount that an eligible household receives, along with supplemental claims. Supplemental claims include allowances such as (i) the activation allowance, which is available if work-able recipients perform certain activities; (ii) housing benefits, provided that certain conditions, such as the regular payment for housing costs or an agreed scheme of the payment of housing debt, are met; and (iii) protection allowances, that are categorically awarded to the elderly or disabled (for

¹ In October 2011, the coalition government that initiated these reforms fell; consequently the reform process did not move forward.

² Five interim notes were produced as part of the task; many of these notes go into much greater detail on a specific element of the social safety net assessment, and serve as background papers for this final report.

more details on the current structure of benefits see Box 2). Opportunities to receive the activation allowance for BMN recipients with work capacity are promoted primarily through small municipal activation works programs; more recently there has been some job creation in flood prevention and cultural heritage.

Main findings

The coverage and generosity of the Benefit in Material Need is low

Coverage of the BMN is low. The benefit covers less than 1 in 5 persons in the poorest quintile (the poorest 20 percent of the income distribution). Coverage is low even among the extreme poor—only 41 percent of individuals in the poorest 5 percent of the income distribution receive the BMN benefit. Such large errors of exclusion of the very poor seem to be due to many qualifying households not receiving the benefit. From EU-SILC 2009 data, we find that about 168,000 households qualify according to eligibility criteria, but do not get the benefit.

The generosity of the benefit is also low; the average BMN transfer (as measured in the 2009 EU-SILC survey) is €125.9 per recipient household per month. This is less than half what an individual would earn each month working forty hours per week on minimum wage. Thus, the amount transferred is not large enough, in and of itself, to deter individuals with work capacity from working. It represents about a third of what an individual in a BMN recipient household receives from working per month (€361). Even individuals who are members of households that are poor and who do not receive the BMN earn a wage of twice as much as the transfer on average (€210 per month).

Means-testing family allowances could provide the ability to increase spending on the BMN

Increasing the coverage and generosity of the BMN program would cost money. The Slovak Republic spends less on social assistance compared to the EU average. Nonetheless, savings can be found within the social assistance system, if needed, to accommodate the increased expenditure on the BMN program. Universal family allowances, available to any family with children regardless of income, make up about 60 percent of all expenditure on non-contributory social assistance transfers. The coverage of the poorest quintile through family benefits is high; so is coverage of the richest quintile—nearly 40 percent of the rich (the richest 20 percent of the income distribution) receive some transfer from the government. Means-testing family allowances would provide the ability to reallocate spending from family allowances to the Benefit in Material Need so as to increase the coverage and generosity of the BMN transfers without increasing total expenditure on social assistance.

Contrary to perception, a large majority of BMN recipients are families without children

The common perception is that the majority of recipients of the BMN are households with a large number of children – primarily of the Roma ethnic minority. In fact, this is not the case. Administrative data show that 62 percent of beneficiary families are single individuals without children, and a further 8 percent are families with two or more adults with no children. Roughly 35 percent of recipient households are of Roma ethnicity (estimated using the 2010 UNDP Slovak Roma Survey); thus a majority of BMN beneficiary households are small in size, without children, and comprise of the ethnic majority.

More than half of members of BMN recipient households have work capacity. This is larger than in poor families that do not receive the BMN – only 43.6 percent of household members in such families have work capacity. Further, almost two-thirds of members of BMN recipient households with work capacity are unemployed. Again, in sharp contrast, only 23 percent of individuals with work capacity in poor households that do not receive the BMN benefit are unemployed.

By design, there is a positive correlation between receipt of BMN and unemployment; and evidence is inconclusive on whether recipients of BMN face work disincentives

The contributory unemployment insurance program in the Slovak Republic has strict eligibility conditions, and the duration of unemployment benefits is only for 6 months even for those with long work histories. As a result, a very small proportion of the unemployed in the Slovak Republic receive the contributory benefit. This, combined with a means-test that relies largely on current incomes, implies that the transient and income poor form a fairly large proportion of recipients of the BMN. Given that the BMN serves as a second-tier non-contributory unemployment benefit, it is very hard to disentangle whether there are any causal effects between receiving the BMN and being unemployed.

Regression discontinuity analysis does not show any significant reduction among BMN recipients in terms of participation in the labor force or in terms of number of hours worked. There are many factors that affect the unemployment and inactivity rates in the Slovak Republic. Labor demand is low, particularly in certain regions within the Slovak Republic. For instance, in the last quarter of 2010, there were 120 unemployed persons per job vacancy in Presov, in the eastern part of the Slovak Republic. Those with low levels of education face significant barriers to work. Such factors have a much greater impact than receipt of the BMN on inactivity and unemployment rates; only about 15 percent of the total inactive and unemployed persons of working age received the BMN in 2009.

The unemployed and inactive population is a varied group, and tailored interventions are needed to increase employability of this group.

About 21 percent of the working age population was either inactive or unemployed in 2009. Profiling of this population indicates that this is a diverse group of individuals, and 7 categories emerge (see Table A). The categories of the unemployed are presented in the order of size in the table (from largest to smallest). The largest category, making 31 percent of the total, are individuals who have become newly unemployed, with recent work experience (Category 1). These are “market” clients, who have little labor-related obstacles to employment, and low social barriers to work. Job counseling and search assistance, provided through the public employment services, at low cost, should quickly return this category of individuals back to work. Note that 26 percent of this group receives the benefit in material need – this is further evidence that the BMN serves as a second tier unemployment assistance. It is unclear that the BMN is an appropriate benefit for individuals in this category.

One of the second largest categories (Category 3), making 18 percent of the total, are newly unemployed women between the ages of 55 and 59, who have taken early retirement. About 97 percent of individuals in this category describe themselves as being in early retirement status, and 86 percent of them are women.

Individuals in this group belong to the “bridge” client group – needing additional attention, and likely more training or other measures to bridge their path back to employability and labor market participation.

Table A: Groups among the inactive and unemployed

	Size of each group	Description	Percent who receive BMN	Percent who receive unemployment benefit	Percent who receive parental benefit	Percent who receive disability benefit
Market clients						
Category 1	31 percent	Newly unemployed, with work experience	26 percent	18 percent	11 percent	3 percent
Bridge clients						
Category 2	18 percent	Newly unemployed, with work experience – older individuals (45-59 yo), mostly disabled	7 percent	2 percent	4 percent	79 percent
Category 3	18 percent	Newly unemployed, with work experience – older individuals (55-59 yo), mostly female, in early retirement	4 percent	1 percent	4 percent	8 percent
Intensive support clients						
Category 4	12 percent	Inactive women with marginal work experience	11 percent	2 percent	53 percent	20 percent
Category 5	9 percent	Young unemployed, without work experience	21 percent	9 percent	17 percent	2 percent
Support clients						
Category 6	7 percent	Well educated, young, inactive women with children	1 percent	0 percent	72 percent	3 percent
Intensive support clients						
Category 7	5 percent	Less educated individuals who have never worked (18-44 yo)	27 percent	4 percent	24 percent	51 percent

Prioritizing which group to activate is important so as to develop coherent labor market policies and support services. For instance, Category 6 presents us with an interesting case. This category is made up of highly educated women, with recent work experience, who are inactive; and they constitute 7 percent of all inactive/unemployed persons. More than 70 percent of women in Category 6 receive the parental benefit. Support services such as affordable kindergartens and flexible work arrangements are important to help women in this category maintain ties to the labor market. At the same time, there may be cultural barriers that are harder to surmount for mothers of young children who wish to return to work.

Category 7, making up 5 percent of the total, suffer from significant barriers to employment. They have low levels of education and 51 percent of them receive disability allowances. A comprehensive approach is necessary to integrate such individuals to the labor market; successful programs such as the Chile Solidario program may be adapted to suit the specifics of the Slovak context.

Recommendations

To have a first order impact on persistent unemployment, it is important that structural constraints that impede job creation be addressed—policies that guarantee macroeconomic stability; improved business climate; promote healthy competition; and provide incentives to innovate, are key for increased job creation. Improving the quality of education and skills of the incoming labor cohorts is also important. Nonetheless, there are improvements that can be undertaken within the social protection system to better protect the poor and move them closer to employment.

Protect the poor by improvements in the design and implementation of social assistance programs

To improve coverage of the unemployed through the contributory unemployment benefit, it is important to ease eligibility requirements and to link the duration of benefit receipt to work history. To improve coverage of the benefit in material need, it is important to understand why many eligible families do not receive the benefit. Special surveys that focus on the poorer population can be designed to elicit the reason for poor coverage, and whether this is due to low generosity and self selection or whether other barriers to access exist.

The parental allowance is currently fully counted as income when determining eligibility for the Benefit in Material Need; as opposed to the treatment of formal wage income (the first 25 percent of formal wage income is not counted for the income test); and of child benefits, which are entirely discounted in the income test. This represents an inconsistency in the design, leading to less favorable treatment of poor families with children under the age of 3. The small proportion of families with children among recipients of the BMN could be the unintended consequence of this design feature.

Increasing coverage and generosity of the BMN in a fiscally constrained environment is difficult; one option would be to reallocate expenditure from family allowances to the Benefit in Material Need. Estimates suggest that means-testing the child benefits to the poorest 70 percent of the population (i.e. excluding the richest 30

percent of the population), as well as restricting eligibility to those 18 and under³ leads to savings of about €102 million. Some of these savings could be reallocated to the Benefit in Material Need.

Promote employability through tailored activation incentives and services

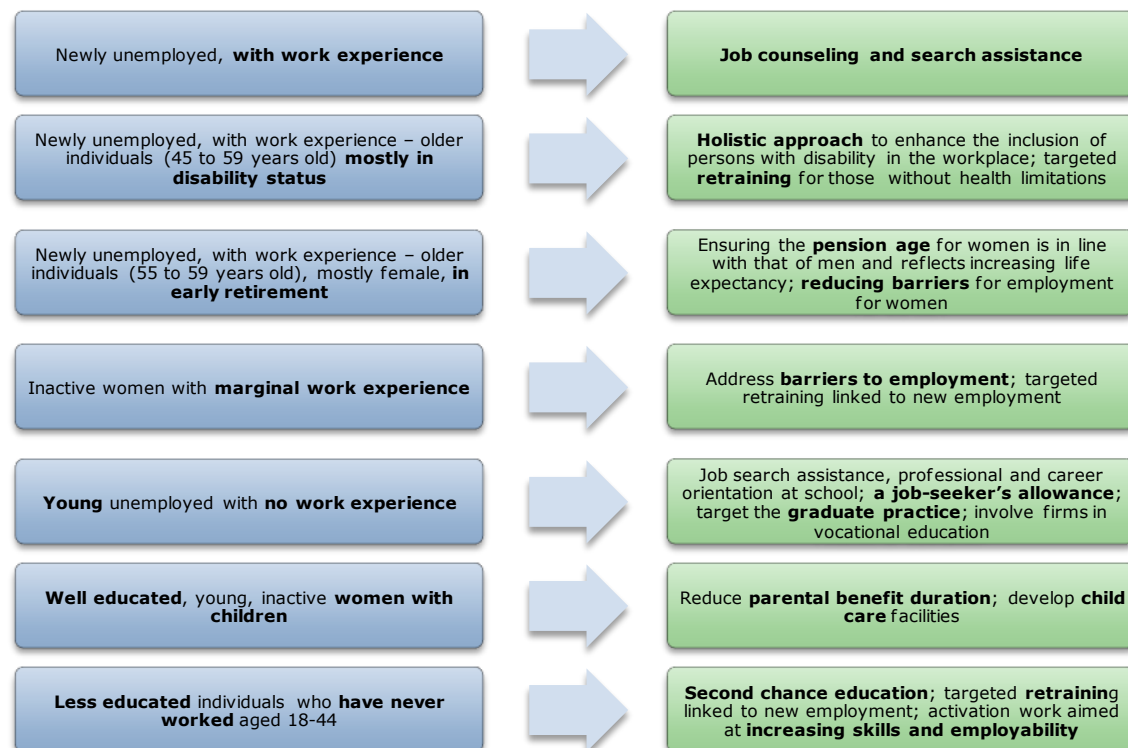
Many of the current financial disincentives to work can be resolved by changes in the design of the activation allowance. Tying the activation allowance to active job search, rather than to participation in small municipality works (and renaming it job search allowance) and increasing ‘in work benefits’ can change the work incentives for individuals and families that receive the BMN. This is a more desirable alternative compared to cutting the basic BMN, as was proposed in the draft law, which would lead to further reductions in benefit adequacy for the poorest and most vulnerable. Moreover, careful attention should be paid to work disincentives related to social protection programs besides the BMN, such as the parental benefit, early retirement and disability pension schemes. As illustrated in the profiling of the unemployed and inactive, some of these benefits may be leading to lower employment among the working age population.

It is important to improve the design of existing “make work pay” schemes. Currently, there are three main “in-work” benefits: (1) the activation allowance of €63.07 per month given to those who move from long-term unemployment to employment; (b) the employee tax-credit, of a maximum of €50.34 annually; and (c) a child credit of €20 per child per month. The activation allowance is time limited. The time limit itself is not necessarily an issue; however, studies suggest that a relatively short time limit is unlikely to provide time for wage progression to result in self-sufficiency and could be counterproductive. The time limit on the activation allowance could be extended. Moreover, the employee tax credit is not sufficient to substantially reduce social security contributions paid at low wage levels. A robust earned income tax credit could provide income support to poor working individuals and families. Such a scheme could be an effective way to increase labor supply if complemented by efforts to increase labor demand and measures to improve employability of low-skilled individuals.

The profiling of the unemployed and inactive indicates that a variety of activation measures are necessary to move the various groups closer to employability. The groups differ in the level and type of support they may need to (re)enter the labor market. Currently, some labor market programs provide support to these groups, but their effectiveness can be improved. Some programs could be consolidated, while other better designed programs could also be introduced to specifically address the challenges of these distinct groups. Figure B illustrates the activation measures best geared toward specific groups to better facilitate their (re)entry into the labor force. For example, integrating older individuals with disabilities into the workforce requires a holistic approach to enhance the inclusion of persons with disability in the workplace. Moreover, for those with few health limitations, targeted retraining could be used to facilitate learning new skills. Meanwhile, for the young unemployed, a job search allowance tied to job search behavior may be more effective compared to current activation opportunities; and could result in improved matching in the job market. Each group possesses traits that require specific considerations when designing programs to ensure (re)integration into the workforce.

³ Currently children under the age of 25 who are studying are still eligible to get the child benefits.

Figure B. Recommended Activation Measures for Target Groups



A robust and well-staffed public employment service is needed to tackle the issues of high unemployment in the Slovak Republic. In the context of general downsizing in public and state institutions, there was downsizing of labor office staff in 2007, and again in 2011. This has occurred against rising unemployment levels and has resulted in increasing and unevenly distributed caseloads. It is important that caseloads are assessed to ensure that the unemployed are aided in a timely and effective manner. For integrated case management to work well, the caseloads of staff need to be lower – in particular for those staff dealing with persons with multiple barriers to the labor market.

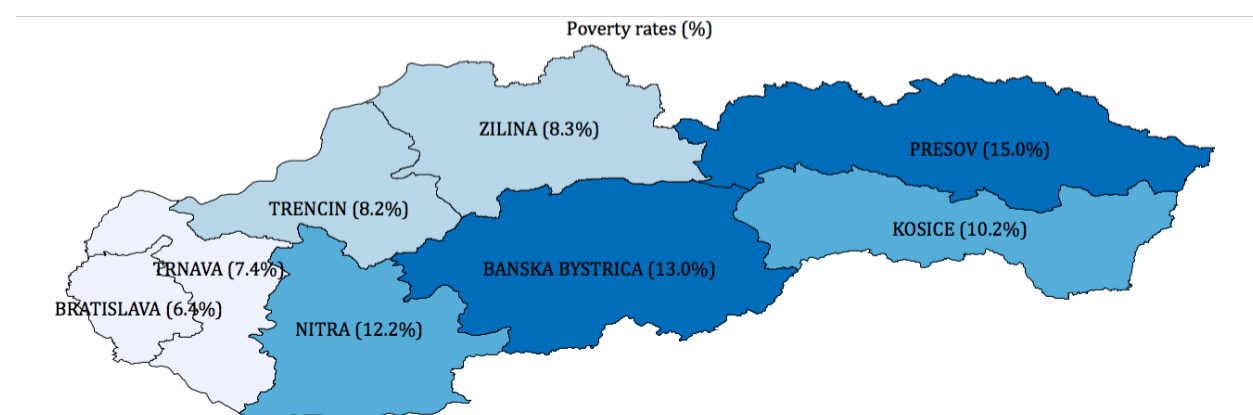
Overall expenditure on active labor market programs (ALMPs) is low, at about 0.2 percent of GDP; and expenditure is skewed towards start-up initiatives, with very little spent on training. By comparison, Poland spends nearly 1.2 percent of GDP on ALMPs, with nearly half of expenditure allocated to training programs. Youth unemployment rates in Poland have declined from a very high 43 percent of GDP in 2003 to about 24 percent in 2010. It is important that ALMPs be appropriately funded as well as evaluated, and that the right type of data are collected, whether survey or administrative data. A system that converts such data into ‘information’, and particularly into ‘relevant information’ for the various levels of policy makers is key in advancing evidence-based policy making in the area of social protection.

Part I. Key concerns: Poverty and Unemployment

Unemployment has been very high in the Slovak Republic since the early years of the transition; youth unemployment rates are particularly high, as is the share of the long term unemployed. Employment rates for women remain quite low, and are virtually unchanged since the early years of the transition. Poverty rates are relatively low in the Slovak Republic, but pockets of concentrated poverty remain. Geographic dispersion of economic activity, poverty, and unemployment are large and growing. The main challenge that the Slovak Republic faces as it reforms social assistance cash transfers, is to maintain the delicate balance between providing adequate income support to the poor and vulnerable while encouraging labor market integration for those individuals with work capacity.

Two significant concerns for the social protection system in the Slovak Republic are the adequacy of protection to the existing poor, and more importantly, the ability of the system to promote employment. Poverty is primarily addressed within the social protection system by three non-contributory benefits and a contributory unemployment insurance program. Several active labor market programs (ALMPs) seek to increase the employability of both the unemployed and the inactive.

Figure 1: Poverty rates by region



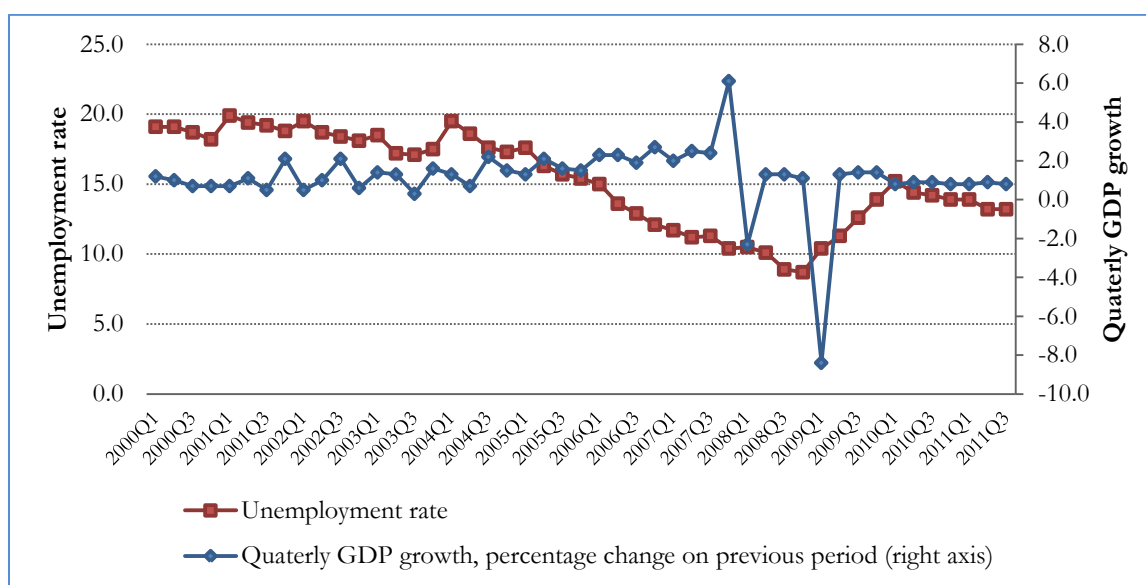
Note: The poverty line used is 60 percent of the median equivalized disposable income.

Source: EU-SILC 2009, Staff calculations.

Within the Slovak Republic, poverty rates are relatively low; however, pockets of poverty remain. In 2010, the poverty rate in the Slovak Republic was 12 percent while the EU average was 16.4 percent.⁴ However, this figure masks large regional disparities. Northern and western regions have significantly lower poverty rates compared to their southern and eastern counterparts. The poverty rates vary from 6.4 percent in western Bratislava to 15 percent in eastern Prešov (Figure 1). Moreover, these figures may hide concentrations of poverty—for example, the UNDP calculated that 87 percent of Roma households lived in poverty in 2011.⁵

Despite a swift recovery from the 2008-9 financial crisis, unemployment remains high. The Slovak Republic suffered a sharp decline in GDP of close to five percent in 2009 due to the global financial crisis. The economy has recovered quickly, though growth rates in the future are predicted to be lower than pre-crisis rates. Despite a rapid recovery, the effect of the crisis on the labor market has been dramatic, with the unemployment rate climbing from 9.6 percent in 2008 to about 14.4 percent in 2010, and 131,500 people joining the ranks of the unemployed over this period (Figure 2).

Figure 2: Unemployment rate and quarterly GDP growth



Source: Eurostat.

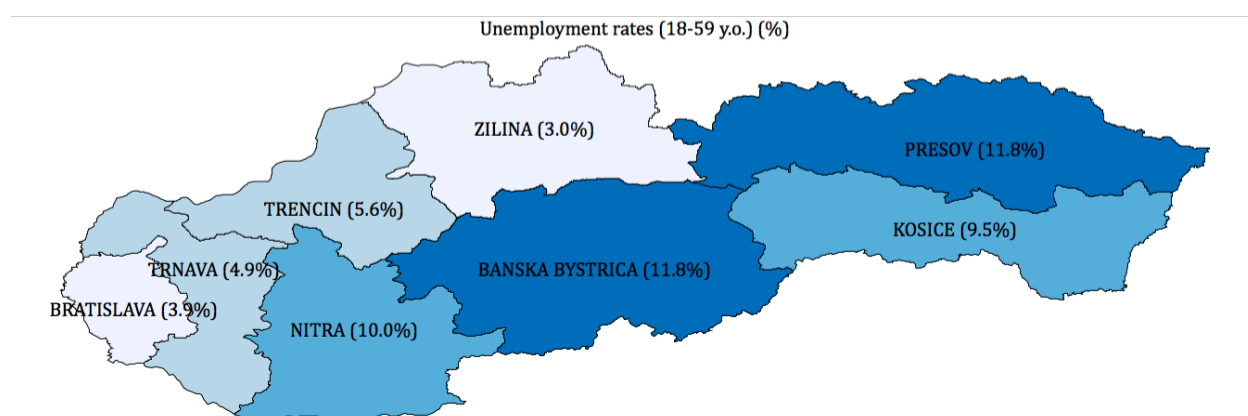
The average levels of unemployment and inactivity in the Slovak Republic conceal significant and growing regional disparities (Figure 3). Although the Slovak Republic is a small country, there is significant divergence in economic activity within the country. For instance, in

⁴ The poverty rate is based on a relative poverty line, which is set at 60 percent of the national median equivalised disposable income (after social transfers).

⁵ Calculation based on a relative poverty line, which is set at 60 percent of the national median equivalised disposable income (after social transfers) and calculated for the 2011 UNDP/WB/EC survey.

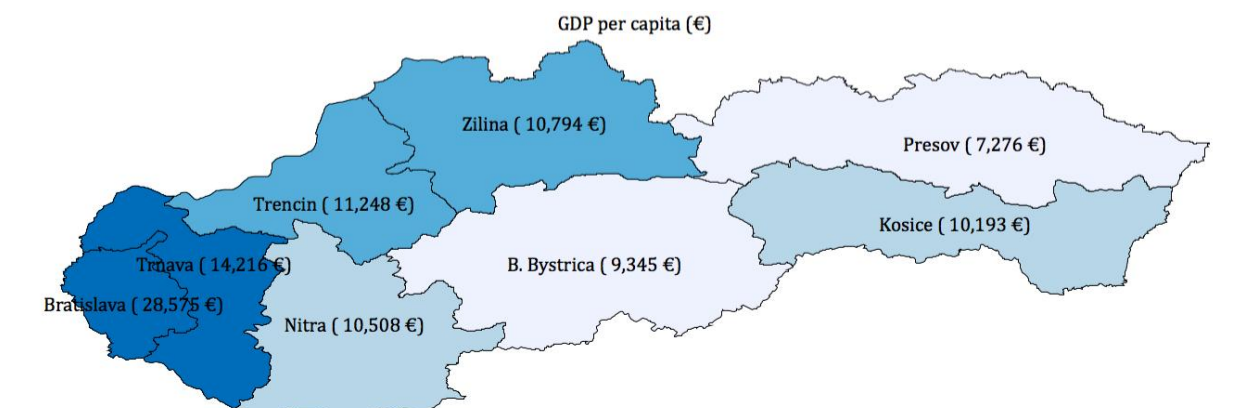
2008, the regional GDP per capita in the Bratislava region was almost four times greater than in Prešov (Figure 4). This makes the Slovak Republic third only to Hungary and Bulgaria in terms of regional dispersion among EU countries (Figure 5).⁶ Moreover, regional dispersion in the Slovak Republic was *higher* in 2008 than it was in 2000 by about 6 percentage points.

Figure 3: Unemployment rates by region



Source: EU-SILC 2009, Staff calculations.

Figure 4: Regional GDP per capita, in euro, 2008

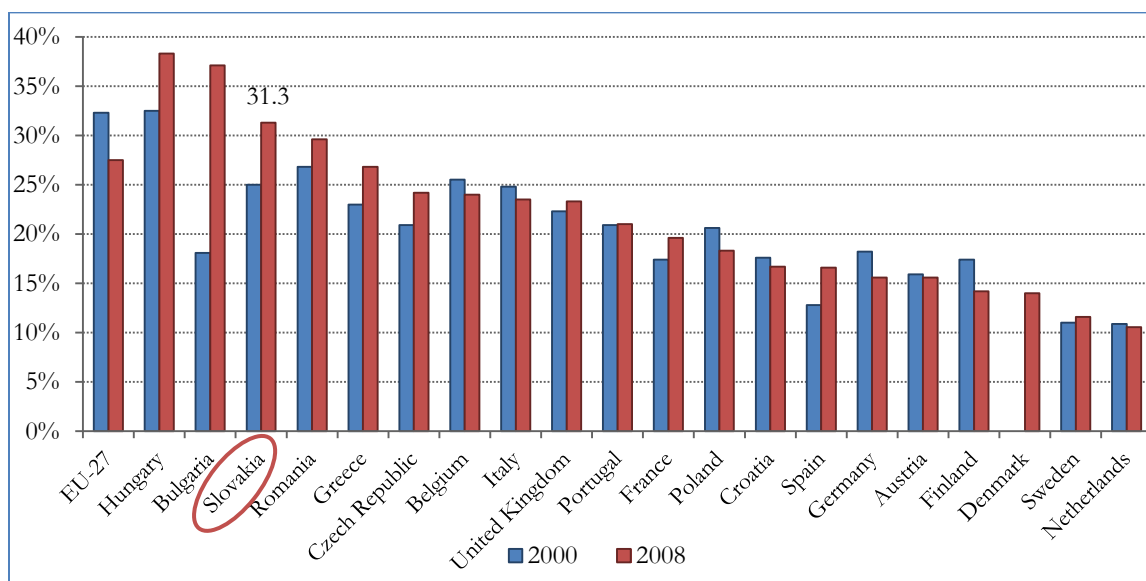


Note: Regional gross domestic product per capita (at current prices) in EUR. Source: Statistical Office of the Slovak Republic.

⁶ An indicator of regional dispersion, which records the differences between regional per-inhabitant GDP and the national average, can capture regional disparities in economic output. For a given country, the dispersion of the regional GDP of the level 2 regions is defined as the sum of the absolute differences between regional and national GDP per inhabitant, weighted on the basis of the regional share of population and expressed in percent of the national GDP in purchasing power standards (PPS) per inhabitant. The value of the indicators in 2008 (31.3 percent) means that the GDP of all regions in the SR, weighted on the basis of the regional population, differs from the national value by an average of 31.3 percent. For more information, see

http://epp.eurostat.ec.europa.eu/statistics_explained/index.php/GDP_at_regional_level#

Figure 5: Dispersion of regional GDP per inhabitant, in PPS, 2000 and 2008



Notes: Regional dispersion is an indicator which records the differences between regional per-inhabitant GDP and the national average. This dispersion indicator is calculated at NUTS 2 based on GDP in purchasing power standards (PPS). Source: Eurostat.

Youth unemployment rates in the Slovak Republic are among the highest in OECD countries. In 2010, the youth unemployment rate was 33.6 percent, second only to Spain within OECD countries.⁷ The young are particularly hard hit during economic recessions. Following the 2009 financial crisis, unemployment among youth (15-24 year olds) jumped from 19 percent in 2008 to 34 percent in 2010. A similar jump in youth unemployment rates occurred after the 1998 macroeconomic shock, and did not recover until 2005. While it is often perceived that the youth unemployment problem is limited to youth from Roma communities, in reality most of the young unemployed are not Roma. At the same time, Roma youth do face significant challenges *vis-a-vis* the labor market (see Box 6).

Female employment rates are low in the Slovak Republic. Overall labor force participation rate was about 69 percent in the Slovak Republic in 2010 – but the female labor force participation rate is low at about 62 percent compared to other OECD countries. Combined with high unemployment, this translates to a very low female employment rate of 52.5 percent—7th lowest among OECD countries—which has remained virtually unchanged since 1992.

Long-term unemployment is a serious problem in the Slovak Republic. Many unemployed remain without jobs for more than twelve months, and the share of long-term unemployed is one of

⁷ OECD (2010), "Labour Force Statistics: Summary tables", OECD Employment and Labour Market Statistics (database).

the highest in the EU. In particular, long-term unemployment among youth is high – the share of long-term unemployment in total youth unemployment has not fallen below 31 percent since 1994.⁸ Two types of transitions appear particularly difficult in the Slovak Republic context: (a) transition from school to work for the young and (b) transition from unemployment to employment.

The main challenge that the Slovak Republic faces as it reforms social assistance cash transfers, is to maintain adequate protection for the poor and vulnerable while encouraging labor market integration for those individuals with work capacity.⁹ Three main non-contributory cash transfers aim to protect the poor: (a) Family allowances; (b) Disability benefits; and (c) Benefit in Material Need (BMN). Opportunities for increased employability are promoted through Active Labor Market Programs (ALMPs) that include small municipal works programs, job creation in flood prevention and cultural heritage, graduate practice, voluntary work, and education and training

The non-contributory social assistance programs have different eligibility and targeting criteria. Family allowances are universal and available to any family with children regardless of income. They include such monthly benefits as the child allowance and the parental benefit or the benefit for the proper care of a child, and one-time childbirth or adoption grants. The Benefit in Material Need (BMN) is targeted to the poor and vulnerable via means-testing. The BMN includes a basic benefit amount that an eligible household receives, along with supplemental allowances (for more details on the current structure of benefits see Box 2). The disability benefits are also income-tested in the Slovak Republic; eligibility criteria are relatively strict for the non-contributory disability benefit, which includes a caretaker allowance and one-off compensations for larger purchases needed to accommodate the needs of the disabled.¹⁰

The Active Labor Market Programs have different target participants and purposes in an effort to promote unemployment. The small municipal works programs provide low skilled work, and are intended to supplement the income of BMN recipients. Job creation measures in flood prevention and cultural heritage lead to formal contracts. The graduate practice consists of a three to six month internship for 20 hours per week, and is targeted toward jobseekers under 25. Voluntary work activities are open to all jobseekers registered for three months and seek to provide practical experience that can be used in the labor market. Finally, education and training is offered to all jobseekers.

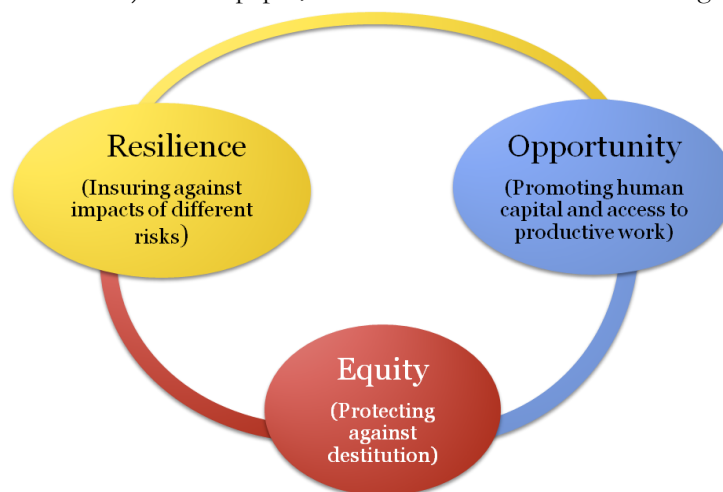
⁸ OECD (2007).

⁹ See Box 2 on the objectives of the social protection system.

¹⁰ No separate non-contributory personal disability allowance exists in Slovakia. The disabled in material need are eligible for a supplementary protection allowance to the Benefit in Material Need.

Box 1: Objectives of Social Protection

To address concerns of poverty and unemployment, social protection systems seek to build resilience, achieve equity, and provide opportunity. The three goals of **resilience, equity and opportunity** equate to what is more widely known among social protection practitioners as the '3P' framework: prevention, protection, and promotion (See World Bank 2001). In this paper, these terms will be used interchangeably.



Contributory social insurance programs (unemployment insurance, old-age pensions, and so on) build resilience and **prevent** individuals from falling into poverty by insuring against idiosyncratic, as well as coordinated, macroeconomic shocks. **Non-contributory social assistance programs** (also known as safety net programs) seek to achieve equity by **protecting** the chronic poor and other vulnerable groups, such as the disabled, against destitution and supporting equality of opportunity. By providing income support and other services they protect against irreversible and catastrophic losses of human capital and seek to reduce the socio-economic harm from acute inequality. **Promotion** of opportunities is achieved through **a variety of instruments** including active labor market programs that build skills and promote employability; programs such as conditional cash transfers and public works that increase human and physical capital investments; and through the indirect impact of preventive and protective programs which, by lowering households' vulnerability, allow them to be more innovative and to take productive risks. In this paper, such policies aimed at adults are referred to as **"activation"** or **"active inclusion"**.

Source: World Bank (2012e).

This paper assesses to what extent the current systems of social assistance and labor market programs address unemployment and poverty. The study is concerned with whether the systems in place are solving the problems (promoting equity and opportunity) or making them worse (for example, do social assistance benefits exacerbate structural unemployment?). While social protection programs can contribute significantly to alleviating poverty and promoting labor market participation, they cannot be the only tools to address deep structural problems in the economy and the labor market. Serious structural issues, such as weak labor demand and potential infrastructure development, affect poverty alleviation and labor market participation, but are outside the scope of this paper. Part II reviews the social benefits system in the Slovak Republic to determine whether

the current system protects the poor. Given the findings in Part II, Part III examines how social benefits could be better leveraged to promote labor participation. Part IV looks broadly at the entire unemployed/inactive population, and examines potential ways in which these target groups can be moved closer to employment (activated). Part V provides recommendations for further improvements.

Box 2: Current structure of non-contributory cash transfers in the Slovak Republic

The main structure of current social assistance cash transfer programs in the Slovak Republic consists of three major components:

- 1) The **Benefit in Material Need (BMN)** that aims to protect those in material need. Families whose incomes fall below the subsistence minimum are identified as being in material need and qualify for the BMN. The BMN consists of a basic entitlement and supplements. **The actual amount of the BMN is calculated as the difference between the sum of claims and the income of the claimant/unit of assistance.** The **basic BMN claim** is determined as a fixed amount for single individuals and jointly assessed persons as follows:

- i) Individual with no children: € 60.50; Individual and 1-4 children: € 115.10; Individual with 5 or more children: € 168.20
- ii) Couple with no children: € 105.20; Couple with 1-4 children: € 157.60; Couple with 5 or more children: € 212.30

The **supplemental claims to the basic BMN** include:

- iii) health care allowance: € 2 per each person receiving BMN
- iv) activation benefit: € 63.07 provided that conditions for receiving it are fulfilled
- v) protection allowance: € 63.07 (€ 34.69) available to people who for health, age and other reasons cannot be activated
- vi) housing benefit: € 55.80 for one person in material need, € 89.20 for more persons in material need, and provided that conditions for receiving it are fulfilled (i.e. regular payment for housing costs or an agreed scheme of the payment of housing debt)
- vii) allowance for pregnant woman: € 13.50
- viii) allowance for child under 1 year of age: € 13.50
- ix) allowance for school-aged child: € 17.20

- 2) **Family benefits**, that aim to protect children, but also have the secondary objective of increasing fertility rates, and include:

- b) **Child benefits** which are universal, with about €22 per month transferred per child under the age of 18. A child under 25 who is studying continues to be eligible for this benefit.
- c) **Parental allowance** which is also universal, of about €190 a month, if the family has at least one child under the age of 3. This allowance does not increase with any additional child under 3. Since January 2011, a parent is allowed to work while receiving this benefit.
- d) **Benefit for proper care of the child** which reimburses the cost of using a surrogate to care for the child (including child care facilities) up to a cap of about €230, and is an alternative to the parental allowance.
- e) **Child birth grants and adoption benefits** which are not means-tested.

- 3) **Disability benefits** include means-tested cash transfers for personal care assistance and additional benefits for purchasing equipment, transportation benefits, and so on. The only non-contributory cash benefit that the disabled person themselves get is the protection allowance (as discussed under the Benefit in Material Need).

Part II. Does the Social Benefits System Protect the Poor in the Slovak Republic?

Policy makers and the public often express concern that the Slovak Republic spends too much on social assistance. Almost half of Slovaks report that social benefits are too costly and place too great a strain on the economy, and therefore poverty-targeted benefits lack public support. However, spending on social assistance is relatively low compared to most EU countries. The Slovak Republic spends about 1.8 percent of GDP on the three main non-contributory cash transfers; expenditure on these program have declined from 2.9 percent of GDP in 2001. Thus, in contrast to perception, spending on social benefits is not only lower in relation to other EU countries, but has significantly declined in the last ten years.

Family allowances are universal, and absorb almost two-thirds of total expenditure. Together, disability benefits and the Benefit in Material Need account for the remaining one-third of spending. Through universal benefits, social protection programs cover over 75 percent of the poor and 45 percent of the rich. Poverty-targeted benefits on the other hand cover only 1 in 5 poor persons. It is important to increase the coverage and generosity of the Benefit in Material Need; means-testing child allowances and allocating some of the savings to the expansion of the BMN can ensure that overall expenditure on social assistance does not increase.

The Social Assistance System in the Slovak Republic Can Be Made More Cost-Effective

Spending on social assistance is lower in the Slovak Republic relative to the EU average.¹¹

Most public expenditure on social protection is channeled through social insurance programs, which include old age and disability pensions. Resources spent on social assistance average five percent of GDP in EU15 countries: 2.6 percent on non-contributory cash transfers and 2.3 percent on in-kind benefits.¹² However, the Slovak Republic spends less than three percent of GDP on social assistance: just under two percent on non-contributory cash transfers and approximately one percent on in-kind transfers (Figure 6 and Figure 7).

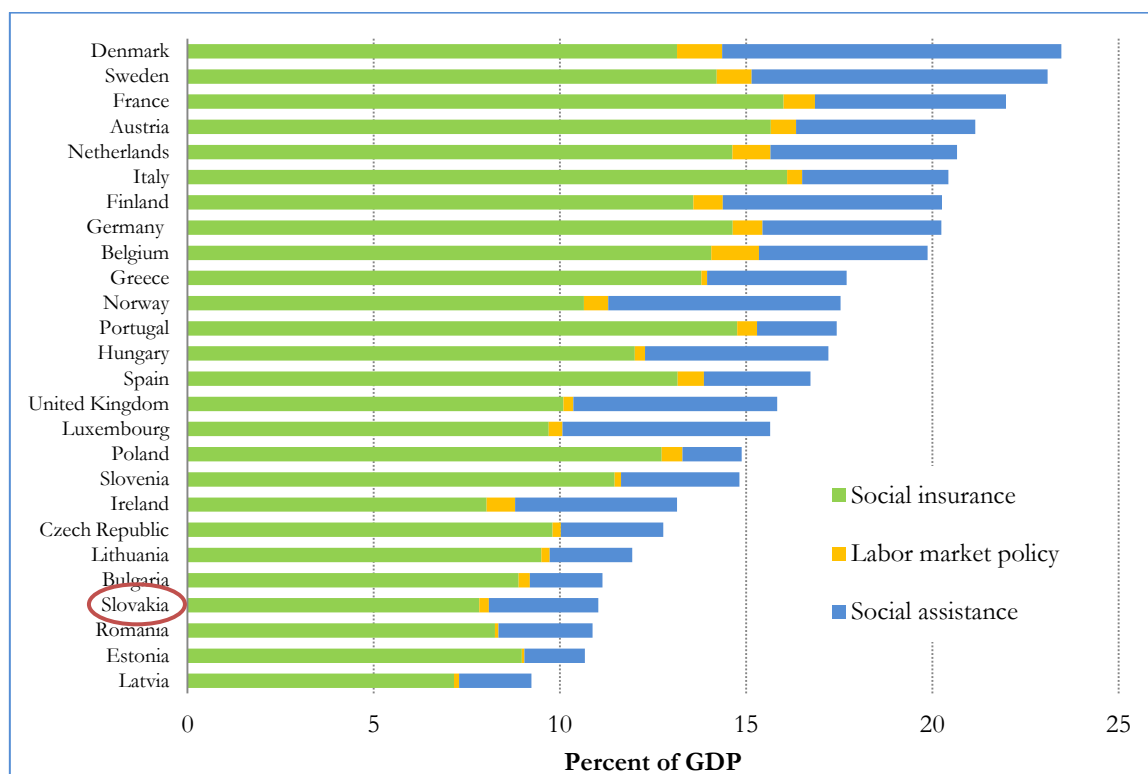
Major reforms in the Slovak Republic in 2004 led to a sizeable decrease in expenditure on these non-contributory transfers. Most of the cut came from reductions in spending on the BMN, which declined nearly two-thirds from 1.12 percent of GDP in 2001 to 0.42 percent of GDP in 2011. Expenditures on family benefits also fell from 1.4 percent in 2001 to 1.1 percent in 2011. Disability benefits expenditures have remained relatively constant—between 0.3 and 0.4 percent of GDP over the decade. Overall, expenditure on the three main non-contributory programs was 2.9 percent of GDP in 2001, and only 1.8 percent of GDP by 2011. Thus, in contrast to perception,

¹¹ European system of integrated social protection statistics (ESSPROS) data was used. See Annex 3 in World Bank (2012c) with additional information on methodology and limitations of the data used.

¹² A simple average calculation was used.

spending on social benefits is not only lower in relation to other EU countries, but has significantly declined in the last ten years.

Figure 6: Spending on social protection as a share of GDP, 2008



Note: Excluding Luxembourg, Malta and Cyprus.

Source: ESSPROS data, Staff calculations.

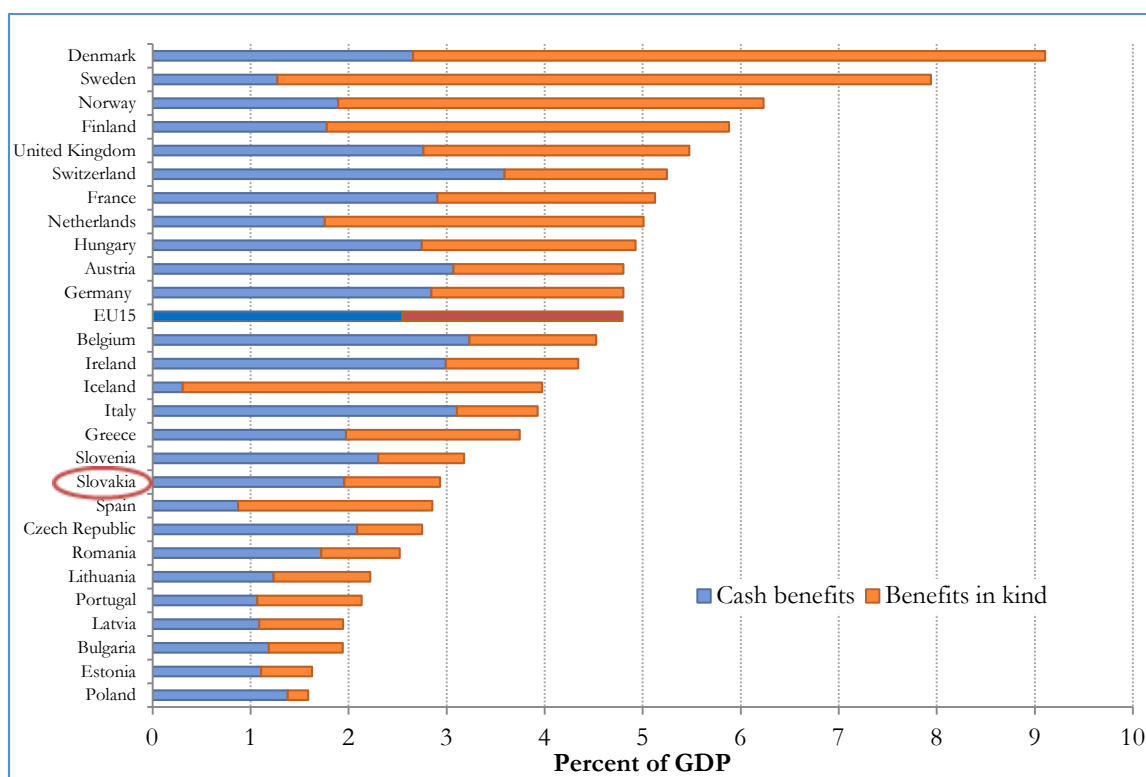
How effective are social safety nets in the Slovak Republic at alleviating poverty? For the purposes of comparison, poverty is defined using a relative poverty line in Part II of this paper – those in the poorest quintile (poorest 20 percent) based on per capita equivalized disposable income before all social assistance transfers are considered the poor.¹³ Box 3 provides detailed definitions of performance indicators; additional information on methodology is outlined in Annex 2.

Despite its relatively low levels of spending on social assistance, the Slovak Republic achieves coverage of the poor in line with many of its EU peers. Approximately 75 percent of the poor receive at least one of the social assistance transfers, representing reasonable coverage –

¹³ Using a relative poverty line is consistent with the approach used in the EU. However, the poverty line we use is different from the ‘at-risk-of-poverty’ threshold, which is set at 60 percent of the national median equivalised income. The results are also available using this definition of poverty, but they are largely consistent with those presented in this paper. See Annex 1 of World Bank (2012c).

particularly in comparison to many EU countries (Figure 8). Countries such as the United Kingdom, Denmark, Iceland, and Norway achieve similar coverage of the poor. However, about a fourth of the poor do not receive any social assistance, indicating that some gaps in coverage exist. In addition, about four percent of the poor in the Slovak Republic receive no transfers at all, either from social assistance or from social insurance programs.

Figure 7: Spending on social assistance as a share of GDP, 2008



Note: Excluding Luxembourg, Malta and Cyprus. *Source:* ESSPROS data, Staff calculations.

Nonetheless, many of the rich also benefit from social assistance. Family benefits in the Slovak Republic are provided universally, regardless of the income of the family. As a result, slightly more than 40 percent of families in the richest quintile receive support from the state (Figure 8). Such a high share of the rich receiving benefits is also the case in other EU countries, such as Latvia, Estonia, Luxemburg, and Romania.

How do poverty targeted benefits perform? ‘Social exclusion’ benefits¹⁴—which include minimum income support programs and other programs aimed at the poor and vulnerable—are

¹⁴ The benchmarking analysis is done using EU-SILC 2008. The EU-SILC data has many advantages as it provides comparable cross-country data on household incomes, economic status, labor market

very well targeted (see Figure 9). For instance, more than 80 percent of the benefits go to the poorest quintile in the Slovak Republic. On the other hand, coverage of these benefits is typically very low (Figure 10). In the Slovak Republic, less than 1 in 5 poor people receive such benefits as the Benefit in Material Need (BMN). Coverage is low even among the extreme poor—only 41 percent of the individuals in the poorest 5 percent of the income distribution receive the BMN benefit¹⁵. This means that the majority of the poor rely on other transfers, such as the family benefits or disability benefits or other programs which might not be aimed specifically at the poor, for income support.

Box 3: Main indicators of performance of social assistance cash transfers

The main indicators of performance of social assistance cash transfers include:

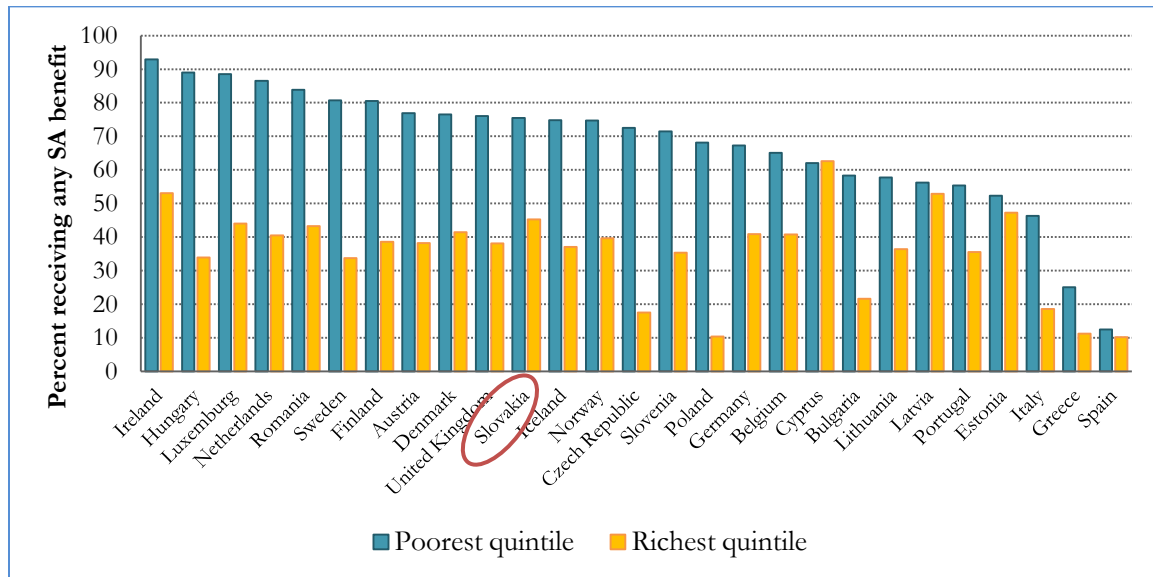
- **Coverage:** What portion of the population receives the transfers (focusing on the share received by the poorest quintile)?
- **Targeting accuracy:** What portion of social assistance transfers goes to each quintile (with particular focus on the share of transfers that goes to the bottom quintile)?
- **Generosity:** How much is the transfer as a fraction of post-transfer disposable income? If this fraction is large, it would imply that the household is fairly dependent on the transfer. This could be either due to (i) the transfer being large so that the household is able to depend only on this transfer and does not have to find other means of generating income or (ii) the household finds it hard to generate any other income. In the latter case, it is particularly important to additionally assess adequacy of provided income support by comparing incomes of those dependant on income support to a poverty line.
- **Impact on poverty:** To what extent do social assistance transfers lift people out of poverty? To measure this impact, the amount of the transfers is removed from the income of the households, which allows estimating how many more individuals would be poor in the absence of these transfers.

For the purposes of the analysis, individuals are ranked on the basis of per capita equivalised disposable income before all social assistance cash transfers and then divided into five equally sized groups, representing 20 percent of the population (“quintiles”) to form the bottom, second, third, fourth, and top quintile. A standardized software (ADePT) developed by the Development Economics Research Group was used.

participation and so on. However, information on benefit receipt is significantly aggregated in the data that is widely available to users. In particular, all poverty targeted benefits are aggregated into one category called ‘social exclusion’ benefits.

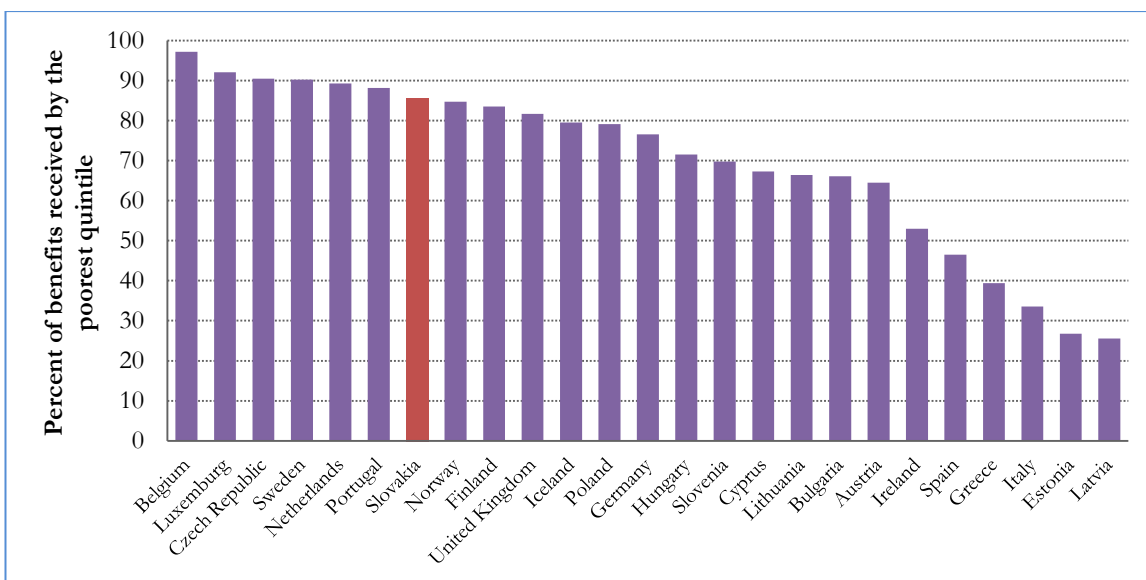
¹⁵ World Bank (2012a).

Figure 8: Coverage of social assistance programs, 2008



Source: EU-SILC 2008, Staff calculations.

Figure 9: Targeting accuracy of social exclusion benefits, 2008

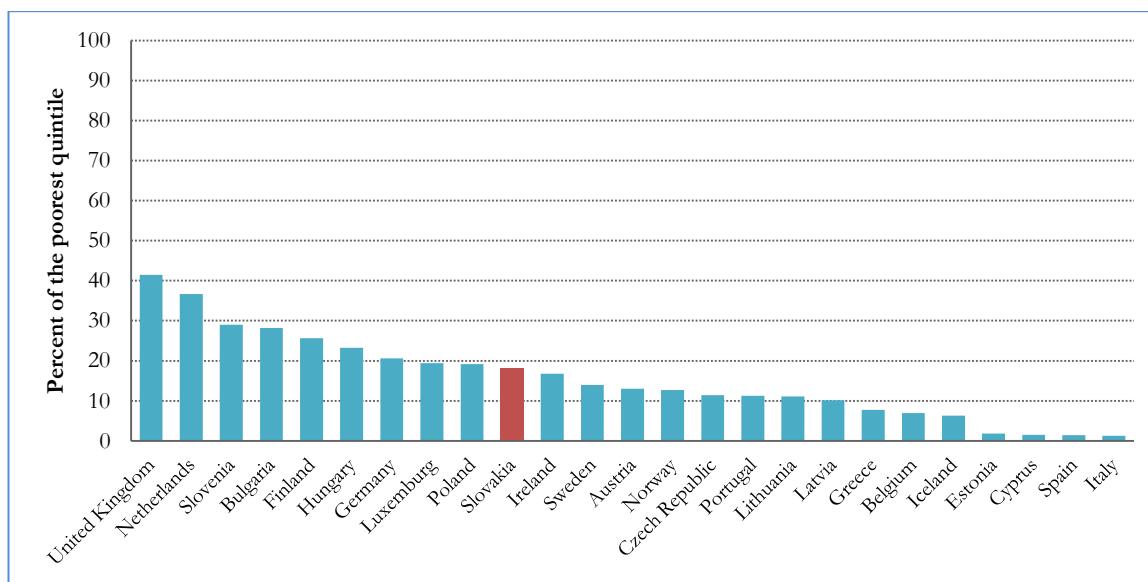


Source: EU-SILC 2008, Staff calculations.

Means-tested programs, such as the BMN, are more effective at channeling resources to the poor. Compared to non means-tested programs, the BMN is more cost-effective in delivering assistance to the poor. Most of the spending on the BMN program (approximately 0.4 percent of GDP) goes to the poorest quintile. In contrast, only about one-third of all spending on the non

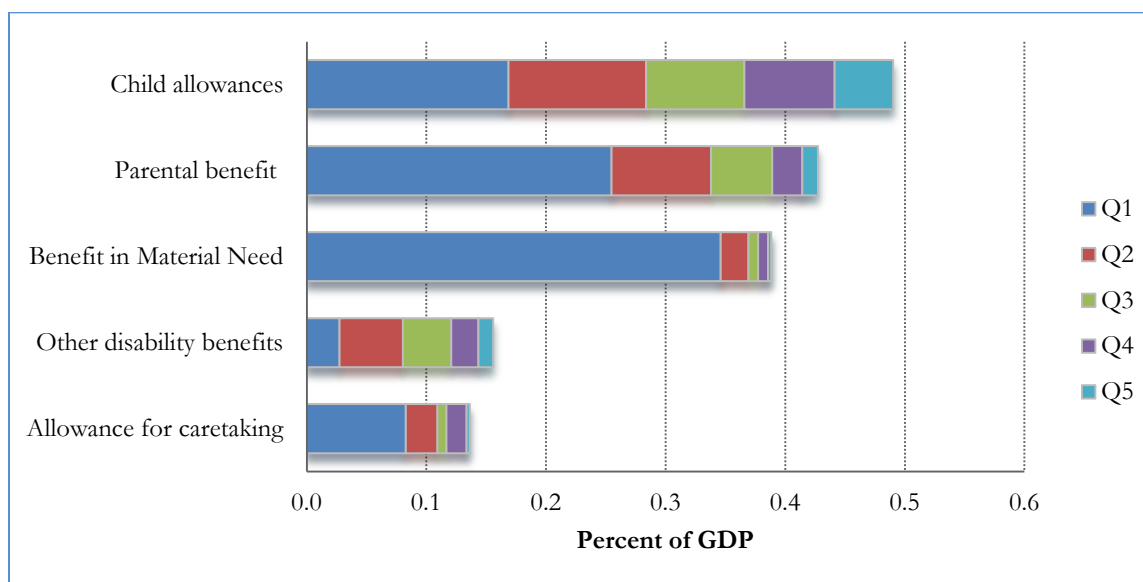
means-tested child benefit goes to the poor, while the rest goes to the non-poor (Figure 11).

Figure 10: Coverage of the poorest quintile by social exclusion benefits, 2008



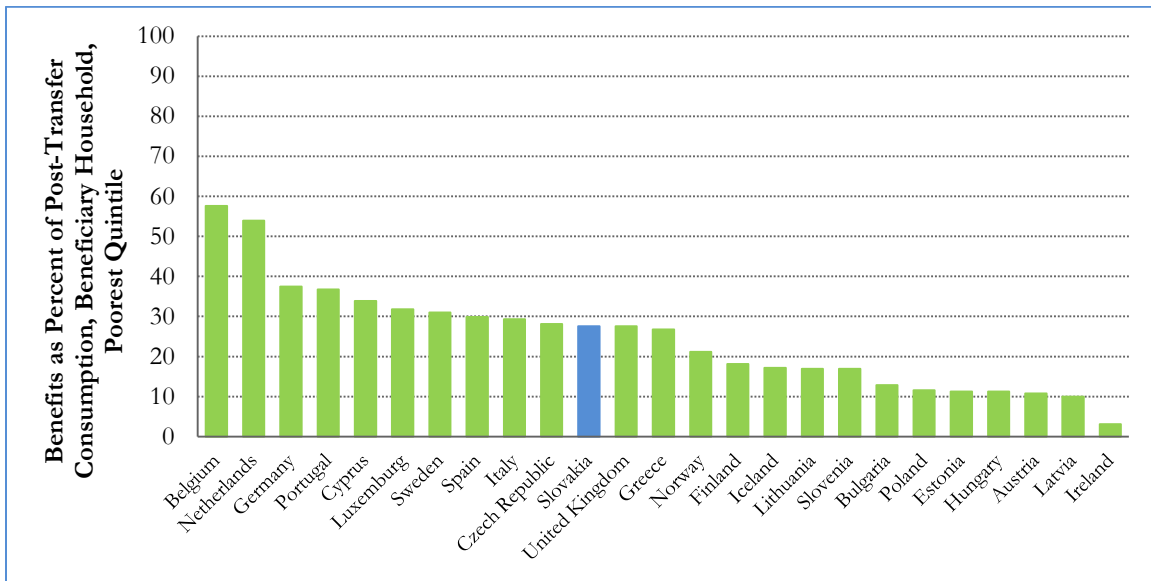
Source: EU-SILC 2008, Staff calculations.

Figure 11: Expenditure on social assistance programs by quintile as a share of GDP, 2009



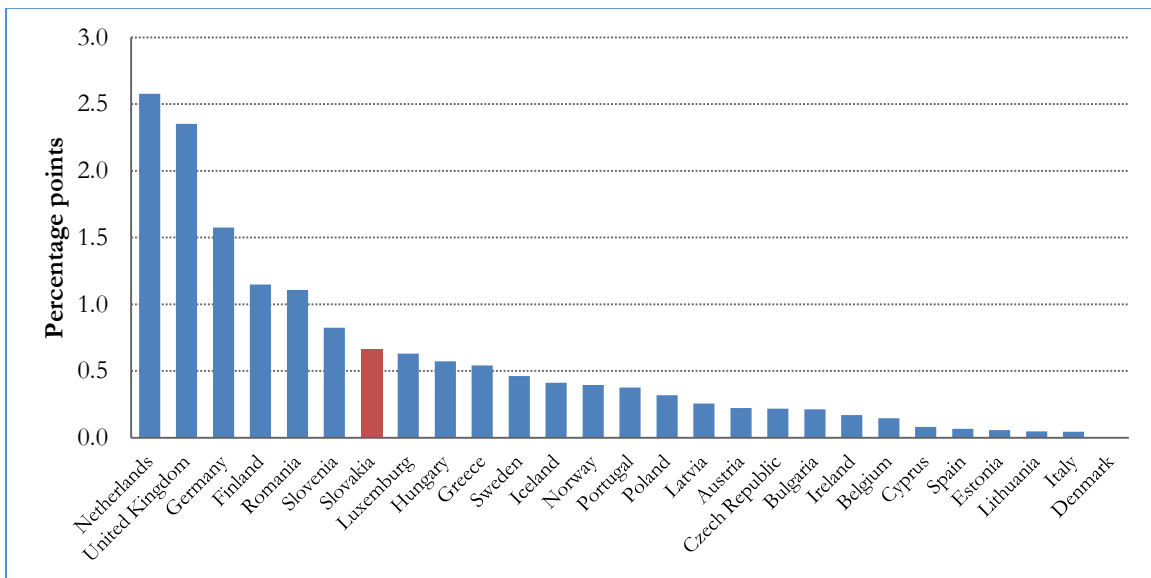
Source: EU-SILC 2009 (disaggregated dataset), Administrative data from MoLSAF, Staff calculations.

Figure 12: Generosity of social exclusion benefits, 2008



Source: EU-SILC 2008, Staff calculations.

Figure 13: Increase in 'at risk of poverty' rate in the absence of social exclusion benefits in percentage points, 2008



Source: EU-SILC 2008, Staff calculations.

The low coverage and generosity of means-tested programs, like the BMN, limits its poverty impact. As was noted earlier, coverage of the social exclusion benefits is low in many countries, raising a concern of whether they reach all those in need. Generosity of these benefits is often low as well (Figure 12). A combined effect of these factors is that the impact on poverty is often limited. For instance, in the Slovak Republic the "at risk of poverty" rate would be 11.5 percent in the absence of social exclusion benefits compared to 10.9 percent (Figure 13). By contrast, the "at risk of poverty" rate would climb to 13.5 percent in the absence of all policies aimed at families with children (including any contributory transfers such as maternity leave, and so on). This implies that non means-tested programs often deliver crucial support to the poor. Hence, the challenge is not in simply cutting non means-tested programs across the board, but perhaps in means-testing them with a relatively generous cut-off that can include the middle class, but exclude the rich from these transfers.

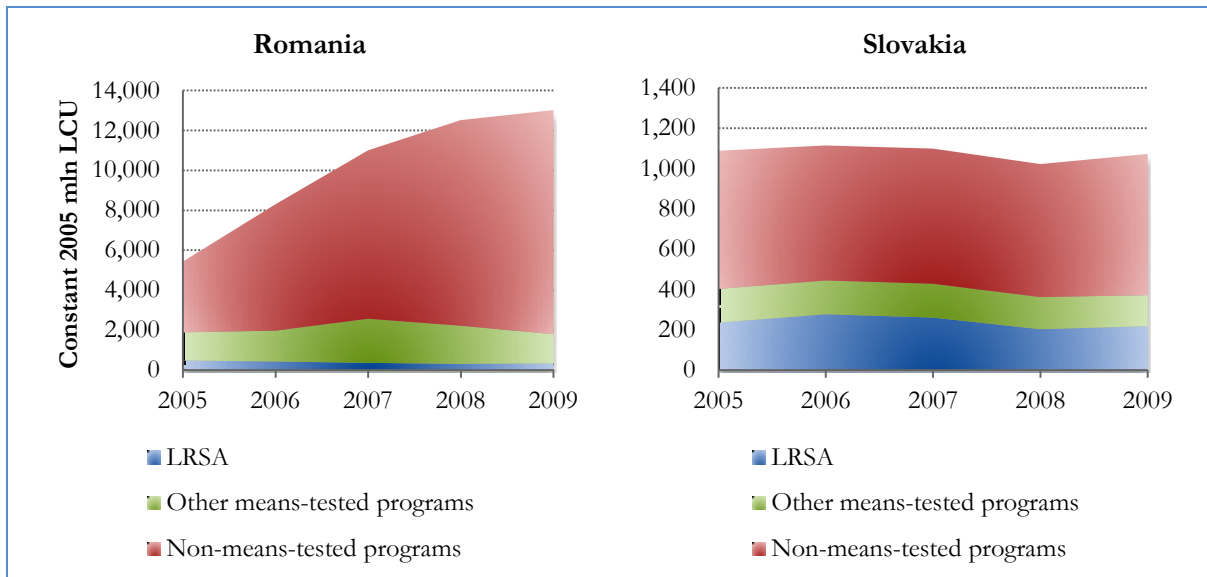
Effective Use of Resources in a Fiscally Constrained Environment

In difficult economic times, countries struggle to maintain a range of social benefits. Some coverage gaps and adequacy concerns exist, but additional resources are unlikely to become available. As a result, it is increasingly important to ensure that spending is as cost-effective as possible in protecting the poor and vulnerable within a fixed or reduced budget envelope, and determine where improvements can be made.

The Slovak Republic is better positioned compared to other EU countries to further reassess priorities on spending on social benefit programs. In the boom years (2004-2008), the Slovak Republic pursued prudent fiscal policy, maintaining social benefits instead of increasing them. In contrast, many EU countries pursued pro-cyclical social policy, increasing benefits during high economic growth. These countries tended to shift funding to non-means tested social benefits programs, increasing funding for the non-poor (Figure 14). These changes are difficult to reverse in times of crisis.

Developments between 2009 and 2010, however, indicate a potential reversal in these trends. A more detailed analysis using administrative data on social assistance program expenditure and caseloads demonstrate a trend toward increasing expenditure on benefits that do not explicitly target the poor (Figure 15). While it is quite early to say definitively whether this trend will continue, it is important to illustrate how information at the program level is often required to provide more concrete policy recommendations to policy makers.

Figure 14: Spending on social assistance in real terms



Notes: LRSA stands for last-resort social assistance (Guaranteed Minimum Income program in Romania and the Benefit in Material Need program in Slovakia). Other means-tested programs include income-tested family benefits and the heating benefit in Romania and the disability benefit in Slovakia. Non means-tested programs include a variety of programs, but mainly consist of universal child benefits in both countries.

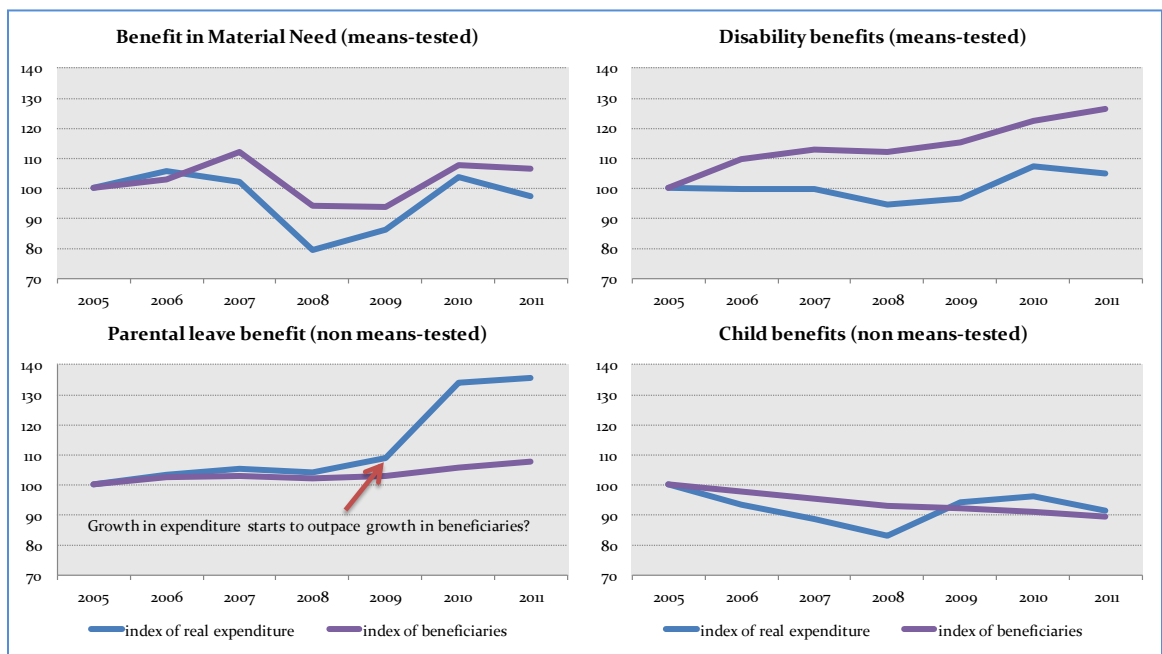
Source: Administrative data. Staff calculations.

Due to mounting fiscal pressures, it is important to consider how effectively resources are currently used. Many EU countries are struggling with public finances and most had to implement austerity measures during the economic crisis. Moreover, most countries including the Slovak Republic will have to continue significant fiscal consolidation to stabilize levels of public debt in the near future. As a result, social benefits could be targeted for reduction in an attempt to reduce public expenditure. It is important to balance the objective of stabilization of public debt and future economic growth with equity considerations. In order to do so, it is necessary to understand how effective social programs are at poverty alleviation and at targeting those who are in need.

In the Slovak Republic, there is room to reallocate spending toward means-tested programs.

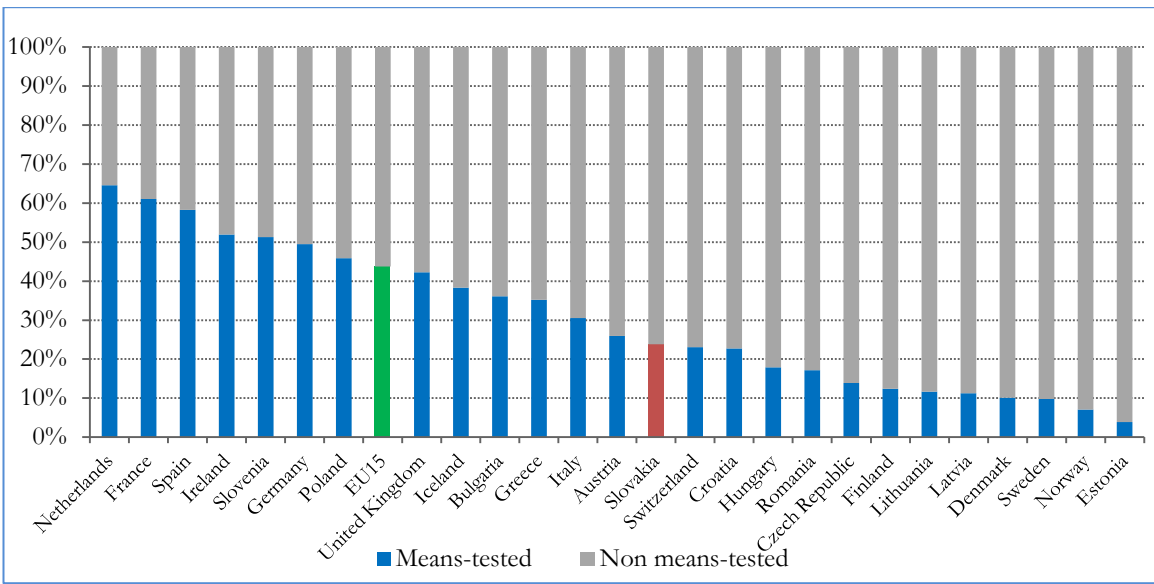
Only about a quarter of all social assistance spending including non-cash support goes to means-tested programs in the Slovak Republic. This is significantly below the EU15 average (Figure 16). But there are costs to targeting. Some of the primary concerns of targeting social benefits are low take up (i.e. costs of applying to benefits or stigma attached to means-tested benefits can deter some from applying), administrative costs of targeting (verifying eligibility) and potential work disincentive effects. Finally, political support for narrowly targeted social benefits can be low jeopardizing their sustainability over time. Simply cutting non means-tested programs across the board would hurt the poor; one could, perhaps, means-test them with a relatively generous cut-off that would include the middle class, but exclude the rich from these transfers.

Figure 15: Index of real spending and beneficiaries of main social assistance programs



Source: Administrative data from MoLSAF. Staff calculations.

Figure 16: Share of means-tested benefits in total social assistance in 2008



Note: Excluding Luxembourg, Malta and Cyprus. Source: ESSPROS data, Staff calculations.

Part III. Does the current system of social protection address the issue of persistent unemployment and high levels of inactivity?

Governments around the world are increasingly focused on how their social protection systems can be successfully leveraged to promote opportunity and increase labor market participation. This focus is fueled by two concerns. On the one hand, there is a concern related to the potential dependency on benefits, incentives for beneficiaries to stay or become inactive, and the fiscal cost of the transfers. On the other hand, there is a general concern about the ability of workers, including those who are not receiving any type of transfer, to access quality jobs. Social protection and labor policies that address these issues by connecting individuals to jobs, or increasing the earnings from their current activities, are often referred to as “activation” or “active inclusion” policies.

Within the Slovak Republic, there is a perception that social benefits pose significant work disincentives. By design, some people might face financial disincentives to take up low paid jobs; however, empirical evidence is inconclusive on this issue. While a significant share of those who receive BMN appear to have work capacity and are unemployed, this could be due to a number of factors, such as low labor demand; significant barriers to work; and the fact that the BMN serves both as a last-resort social assistance program, protecting against chronic poverty, as well as a non-contributory unemployment assistance program. Moreover, BMN beneficiaries are a minority of those who are inactive and unemployed, so a comprehensive activation strategy should address the needs and constraints of this larger population.

The Slovak public employment services (PES) have limited capacity to respond to a particularly difficult labor market situation. Labor Offices are understaffed and underfinanced, and lacking sufficient resources to implement client-oriented individualized services. Spending on Active Labor Market Programs (ALMPs) is low compared to most EU and OECD countries and the mix of spending is skewed toward measures for the self-employed, at the expense of training. The largest ALMP in terms of the number of participants is the small municipal works program, but its impact on potential integration of participants into the labor market is limited and may be negative. The design of other measures can be improved to increase their impact.

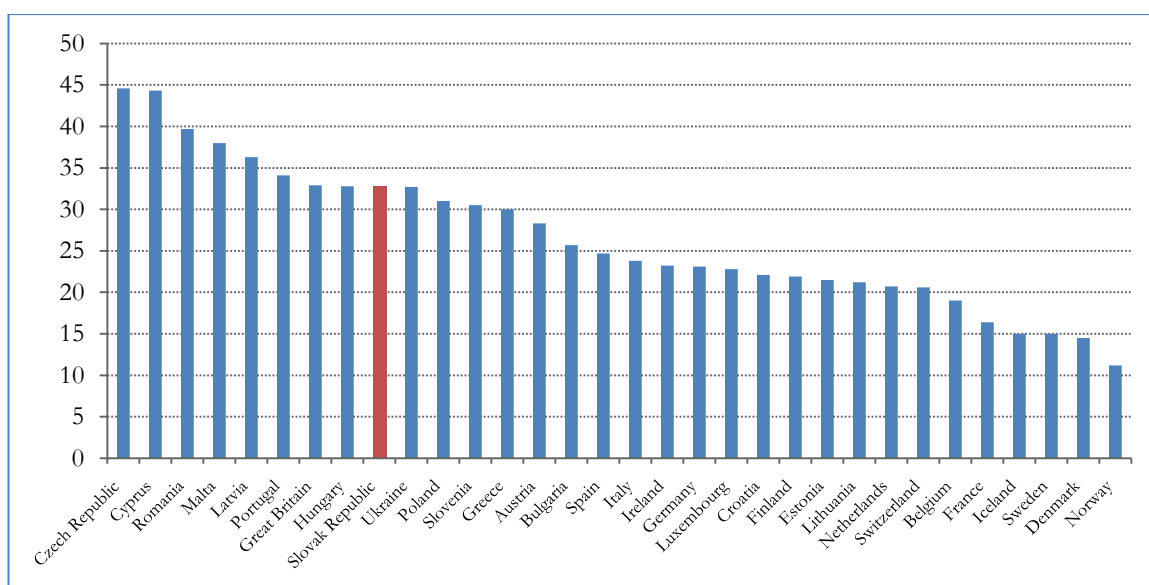
Does the Benefit in Material Need contribute to structural unemployment through work disincentives?

Perceptions that social benefits recipients have work disincentives and little motivation are widespread in the Slovak Republic. The question of whether the Benefit in Material Need contributes to high levels of unemployment and inactivity presents a widespread concern among policy makers, key actors in civil society, and among the general population in the Slovak Republic.

In the 2008 European Social Survey, one-third of Slovaks reported that the primary reason people live in need is because they are either lazy or lack willpower. In comparison, only slightly more than 10 percent of Norwegians report the same. However, it is worth noting that such attitudes about the poor are prevalent in nearby countries, including Poland, Ukraine, Hungary, and Czech Republic (Figure 17). In the Slovak Republic, perceptions that the unemployed are not motivated to find work are particularly strong with two-thirds of respondents claiming that the unemployed are not seeking employment (Figure 18). Furthermore, 40 percent report that social benefits make people lazy (Figure 19).

In this report, whether work disincentives exist is addressed empirically from several different angles. First, a brief profile of recipients of the benefit in material need is developed to: (i) identify and quantify the size of the beneficiary population that could be reasonably expected to participate in the labor force; and (ii) compare their labor market characteristics to similarly-defined non-beneficiaries.¹⁶ Second, a Regression Discontinuity (RD) identification strategy is used to evaluate potential work disincentives created by the program. Third, the tax and benefit system in the Slovak Republic is reviewed to understand whether, *theoretically*, there could be possible adverse incentives to (a) move from inactivity to low-wage work; (b) move from part time low-wage work to full time low-wage work; and (c) move from full time low-wage work to a job with higher wages.¹⁷

Figure 17: People live in need because they are lazy or lack willpower (% of respondents)

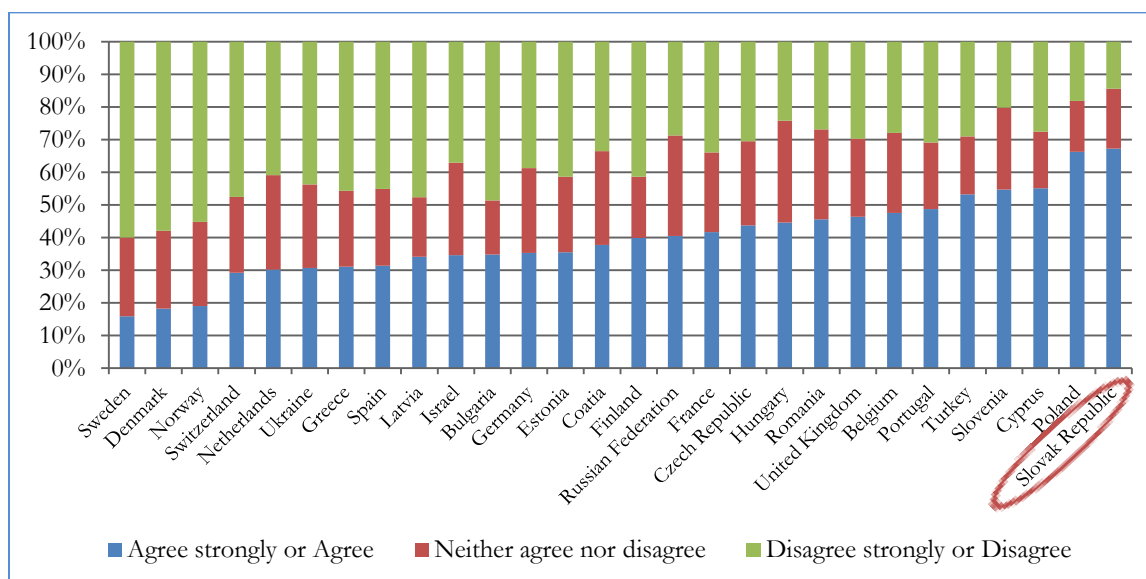


Source: European Values Survey 2008.

¹⁶ For the detailed analysis, please refer to World Bank 2012a and World Bank 2011.

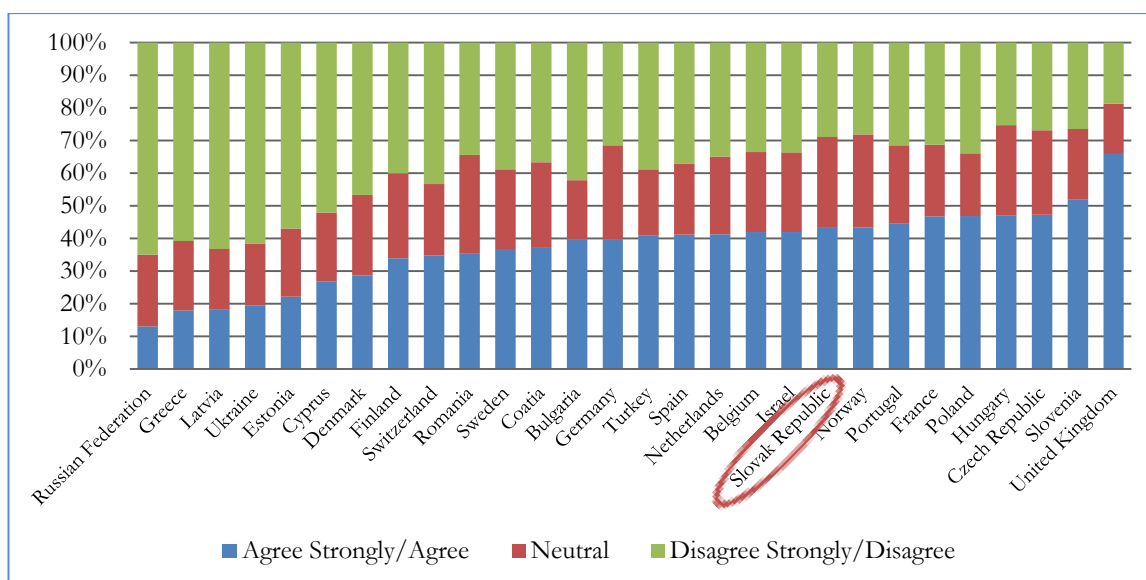
¹⁷ For details on the tax-benefit model, please refer to World Bank 2012b.

Figure 18: Most unemployed people do not really try to find a job (% of respondents)



Source: European Social Survey 2008.

Figure 19: Social benefits make people lazy (% of respondents)



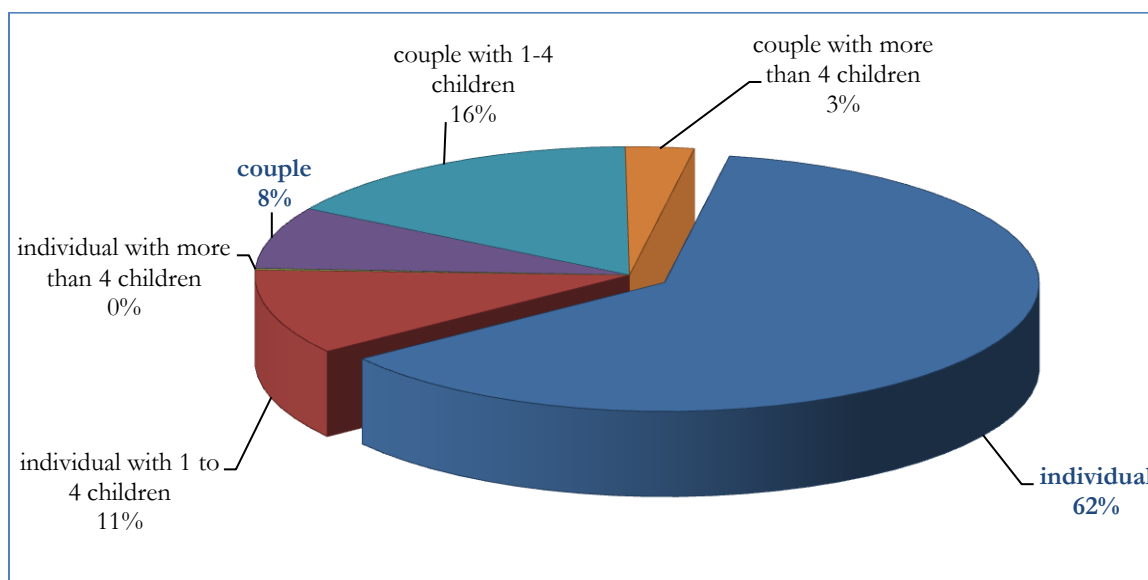
Source: European Social Survey 2008.

Who are the Recipients of the Benefit in Material Need, and what is their work profile?

The majority of BMN beneficiaries are single without children. Administrative data show that 62 percent of beneficiary *families* are single individuals with no children, and a further 8 percent are families with two or more adults without children (Figure 20). This is corroborated by the analysis

of EU-SILC data, which indicates that 64 percent of BMN beneficiary families are households with no children according to the survey.¹⁸

Figure 20: Breakdown of BMN beneficiary families by family type



Source: Administrative data from MoLSAF (May 2011), Staff calculations.

Most single recipients of the BMN are of working age. Only 11 percent of all beneficiary families are single pensioners. A breakdown of single beneficiaries of working age of the BMN shows that there is a significant increase in the number of single beneficiaries between the ages of 24 and 25. The design of the BMN specifies that an individual under the age of 25 living with his/her family is ‘jointly assessed’ for the purposes of BMN eligibility determination. However, once the individual reaches 25, he/she can apply for the benefit separately. In addition, the assets of the parents are not considered in the income test for the child. This explains the surge in single beneficiaries at age 25.

Families that receive the BMN have greater work capacity and lower dependency rates than non-beneficiaries.¹⁹ The proportion of members who cannot engage in labor (children under 18 years old, elders above 60 years old, and working-age members unfit for work) divided by able-

¹⁸ There are some discrepancies between administrative and EU-SILC data. According to the EU-SILC 2009 data only 28 percent of households are single individuals with no children. By contrast, administrative data show that 62 percent of beneficiary households are made up of single individuals with no children. This discrepancy could be due to BMN eligibility criteria that treat anyone above the age of 25, even if cohabiting with others, as a separate unit of assessment for the benefit. The survey may be capturing such cohabiting units as one household (with two or more adults), while the administrative data captures them as separate households (with a single adult in each).

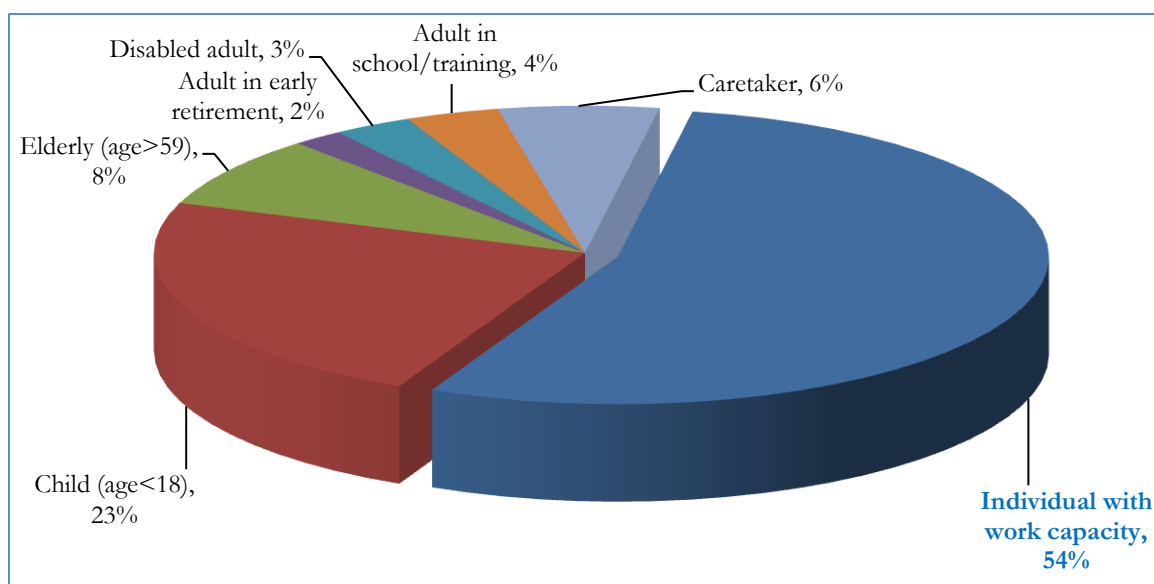
¹⁹ The dependency ratio is defined as the ratio of those in a household who are not able to work (children, elders, disabled) to those who have work capacity.

bodied working-age individuals is only 0.55 in BMN households. This means that on average, for each dependent, two able-bodied working-age individuals are in the household. This compares to a dependency ratio of 0.80 in poor non-recipient households, and 0.62 in non-poor non-recipient households.

Over half of BMN household members have work capacity. Individuals with work capacity are defined as working age²⁰ individuals who are not engaged in non-work activities (school, training, and early retirement), and do not have a disability that prevents them from working. Additionally, caregivers of small children and disabled adults could also be considered to lack work capacity. Overall, 54 percent of BMN household members have work capacity (Figure 21).

However, almost two-thirds of BMN recipients with work capacity are unemployed. Among BMN recipients with work capacity, 61 percent are jobless, about a third are working (mostly) in full-time jobs. Another 6 percent are economically inactive. This is in sharp contrast with poor non-beneficiaries with work capacity, who have much lower unemployment rates (23 percent). Similarly, non-poor non-beneficiaries with work capacity have much higher employment rates (91 percent), mostly in a formal full time capacity (72 percent) (Figure 22).

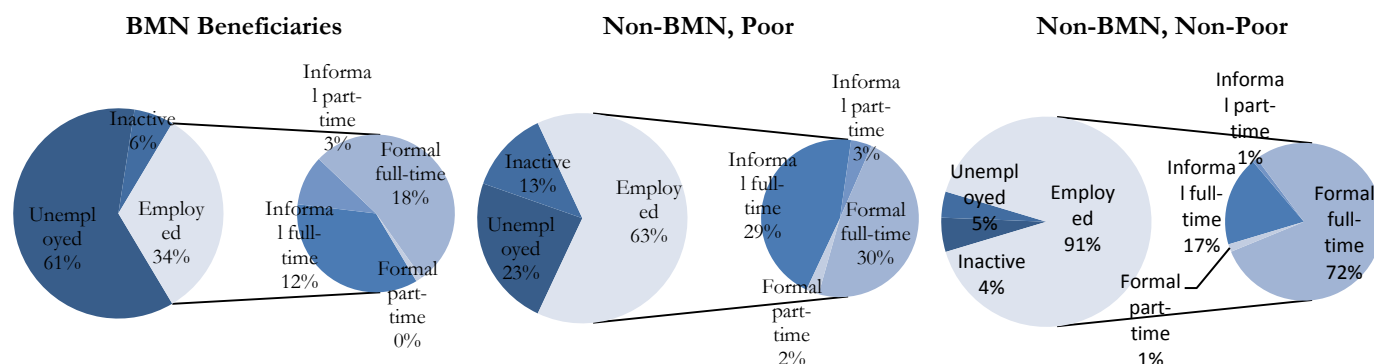
Figure 21: Proportion of household members among families receiving BMN with work capacity



Source: EU-SILC 2009.

²⁰ Defined here as those between 18 and 59 years old.

Figure 22: Employment distribution by recipient group



Note: Individuals with work capacity after taking into account caretakers. Informal employment is defined here as employees with temporary contract, or whose employer does not contribute to social insurance, or self-employed without employees, or family worker. *Source:* EU-SILC 2009.

Does the Benefit in Material Need lead to unemployment?

The receipt of BMN and unemployment are highly correlated. Poor individuals who do not receive the Benefit in Material Need are three times less likely to be unemployed as BMN beneficiaries. However, the design of the benefit, combined with fairly stringent eligibility requirements for the contributory unemployment benefits, may be driving this correlation. If a direction of causality exists, it is hard to disentangle.

Protection against unemployment in the Slovak Republic is significantly lower compared to other EU member states and OECD countries, both in coverage and generosity. Access to unemployment benefits (UB) is conditioned on contributions for at least two years during the last three years²¹ and the duration of benefits is limited to six months. The system is especially restrictive towards labor market entrants and those working in unstable jobs, typically in low-skilled and low-paid occupations. Consequently, only about 12 percent of all jobseekers were receiving unemployment benefits in 2011, while the figures were even lower in previous years (Table 1).²² In OECD countries on average, almost 50 percent of jobseekers received unemployment benefits in 2007-08.²³ A recent comparative study on the strictness of eligibility criteria for unemployment

²¹ Two years in the last four years in the case of temporary employment or for people who voluntarily contribute to unemployment insurance. Until 2011, the requirement was at least 3 years of unemployment insurance contributions during the last 4 years.

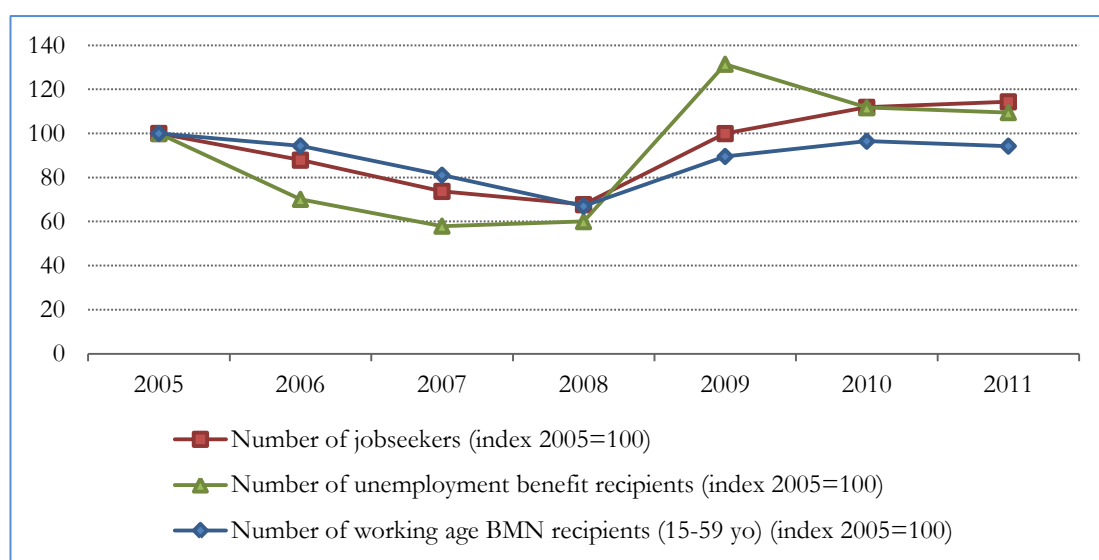
²² World Bank (2012d)

²³ OECD (2011a)

benefits found the Slovak Republic to have the third strictest eligibility criteria and sanctions (after Portugal and Romania) among 36 OECD and/or EU member countries covered in the study.²⁴

The BMN program serves both as a last-resort social assistance program, protecting against chronic poverty, as well as a non-contributory unemployment assistance program. Due to the highly restrictive nature of unemployment benefits, the BMN assumes a dual role in the Slovak Republic's social safety net system. Along with providing last resort social assistance to the vulnerable and chronically poor, it also serves as a *de facto* second tier non-contributory unemployment allowance. This is inevitably caused by long spells of unemployment (Table 1) and the design of the BMN, as eligibility is established through a means-test that relies largely on current incomes.²⁵ Consequently, those unemployed who are either not initially eligible for unemployment benefits, or who run out of benefits before they find another job, become eligible for the BMN. The linkage between the BMN structure and the unemployment benefit system is confirmed by the trends in the number of unemployment benefit recipients and working-age BMN recipients following the crisis (Figure 23).

Figure 23: Change in the number of job seekers, UB recipients and working age BMN recipients (Index 2005=100)



Source: Administrative data from MoLSAF and CoLSAF, Staff calculations.

²⁴ The criteria covered include entitlement conditions (employment and/or contribution requirements to gain access to benefits and sanctions for voluntary unemployment), job-search requirements (availability requirements during ALMPs and suitable work criteria), monitoring of job-search effort and sanctions for refusing a job offer or ALMP placement. See Venn (2012).

²⁵ See World Bank (2011).

Table 1: Overview of registered unemployed and unemployment benefits coverage

	2004	2005	2006	2007	2008	2009	2010	2011
Number of jobseekers	409,082	340,401	299,181	250,938	230,433	340,243	380,791	389,264
Number of available jobseekers	373,471	301,186	265,353	219,231	199,561	303,063	335,308	350,959
Unemployment rate (registered, %)	14.3	11.6	10.4	8.4	7.7	11.4	12.5	13.2
Average duration of registration (in months)	12.4	11.9	10.8	10.5	10.2	11.9	13.9	13.9
Number of unemployment benefit recipients	75,897	38,497	26,991	22,311	23,099	50,602	43,002	42,153
Available jobseekers who received benefits (%)	20.32	12.78	10.17	10.18	11.57	16.70	12.82	12.01
Total expenditure (in thousand euro)	131,850.2	80,985.26	63,981.74	59,615.88	66,121.36	172,429.7	150,339.1	163,333.9
Average amount of unemployment benefit (in euro)	-	175	198	223	239	248	257	-

Source: Statistical Office and Social Insurance Agency. World Bank Staff calculations.

The Regression Discontinuity analysis is inconclusive on whether the BMN program creates work disincentives. An analysis using household survey data (EU-SILC 2009) and a Regression Discontinuity (RD) identification strategy to evaluate the impact of the program did not yield conclusive results on the impact of the Benefit in Material Need on incentives to work.²⁶ Interpretation of the results is complicated by the limited number of observations below the income threshold of eligibility for the benefit and by the small increase in the probability of receiving a BMN transfer at the threshold score. Therefore, while there *is* a 10 percent increase in the probability of being unemployed at the threshold, the findings are not robust. Moreover, no similar effect is seen on the number of hours worked or on the probability of being inactive.

Since robust empirical evidence of work disincentives in the BMN program was not found with the data available for the analysis, theoretical work disincentives, which could be posed by a combined effect of taxes and benefits (taxation of income and withdrawal of benefits), are considered in the next section.²⁷

²⁶ For detailed methodology and results, please see World Bank (2012a).

²⁷ Additional information on available evidence on disincentive effects of social safety net programs from empirical studies can be found in Box 6.

Box 4: International evidence on disincentive effects of social safety net programs

Overall, the evidence on the disincentive effects of social safety net programs on labor supply and informality is still scant and findings are mixed. Even though the evidence is still very thin, there is little evidence from recent impact evaluations showing significant negative effects on adult labor supply (IEG 2011). A recent World Bank review shows that none of the SSN programs reviewed significantly discouraged beneficiaries from working. A recent evaluation for Armenia shows that the receipt of the targeted SA program did not have a significant effect on labor force participation; hours worked, or labor informality (Levin 2011). The evidence from Conditional Cash Transfers (CCTs) also found no disincentive effects for work in Brazil, Cambodia, Ecuador, and Mexico (Fiszbein and Schady 2009). Furthermore, recent studies also find evidence supportive of the contrary. For example, the labor market participation of Bolsa Familia beneficiaries was higher than that for non-beneficiaries in Brazil. Likewise, the receipt of social pensions in South Africa also increased the probability of employment of other household members by enabling the households to improve their allocation of labor resources (Abdulai et al. 2005).

Source: World Bank (2012g).

Does the design of the tax and benefit system in the Slovak Republic contribute to unemployment and inactivity?

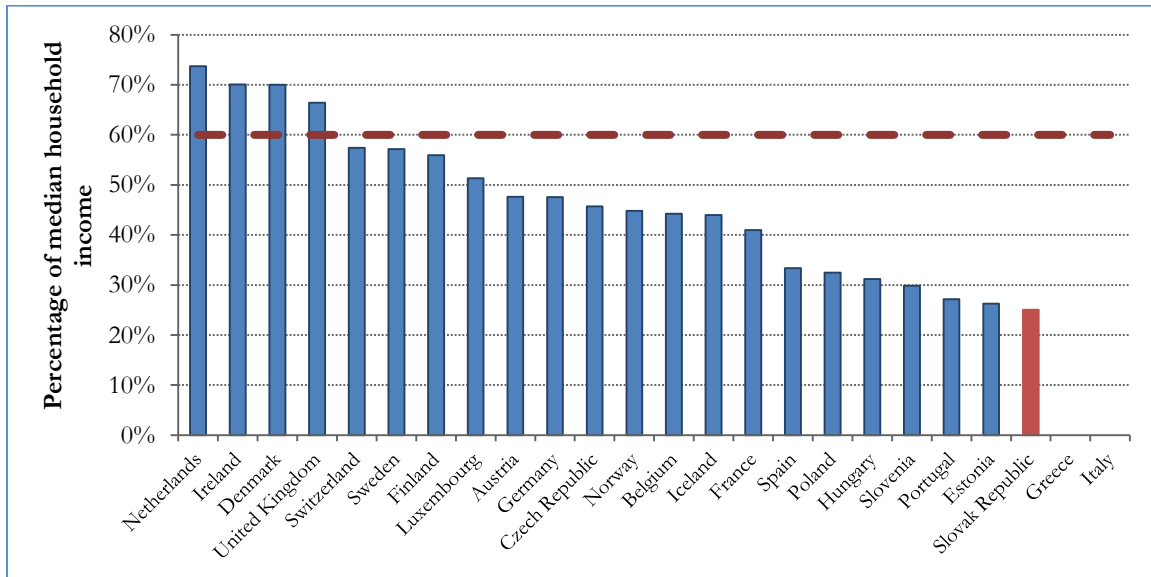
The current system of taxes and benefits appears to encourage work more than the system that prevailed prior to the 2004 reforms. The reforms were successful in lowering the marginal effective tax rates²⁸ (METR) for most family types. However, the improvement in financial incentives to work was achieved primarily through a reduction in benefit levels. This poses concerns about the adequacy of income support provided, as minimum income beneficiaries in the Slovak Republic have among the lowest household incomes within OECD countries (Figure 24).

Analysis of theoretical incentive effects of the tax-benefit system suggests that certain disincentives might exist, especially for part-time low paid work. The system of taxes and benefits in the Slovak Republic seems to be biased against part-time employment at low wages. For example, for a single person receiving the Benefit in Material Need and housing or activation allowances, METR for taking up a part time job at the minimum wage is almost 80 percent. Even the presence of an income disregard on earnings of 25 percent might not be sufficient to motivate individuals to take the “mini-jobs” or “midi-jobs,” which are low-paid part-time jobs.²⁹ This could, in part, explain the low prevalence of part-time work in the Slovak Republic compared to other EU countries (Figure 25).

²⁸ METR represents the fraction of any additional earnings that is “taxed away” by the combined effects of taxes and benefits withdrawals. For more details, please see World Bank (2012b); <http://www.oecd.org/els/social/workincentives#models>

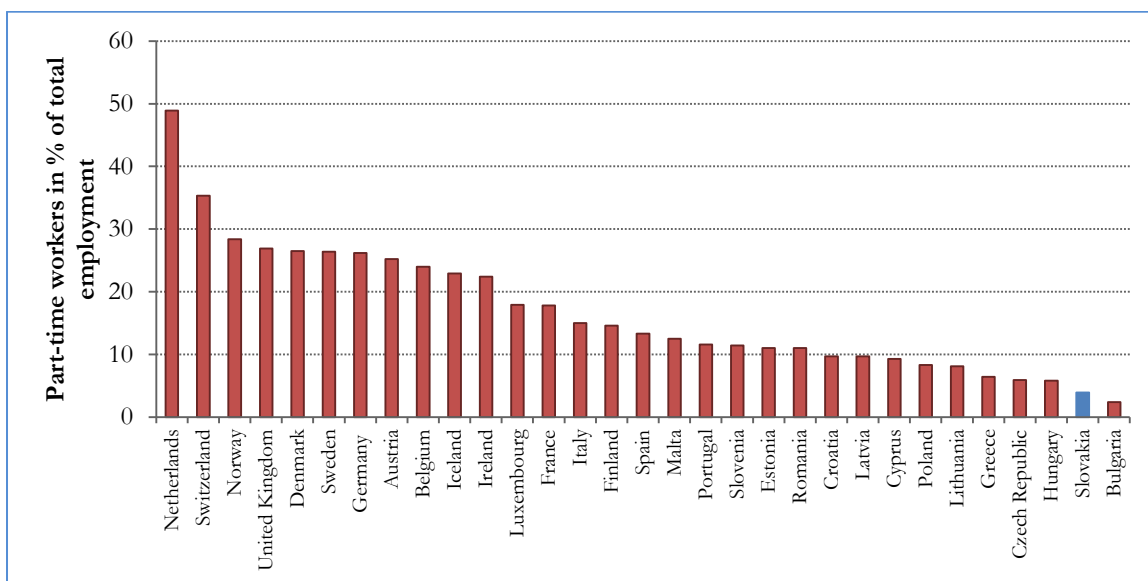
²⁹ The term “mini-jobs” or “midi-jobs” originated from the social welfare reforms (Hartz IV) in Germany in the early 2000s, that aimed at making work more lucrative for low-wage earners in the labor market.

Figure 24: Net incomes of single minimum-income recipients in 2009 as a percentage of median household income



Note: Dashed line represents a poverty cut-off similar to threshold commonly used in the European Union to assess the “at risk of poverty” rate. Source: OECD out-of-work tax/benefit dataset, Eurostat, Staff calculations.

Figure 25: Part-time workers as a share of total employment in 2010



Source: Eurostat. Staff calculations.

Existing instruments to “make work pay” are not sufficient and not very effective. Analysis of the effective tax rates at various transitions at the low end of the labor market, such as from long-term unemployment or inactivity to a full-time minimum wage job, strongly points to the weaknesses of the current instruments to “make work pay.” The activation allowance of €63.07 per month for long-term unemployed who become employed is time-limited.³⁰ The employee tax credit is not sufficient to substantially reduce social security contributions paid at low wage levels. The maximum employee tax credit is €50.34 annually, which represents only 20 percent of social security contributions paid by a person working at minimum wage for 6 months.³¹ A €20 per child per month tax credit for children is not available to singles and childless families who form the majority of the BMN beneficiaries. As a result, some individuals and families may face lower incentives to take up low-paid jobs. As these credits do not cover potential costs incurred in entering the labor market, some individuals and families may face low incentives to take up low paid jobs.

Existing opportunities to increase social benefits through activation programs, such as the small municipal works, weaken the incentives to take up ‘real’ jobs. Since income support provided to those who work in low paid jobs is limited, some beneficiaries may be better off by staying on benefits and receiving additional support through activation allowances. Such measures, especially if they are unlimited in duration, can discourage some from looking for and obtaining low paid employment. Moreover, since these activation allowances are not designed to improve employability of persons, they seem to rarely lead to better job opportunities.

The 2011 *proposed* reform of the non-contributory social benefits systems sought to strengthen the incentives for work and foster larger activation of BMN recipients with work capacity in the system.³² The design of the draft law followed the main principles of the reform introduced in 2004, but planned to diversify the activation options by introducing more types of activation (motivation) allowances.

- The current activation allowance is to be replaced by ‘motivation allowances,’ which are gained by participating in public works, community works, volunteering work and participation in further training/education. The amount of motivation allowance differs by type of activity.

³⁰ While time-limit in itself is not necessarily an issue since unlimited in-work benefits can create disincentives to increase effort and earnings, studies suggest that a relatively short time limit (e.g. up to 6-12 months) is unlikely to provide time for wage progression to result in self-sufficiency and could be counterproductive. See OECD (2005).

³¹ An employee tax credit (ETC) is a non-wastable tax credit introduced in 2009 and is targeted at low-income workers (those whose earning fall between 6 and 12 times the minimum wage in a given year. For more details, see Box 3 in World Bank (2012b).

³² In October 2011, the coalition government that initiated these reforms fell; consequently the proposed reforms have been stalled. Analysis of the proposed reforms continues to be salient and can inform future reform proposals. For more details on the proposed reforms and assessment of their effects on work incentive, see World Bank (2011) and World Bank (2012b).

- The draft law also introduces “motivation allowance for the dependent child” – a conditional cash transfer earned on the basis of regular school attendance, satisfactory performance and good behavior.
- In addition, the draft law introduces a back-to-work benefit (continuation of receipt of the motivation allowance) in case the BMN recipient receives a job independently³³ and the income of the jointly assessed persons after certain disregards of wage earnings remains below the eligibility threshold for BMN.
- To further increase the gap between potential earnings from work and basic income support received through the BMN, the reforms proposed to reduce levels of unconditional (basic) benefits by approximately 30 percent.

The *proposed* reforms address financial work disincentives at the low end of the labor market, however the design can be improved. The reforms increase the income disregard from 25 to 35 percent and eliminate the time limit on in-work activation (motivation) allowance for the BMN beneficiaries. The proposed reforms entail reductions in income support for those unable to secure jobs or participate in motivation opportunities. Reductions in income support can be especially problematic, as motivation opportunities may not be available for all who are interested. The reductions can therefore pose very serious additional poverty risks for the families concerned. Provided that single persons make up a large part of the beneficiary pool, it would be desirable to design measures explicitly aimed at “making work pay” for individuals without jeopardizing their wellbeing. Cutting the level of the benefit, and increasing the activation allowance, poses significant risk to families that are unable to tap into activation works or find employment.

The proposed reforms in the Benefits in Material Need provide improved incentives for singles – but only for those who do not participate in activation works. As designed, the proposed reforms do not seem to provide further incentives for individuals to take jobs instead of staying on the benefit and participating in activation activities. Under the proposed reforms, both the Benefit in Material Need and the housing benefit can be received simultaneously. An increase in earnings leads to a decrease in both benefits – effectively ensuring that earnings are ‘taxed’ twice and resulting in even higher METRs.

As a share of total unemployed and inactive, BMN recipients are a minority. While it is difficult to establish empirically whether the BMN leads to work disincentives, there is positive correlation between benefit receipt and unemployment. There is also some evidence that, *theoretically*, the BMN may create some work disincentives. However, BMN recipients comprise a small share of all unemployed and inactive in the Slovak Republic. Hence, policies aimed at increasing labor market participation cannot focus exclusively on this narrow group.

³³ Article 9(q)/Draft Law on the Benefit in Material Need.

Having addressed possible work disincentives created through the design of the system, the next section turns to current measures of activation. The section discusses specific interventions that exist and the challenges related to institutional capacity that may hamper effective development and implementation of activation policies.

What are current activation measures?

According to § 11 of the Act on Employment Services, Active Labor Market Programs (ALMPs) should be targeted to “disadvantaged jobseekers.” These are defined by the law (§ 8) and include a heterogeneous group (Box 5). Disadvantaged jobseekers are a large share of those registered with public employment services. In particular, almost half of those who registered with the public employment services in 2010 were the long-term unemployed³⁴ and another quarter were above 50 years old (Table 2). BMN recipients constitute almost 40 percent of all registered jobseekers. Among the long-term unemployed who register with the public employment service, slightly more than half (56.7 percent) receive the Benefit in Material Need. This means that BMN recipients tend to be over-represented among registered jobseekers.

Table 2: Disadvantaged groups among registered jobseekers (%)

	2009	2010
Long-term unemployed (more than 12 months)	35.5	45.2
School graduates	6.8	7.4
Disabled jobseekers	2.7	2.9
Juvenile / Adolescents	0.9	0.9
Older jobseekers (aged above 50 years)	21.7	22.2

Source: MOLSAF (2011).

In 2011, 29 active labor market measures were available for jobseekers. However, jobseekers used only 22 of the programs; among the 22, only 12 had more than 1,000 participants. Out of the 400,000 registered unemployed, only 123,436 participants participated in ALMPs. Table 3 shows the programs with the largest number of participants or supported jobs³⁵, the share of disadvantaged jobseekers among participants, and labor market outcomes of those who finished the measures

³⁴ Long-term unemployed registered at the employment services for at least 12 months out the past 16 months.

³⁵ Despite the low number of participants in 2010, the Job creation – Flood measures (§ 50i) was included as this program expanded in 2011. The reason for low number of participants in 2010 is the fact that the program was introduced in September of that year.

(share of jobseekers who were employed on the labor market after finishing the measure in a specified period).

Box 5: Legal definition of disadvantaged jobseekers

Article § 8 of the Act on Employment Services ALMPs identifies the following groups of people as “disadvantaged jobseekers”:

- (i) young graduates under 25 years of age who completed full-time vocational training during the past two years and has not found a first paid regular employment;
- (ii) older jobseekers aged more than 50 years;
- (iii) the long-term unemployed registered at the employment services for at least 12 months over the past 16 months;
- (iv) a person who did not work or study 24 months before the latest registration to unemployment due to the difficulty to reconcile working life and family life;
- (v) lone parent taking care of one school-aged child and families with three and more school-aged children in institutional care;
- (vi) person with health problems (but not being recognized as disabled), person with a degree of disability ranging between 20 and 40 percent, disabled (above 40 percent) ;
- (vii) migrants within the European Union;
- (viii) person who was granted asylum;
- (ix) dismissed workers (due to various reasons);
- (x) people who have not completed secondary school (school drop-outs);
- (xi) ex-prisoners;
- (xii) people leaving institutional care.

Source: Act on Employment Services

Table 3: Overview of main ALMP measures in 2010

Measure	Participants	Budget (mln €)	Share Disadvantaged (%)	Share of jobseekers who were employed on the labor market after the measure		
				Within 6 months	6 – 12 months	After 12 months
§ 47 Education and training for the labor market	20,381	17.48	21.1	-	-	-
§ 49 Contribution to self-employment (start-up)	15,033	48.22	42.4	-	-	-
§ 50j Job creation – Flood measures	159	0.45	77.3	-	-	-
§ 51 Graduate Practice	21,199	20.01	79.3	20.2 (within 3 months)	5.8 (3-6 months)	13.1 (after 6 months)
§52 Activation Program - Small municipal work	51,882	7.86	99.1	2.4	1.6	11.5
§52a Voluntary Work	3,995	4.72	58.6	28.6	10.7	18.0

Note: Number of participants are inflows into the measure in 2010. *Source:* CoLSAF. World Bank staff calculations.

Disadvantaged jobseekers represent roughly a fifth of participants in education and training for the labor market (Table 3). It is noteworthy, that the number of participants in education and training measures declined substantially between 2009 and 2010, as did the share of disadvantaged jobseekers³⁶. In 2011, no new education and training has been contracted due to an internal assessment of the measure (see Annex 3). Complicated procurement rules are cited by the CoLSAF and MoLSAF staff as the most common reason for low supply of this measure.

Start-up incentives are one of the most expensive ALMPs. Subsidies for self-employment granted in 2009 amounted to approximately 45 percent of the total ALMP budget and the amount of subsidy is quite generous³⁷. On average, this measure accounted for less than 5 percent of ALMP expenditures in OECD countries. In order to reduce misuse, changes were introduced in 2009, including the stipulation of obligatory examination of acquired skills, the assessment of business plans by a tri-partite commission, and an extension of the period after which a person can reapply (Vagas 2010). In addition, less than half of recipients (42 percent) were disadvantaged jobseekers in 2010.

Recently introduced job creation measures have been in flood prevention efforts and restoration of cultural heritage. Compared to other measures, such as activation or voluntary works, flood prevention measures and restoration of cultural heritage lead to formal employment contracts. The number of participants in flood prevention measures has increased dramatically since their introduction in September 2010 (159 jobseekers participated in 2010 while 7,067 jobseekers participated as of 30 September, 2011). However, it is too early to assess the long-term impact of this measure.

The long-term unemployed make up about 20 percent of the participants in the graduate practice program. The graduate practice consists of a three to six-month internship for 20 hours a week with no obligations for employers to provide training. In its current form, graduate practice has operated since 2004, and is targeted towards all jobseekers below the age of 25, irrespective of their educational attainment or work experience.³⁸ Almost 80 percent of participants in 2010 were classified as ‘disadvantaged jobseekers’ by the public employment services, out of which the majority belonged to the category of “young graduates under 25 years of age who completed full-time

³⁶ Data from MoLSAF.

³⁷ According to § 49 of the Act on Employment Services, the benefit amount ranges from 35 (in Bratislava) to 45 percent (in other regions) of 16-times the overall price of labor calculated from the average wage of an employee in the economy of the Slovak Republic.

³⁸ § 51 of the Act on Employment Services states: “For the purposes of this provision, as school graduate shall be regarded, in addition to the graduate of a school, subject to § 8(1)(a), every job seeker aged up to 25 years, regardless of whether he has completed systematic vocational preparation, or whether he has obtained a regular paid employment.”

vocational training during the past two years and has not found a first paid regular employment,” while only 20 percent were long-term unemployed.

With almost 100 percent of ‘small municipal works’ participants categorized as disadvantaged registered jobseekers, the program has the largest proportion of disadvantaged jobseekers (Table 3). This is not surprising as the small municipal works is intended to provide a supplemental activation allowance to BMN recipients.³⁹ Although BMN recipients are not classified as “disadvantaged” automatically, the majority of BMN recipients who register with the public employment services have been registered as unemployed for more than 12 month and hence are considered to be “disadvantaged.”⁴⁰

The impact of small municipal works on potential integration into the labor market is limited and may be negative. While the aim of small municipal works is for BMN recipients to maintain work habits, the measure does not significantly increase their employability, as no element of training is included. About 4.4 percent of participants were able to find employment within 6 months after leaving the program in 2010.⁴¹ Participants in activation works do not receive a work contract (the person remains in the unemployment registry), and as such, no social contributions are paid, increasing the future vulnerability of this individual. Additionally, a stigma seems to be attached to activation works in municipalities with a large share of Roma population performing the jobs.

In contrast to small municipality work, “voluntary work” activities are not primarily designed for BMN recipients, but are open to all jobseekers registered for at least three months. Less than two-thirds of all participants in “voluntary work” are disadvantaged jobseekers and less than a quarter are BMN beneficiaries. The objective of this program is to gain practical experience to be used in the labor market. As in the case of small municipal works, participation is voluntary and weekly working hours do not exceed 20 hours. This activity typically lasts six months, with no possibility of repeating within the same unemployment period.⁴² Municipalities offer such activities, as do NGOS, who receive funding from the labor office to cover costs.

³⁹The Labor Office pays an activation allowance (63 euro a month) during participation. The maximum weekly working time is 20 hours and the duration is usually 6 months. It can be extended once for duration of additional 12 months (18 months in total). Until 2008, there was no limit on the repetition of this measure.

⁴⁰ According to administrative data from CoLSAF, 74 percent of registered jobseekers who are beneficiaries of the Benefit in Material Need have been registered as unemployed for more than 12 months and almost 40 percent of them were registered for more than 4 years (28 percent of the total).

⁴¹ Unsurprisingly, two to three times the number of participants in the Western regions or in Bratislava are placed in the labor market within 6 months compared to other regions. Harvan (2011) uses a quasi-experimental scientific method to analyze EU LFS data for 2006-2009 period and finds that activation works have very little positive impact on the participants’ chances to get placed in the open labor market.

⁴² The participant receives a lump-sum benefit amounting to the subsistence minimum (189 euro in 2011) in order to cover expenses (accommodation, food transport) for taking up this activity. Participants in these measure, if they are recipients of the Benefit in Material Need, are not eligible for an additional activation allowance. Moreover, 50 percent of the stipend that those who participate in volunteer work activities receive counts as income in the BMN income test.

Participants of voluntary works programs have significantly better labor market outcomes compared to participants of small municipal works programs.⁴³ These outcomes could be related to the better initial skill profile of participants, as well as the more favorable age profile (about 18 percent of participants were 15-24 years old, 74 percent were 25-54 years old and only 8 percent were 55 to 64 years old). However, the training element that is an integral part of this measure does not usually lead to a formal qualification, thereby restricting employment prospects to some extent. At the same time, the measure is significantly more costly than the small municipal works (one voluntary work participant costs about 5 times a small municipality work participant).⁴⁴ There appears to be a significant scope for improving the design of existing active labor market programs to improve their effectiveness. A rigorous evaluation effort is needed to assess the impact of existing measures and to (re)prioritize spending on ALMPs. Low take up of the majority of the measures should be investigated to assess how access to ALMPs can be improved and why certain measures are not being utilized. Those found ineffective or cost-inefficient can be discontinued, while those found effective – improved and expanded. Ultimately, however, the potential impact of active labor market policy depends on the capacity of employment services to provide individualized service to its clients. The existing capacity of the Slovak public employment services is discussed in the next section.

Is there sufficient institutional capacity to implement targeted activation measures?

The Slovak public employment services (PES) have to respond to a particularly difficult labor market situation, characterized by structural frictions, which lead to high and persistent levels of unemployment. A number of reforms aimed at improving the delivery of active labor market programs (ALMPs) have been implemented since 2004. However, several challenges in the implementation of active labor market policies, in general, and activation of recipients of the Benefit in Material Need, in particular, remain.

Employment services and social services are under one roof in the Slovak Republic; however, the cooperation between these units is currently limited to file sharing. The 2004 reform in the Slovak Republic formally merged employment services and social services and created labor offices as “one-stop shops” for clients of employment services, social assistance beneficiaries, and recipients of other types of social benefits.⁴⁵ However, the reforms were never fully completed.

⁴³ See Table 13 in World Bank (2012d).

⁴⁴ CoLSAF data, staff calculations.

⁴⁵ The 2004 institutional reform merged employment services and social services under the auspices of labor offices, and shifted the oversight of unemployment benefits to the Social Insurance Agency (SIA). A clearer hierarchy was introduced with the Ministry of Labor, Social Affairs and Family (MoLSAF) governing the Central Office of Labor, Social Affairs and Family (CoLSAF) which in turn oversees 46 district labor offices. CoLSAF serves as an implementing

Different units within the labor offices operate independently with regard to intake, counseling of clients, profiling, etc. For activation purposes, BMN recipients are referred to an employment services unit where they register as jobseekers and fulfill obligations stemming from such status. However, the two units treat the clients as separate streams. For instance, employment services have no knowledge whether a client comes from a household receiving the BMN.

Similar reforms leading to increased cooperation and of the establishment of “one-stop shops” have been fully implemented in other OECD countries, such as Denmark, Germany and to some extent, Finland and the Netherlands. The UK employment services and social welfare offices were merged completely.⁴⁶ In a number of other European countries, services for “inactive people” are also integrated into mainstream employment services (e.g. in the UK, France and Austria).⁴⁷

The system of profiling jobseekers introduced in 2009 (Three-Zone System) is a positive shift to a differentiated and more targeted treatment of jobseekers. At the same time, profiling of jobseekers in the Slovak Republic is less comprehensive compared to many other EU Member States and OECD countries. Furthermore, BMN recipients are not given preferential treatment with respect to placement in the labor market. Some BMN recipients may be less ready for jobs in the open job market; the end result is that equal treatment of all PES clients implies that the more hard-to-serve BMN beneficiaries could be left behind. Little financial incentives are used and available to award employees’ performance or to incentivize them to find placements for hard-to-place clients.

Labor Offices are understaffed and underfinanced, which allows them to focus mainly on mandated administrative work, but provides little capacity to implement client-oriented individualized services. There has been a reduction in labor office staff over the past five years. In the context of general downsizing in public and state institutions, the labor office staff was also downsized by 20 percent in 2007, and by an additional 10 percent in 2011, equally across all labor offices. This has occurred against rising unemployment levels in the country during the economic and financial crisis (Figure 26). As a result of increasing and unevenly distributed caseloads, some key instruments used by PESs in many OECD and EU countries are implemented as a formality, such as the preparation of Individual Activation Plans (IAPs). Limited capacity also precludes effective monitoring of the implementation of different measures, as well as provision of sufficient information and counseling to individuals interested in participating in available measures.

Administrative tasks absorb about 50 percent of the labor office staff time, leaving only 50 percent of the workday devoted to interaction with clients. Data entry and software procedures

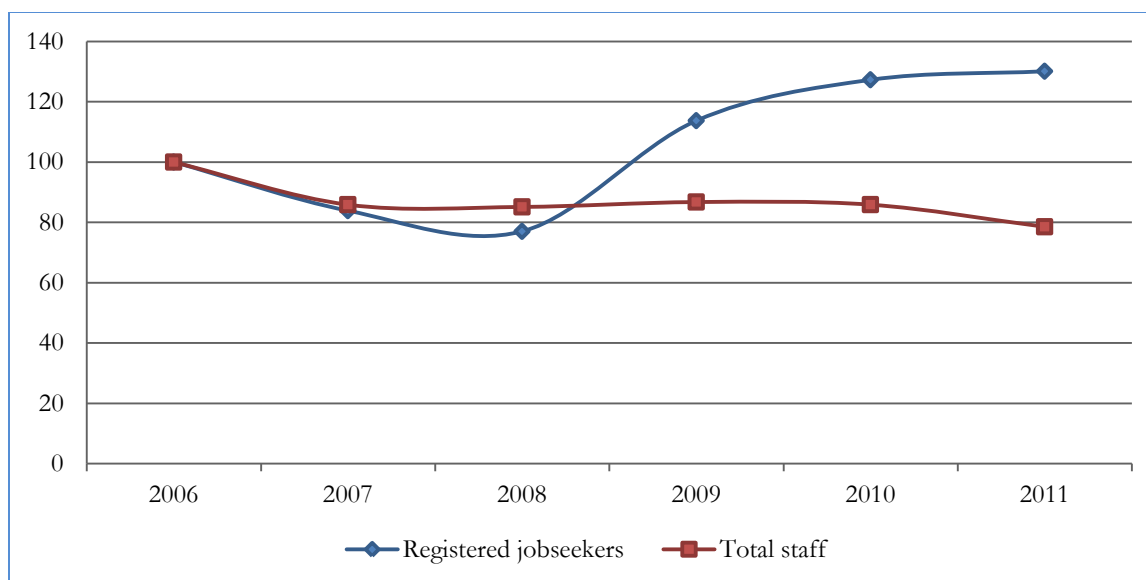
agency for the Ministry and has an important coordination and governance role with respect to the labor offices. For more details on the organizational structure, please refer to World Bank (2012d).

⁴⁶ Duell et al. (2009 a,b).

⁴⁷ Konle-Seidle (2011).

have been established separately for the Employment Services Section and Social Affairs Section leading to double entry of information at times. About half of the day's working time is devoted to administrative tasks while only four hours are spent interacting with clients. In contrast, staff were more concentrated on placement and the organization of ALMPs in Finland (74 percent), Japan (75 percent) and Norway (81 percent).⁴⁸ The estimated high proportion of administrative tasks (50 percent) in the case of the Slovak Republic may partly result from an overall high caseload, which reduces the scope for placement, counseling and ALMP-related services, and gives a higher weight to administrative tasks.

Figure 26: Change in staffing and jobseekers (Index: 2006=100)



Source: Statistical office and CoLSAF. World Bank Staff calculations.

A framework for outsourcing some of the PES services to non-state providers was created in 2004, but has not been used to outsource employment services for highly disadvantaged jobseekers. Labor Offices can contract out training programs, professional counseling and placement services.⁴⁹ Some agencies for supported employment have been operating, but these programs are small in terms of the number of people served – in 2011, only 1405 clients were served by these agencies in the whole Slovak Republic. Non-state providers of employment services often cite lack of public financial support and the administrative burden involved in taking advantage of

⁴⁸Duell et al (2010).

⁴⁹ There are three forms of outsourcing of employment services to non-state providers (individual or legal entity) defined in the Law on Employment Services: Mediation of Employment for a Fee can be carried out by individual or legal entity which specializes in job search and job placement; it is widely used to mediate employment abroad. Agencies for Temporary Employment hire an individual on a formal employment contract and then 'sublet' him to a different employer for a limited period of time. The Agency for Supported Employment provides counseling and placement to disadvantaged job seekers - jobseekers with disability and long-term unemployed.

existing opportunities. Some successful models of integration of disadvantaged jobseekers can be found among large employers (for example, US Steel in Košice has been running a successful program of Roma employment for nearly 10 years), but their experience is yet to be widely replicated elsewhere. Australia successfully outsources employment services, but their experience demonstrates that funding mechanisms need to be highly sophisticated in order to incentivize providers to place disadvantaged groups in active labor market policy measures and in the regular labor market.

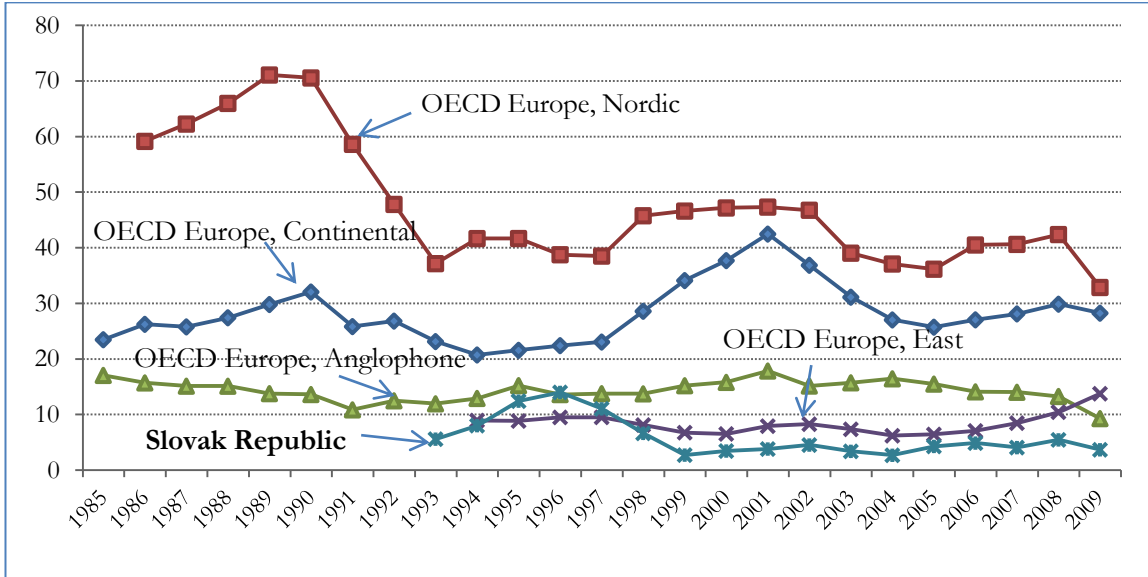
Funding of ALMPs is also relatively low. Despite high unemployment levels and structural deficiencies, spending on ALMPs remains well below the OECD average and below the regional Central and Eastern European average (Figure 27). This might be related to a general impression among the political elite that ALMPs have been ineffective.⁵⁰ Rigorous impact evaluations of any existing programs, as well as newly introduced pilots, could assist in illustrating what works and what does not in the context of the Slovak Republic. ALMPs are almost fully financed through the European Social Fund; funding delays and shortages are common due to the fairly burdensome bureaucratic procedures involved.

As compared to other OECD countries, the Slovak Republic spends little on training and employment services administration, but relatively more on start-up incentives. Only about 5 percent of expenditures were spent on training measures in the Slovak Republic in 2009. In contrast, an average of 40 percent of the ALMP budget is allocated to training in OECD countries (Figure 28). In 2009, only about 0.07 percent of GDP was allocated to the employment services administration, placement and counseling in the Slovak Republic, which was well below the OECD average of 0.16 percent. Although expenditure on active labor market programs are typically low in the United Kingdom, expenditure on administration, placement, counseling and related services are at 0.29 percent of GDP in the UK, underlining the importance of intensive follow-up of jobseekers in that country.⁵¹

⁵⁰ The provision of different ALMP tools has been accompanied by a series of alleged corruption incidents in the past – which has also led to the general impression of ineffectiveness.

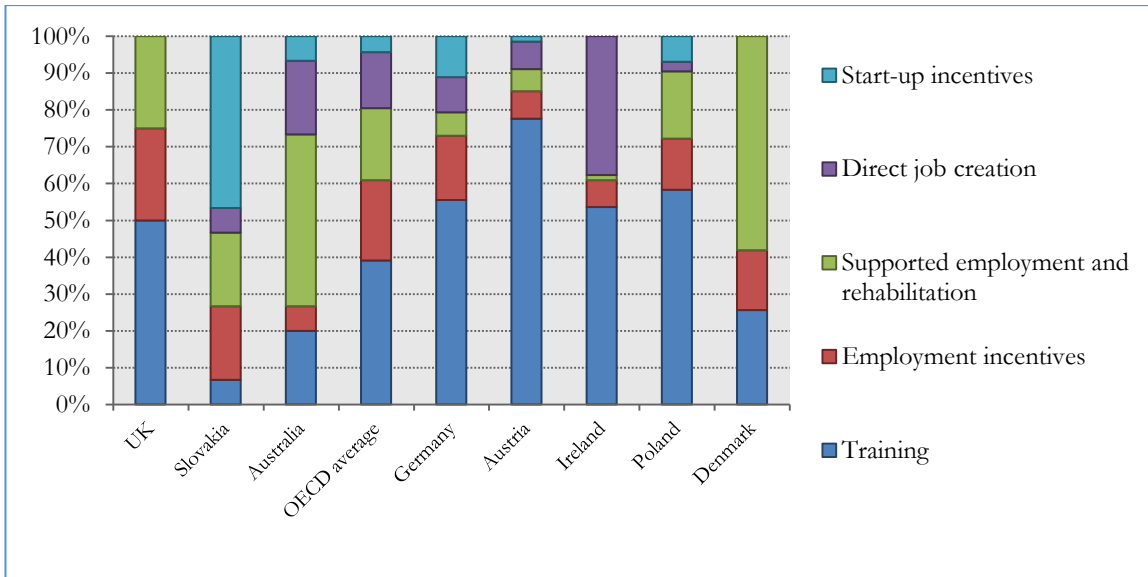
⁵¹ Countries that spend relatively high shares on employment services such as counseling, intensive interviews, profiling and follow-up are Sweden (0.46 percent of GDP), Denmark (0.45 percent of GDP), Netherlands (0.43 percent of GDP), Germany (0.37 percent of GDP) and France (0.26 percent of GDP).

Figure 27: Spending on active labor market programs per unemployed (% of GDP/capita)



Source: OECD Labor Market Policy Database. Staff calculations.

Figure 28: Distribution of ALMP expenditures by types of measures, 2009



Source: OECD Employment Outlook 2011. OECD LMP database.

Given limited institutional capacity and the tight resource envelope, it is essential that the provision of employment services better match the needs of target groups. Current targeting of the ALMP measures and functioning of PES is unable to address the most salient problems in the labor market. A closer link between active labor market policy and social assistance policy needs to be established and a review of current spending on active measures can free up resources for more effective policies targeted at the unemployed and inactive with work capacity.

Part IV. Who are the Unemployed and How Can Employability Be Increased?

About 21 percent of the working age population in the Slovak Republic was either unemployed or inactive in 2009. All unemployed and inactive can be profiled to determine unique groups (clusters), with distinct socio-demographic characteristics, including experience in the labor market and benefit receipt status.

These categorizations can be used as an aid to tailor specific active labor market programs to individuals, as the groups differ in the level and type of support they may need to (re)enter the labor market. It is important to understand the complementarities and tradeoffs between various activation policies, and how each policy could potentially affect specific groups of the unemployed or inactive. Currently, some labor market programs provide support to these groups, but their effectiveness can be improved. More programs could also be introduced to specifically address the challenges of these distinct groups.

What groups can be targeted for activation?

When well designed and implemented, activation policies can play a role in promoting labor market participation, reducing benefit spending and ensuring adequate protection for those **most in need**. Activation policies are defined broadly as a *combination* of policy tools that *support* and *incentivize*: 1) job search and job finding, 2) productive participation in society, and 3) becoming and remaining self-sufficient and less dependent on public support. So far, empirical evidence on the effectiveness of these policies has been ambiguous. There are a number of reasons why a simple answer to the question “what works” is not possible. Potential target groups and their employment barriers differ between programs and countries. Contextual “framework conditions,” such as labor-market conditions and the design of “passive” social protection measures, are also likely to be critical drivers of policy outcomes. As a result, policy makers can choose from a large menu of activation-policy options, each with strengths and weaknesses.⁵² To determine possible options, a crucial first step is to understand potential target groups for activation policies.

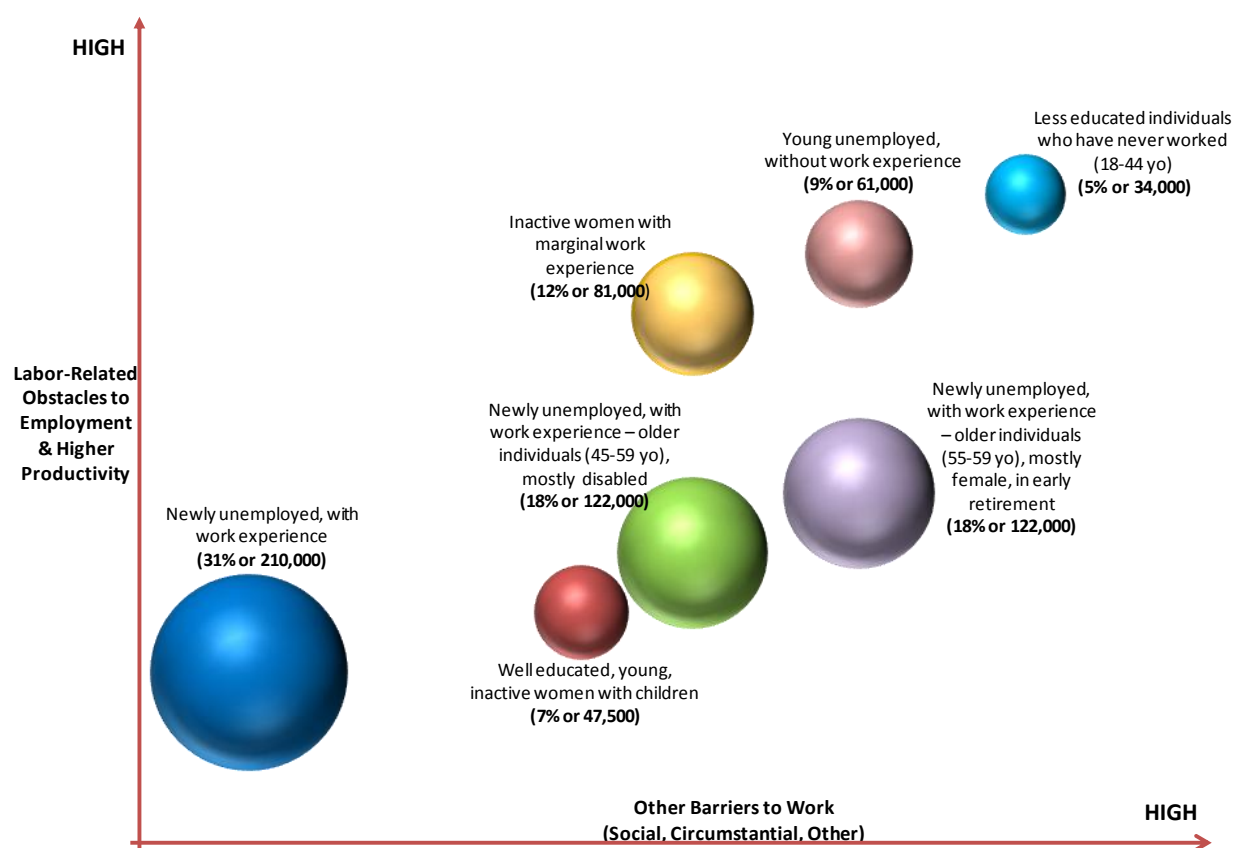
About 21 percent of the working age population in the Slovak Republic is either unemployed or inactive.⁵³ They form a diverse group, and in this section we look at all unemployed and inactive in the Slovak Republic, breaking them down into distinct subgroups. The methodology used to develop these “clusters” or categories is defined in Annex 4.

⁵² Immervoll, H (forthcoming).

⁵³ The working age population is defined as those aged 18-59 minus students in the 18-24 age group.

The inactive and unemployed population in the Slovak Republic can be categorized into 7 groups based on distinct characteristics within each group (see Table 1 in Annex 4 for a detailed breakdown of characteristics). They can be roughly arranged based on labor related obstacles to employment, such as lack of skills or experience (the “y-axis”), and on other barriers to work, such as access to childcare, social or psychological problems (the “x-axis”). Figure 29 presents the target groups along these two dimensions and demonstrates the relative size of the groups (as a percentage of all unemployed and inactive and in number of persons). The relative position of these groups approximately indicates the degree and intensity of support that these groups may need to transition to employment.

Figure 29: Target groups among the unemployed and inactive in the Slovak Republic



Source: Staff calculations based on EU-SILC 2009 data.

Newly unemployed, with work experience (Category 1): About 31 percent of the individuals in the inactive/unemployed population have worked within the last year, and about 89 percent are actively searching for a job. They are distributed across all age groups, have a slightly higher chance of being male (56 percent), and are not disabled. About 77 percent have a higher secondary education; 18 percent receive the unemployment benefit, while 26 percent receive the Benefit in Material Need.

Newly unemployed, with work experience – older individuals (aged 45 to 59) and mostly in disability status (Category 2): About 18 percent of the individuals in the inactive/unemployed population are older individuals whose self-defined status is ‘**disabled, incapable of working.**’ Nearly 80 percent receive disability benefit, but only 59 percent have health problems that leave them with ‘very limited’ work abilities. The majority of this group has worked within the last year, but only about 3 percent are actively looking for a job.

Newly unemployed, with work experience – older individuals (mostly female), aged 55 to 59, in early retirement (Category 3): Another 18 percent of individuals in the inactive/unemployed population are older individuals, aged 55 to 59, and 89 percent are women. They have worked in the last year, but are not actively looking for a job. Very few receive any type of social assistance benefit, and since the retirement age in 2009 was lower for women than for men, they are likely to receive pensions.

Inactive women with marginal work experience (Category 4): About 12 percent of the unemployed/inactive group made up of mostly women (92 percent) who are inactive (82 percent). About 77 percent have a higher secondary degree, but marginal attachment to the job market – 17 percent have never worked and the remaining 83 percent have worked less than 2 months in the last year. They are typically younger women, with 44 percent being between 25 and 34; 54 percent live in families with 1 or 2 children, while a further 19 percent live in families with 3 or more children. About 53 percent receive the parental benefit; 20 percent receive the disability benefit, and 11 percent receive the Benefit in Material Need (the same family or individual may receive more than one type of benefit).

Young unemployed with no work experience (Category 5): About 9 percent of the inactive/unemployed are very young with no work experience. About 81 percent are between 18 and 24 years old, and 16 percent are 25 to 34 years old. About 77 percent have a higher secondary education; they have a slightly higher chance of being male (56 percent); and 88 percent are actively looking for a job. About 21 percent receive the Benefit in Material Need, and 17 percent receive the parental benefit.

Well-educated, young, inactive women with children (Category 6): About 7 percent of the inactive/unemployed is comprised of young women, with 80 percent in the 25-34 year age group. They have worked in the last year, but are currently inactive and not looking for a job. About 57 percent have a higher secondary degree, while the rest have post-secondary education. About 72 percent receive the parental benefit; 82 percent of them live in families with 1 to 2 children; and 13 percent live in families with more than 3 children.

Less-educated individuals who have never worked (Category 7): About 5 percent of the inactive/unemployed are composed of individuals who have never worked; with 56 percent having a self-defined status of ‘disabled, incapable of working.’ About 71 percent of them have a primary/lower secondary education. They are mostly young, with about 74 percent between 18 and 34 years of age. About 27 percent of individuals in this group receive the BMN; 24 percent receive the parental benefit; and 51 percent receive the disability benefit. This group has the greatest distance to the labor market, and potentially suffers from multiple barriers.

The majority of the unemployed and inactive are not recipients of the BMN. Only 15 percent of all unemployed and inactive live in households that receive the BMN. Another 7 percent receive unemployment benefits.⁵⁴ A significant share of the unemployed and inactive live in households receiving the parental benefit (19 percent), but some of these households could also be recipients of the Benefit in Material Need or other benefits. Hence, the potential target groups for activation are much broader than simply those who receive minimum-income support. While it is reasonable to focus activation efforts on benefit recipients to reduce spending on social benefits and prevent long-term reliance on benefits, significant reductions of unemployment and inactivity can be achieved by facilitating employment for those closer to the labor market, who may not necessarily be benefit recipients.

How to tailor current policies and measures to address the needs of a larger set of activation target groups?

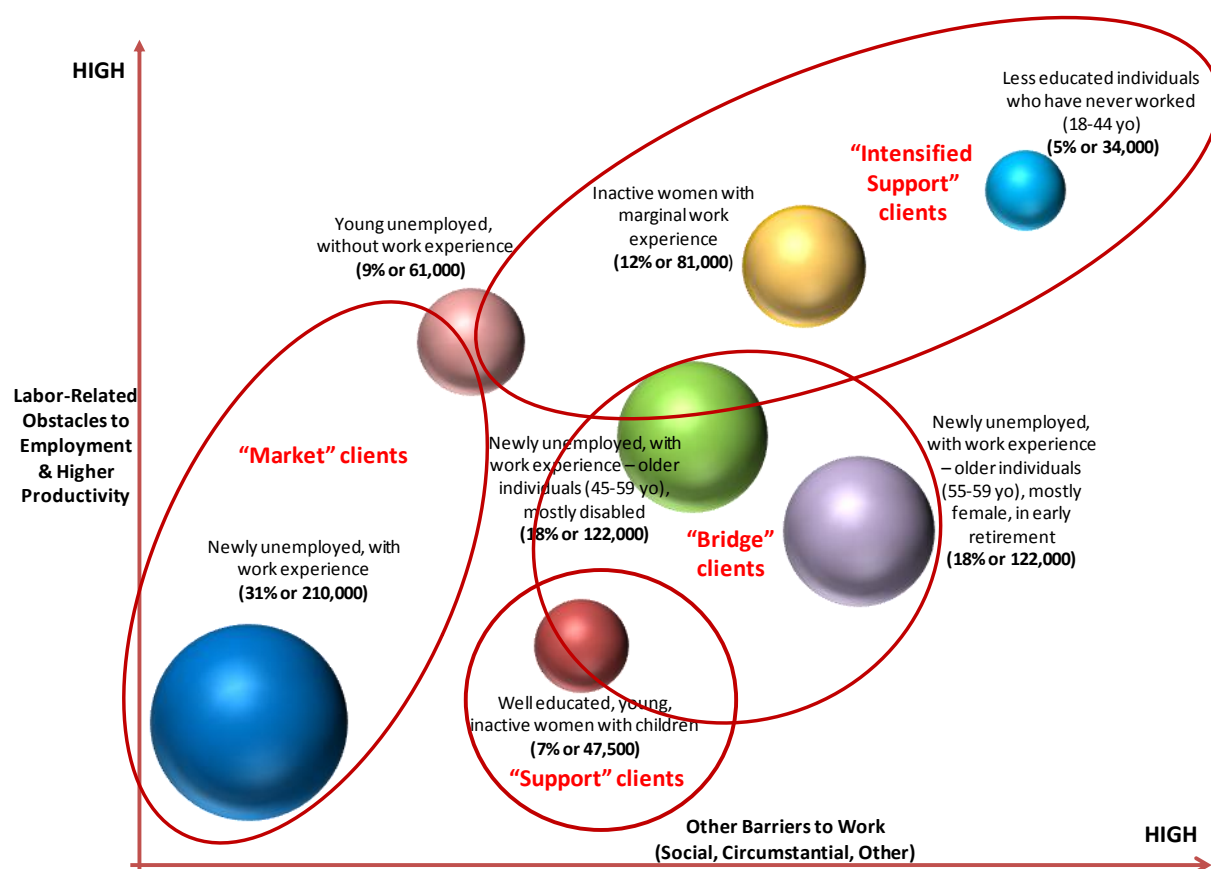
In order to tailor activation policies to target groups successfully, it is crucial to understand the type of support specific groups need and particular barriers they face. Generally, activation clients can be divided into four groups based on the degree of support needed in order to (re)enter the labor market. Figure 30 shows how the target groups identified above can be broken down into “market clients,” “support clients,” “bridge clients,” and “intensified support clients.”⁵⁵ Since these groups differ in their distance to the labor market and degree of other constraints and potential barriers, the range and intensity of potential interventions also differs. Figure 32 summarizes some of these measures and policy adjustments, which could facilitate labor market transitions for these groups. It is important to note that the segmentation suggested below is meant to be indicative. A more detailed profiling at the time of intake in the PES would be necessary to

⁵⁴ The same person can technically be receiving the Benefit in Material Need and unemployment benefit at the same time if total household income is low enough. In practice, there are very few such households do (in May 2011, only 600 families were both in receipt of the BMN and included individual receiving the unemployment benefit according to the administrative data).

⁵⁵ A similar segmentation/profiling is used in many EU and OECD countries. For example, Germany divides its jobseekers into four groups – (i) “market clients” that are closest to the labor market, (ii) “clients for counseling and activation” which need job search assistance, (iii) “clients for counseling and qualification” that need designated programs and (iv) “intensive assistance clients” that are furthest from the labor market and need special attention. See Eichhorst et al. (2008).

properly assess the level of support needed by any particular individual belonging to a group, as some variation within these groups is expected.

Figure 30: Indicative segmentation of target groups among the unemployed and inactive in the Slovak Republic



Source: Staff calculations based on EU-SILC 2009 data.

Market clients

Newly unemployed with work experience are categorized as “market clients.” They are generally considered to be job ready and have the best chance of finding employment. Since this group is the closest to the job market; facilitating job search and counseling to keep out of work duration short for this group is a key priority. These measures can be very cost-efficient provided that PESs are adequately staffed to provide individualized counseling, outreach to employers and vacancy search.

Some young entrants to the labor market may also be market clients. Young university graduates equipped with the right skills could find jobs in a fairly short period; facilitating job search is a key priority for this group.

Support clients

Well-educated, young, inactive women with children are likely “support clients.” They may need some incentives to return to the labor force, but also potentially some support in job search and access to enabling services, such as child care, to facilitate their labor market participation. It is important for women with high educational endowment (as in this group) to maintain connection with the labor market. The reform introduced in early 2011 that allows women to work while receiving the parental benefit could assist in providing women with options to combine work with having young children.⁵⁶ Reducing the duration of parental benefit and developing subsidized and good quality childcare could help these women continue with their careers even after the birth of a child.

Bridge clients

There are several groups among the unemployed and inactive that could be classified as “bridge clients.” These groups need more attention and likely more intensive training programs or other measures to bridge their path (back) to employability and labor market participation.

- **Newly unemployed older individuals with work experience, but disabled:** A holistic approach to enhance the inclusion of persons with disability in the workplace could be a successful strategy to slowly increase integration of this group into the labor market. Most of these individuals have at least a secondary education, but due to their age, might require some training before they find a suitable job. For those who do not have significant health limitations, targeted retraining could be used to facilitate learning new skills demanded on the labor market.
- **Newly unemployed, with work experience, but older individuals (mostly female) in early retirement:** In 2009, the retirement age of men in the Slovak Republic was 62, however the retirement age of women was determined on a sliding scale based on their number of children. Women can retire and receive a pension before reaching 56. Their retirement age will achieve parity with men (at 62) only in 2022. The completion of this process should contribute to increased labor market participation of women older than 55. To increase labor market participation of women in general, better availability and affordability of childcare facilities is of

⁵⁶ The reform in early 2011 also introduced the ‘allowance for proper care of the child.’ Working women can avail of this benefit that reimburses child care fees up to a maximum amount of 230 euro per month per child. The parental allowance and the allowance for proper care of the child cannot be received simultaneously.

critical importance. This can have a positive impact on the employment of women of child-bearing age. It can also have a positive impact on the labor force participation and employment of women in the 55+ age group, who may play the role of caretaker to young children.

- **Well-educated, young, inactive women with children:** Some of the women in this group may require additional support in continuing to maintain links to the labor market. Regulations that help create part-time jobs, or provide training or other employment support could increase labor market participation among such women. About half of the women in this group receive the parental benefit; decreasing the length of the parental benefit and increasing kindergarten facilities could have a positive impact on employment incentives and reduce the size of this inactive group.

During labor market downturns it is important to avoid long-term costs of expanding ‘inactive’ benefit programs such as disability or early retirement. The newly unemployed who rely on the disability benefit and the early retirement benefit comprised 36 percent of the inactive and unemployed in 2009. They have work experience, had worked within the last year, but were not currently searching for jobs. Rehabilitating the disabled and facilitating labor market participation for persons with some disabilities can reduce the size of this group and limit long term liabilities. The work life of women can be extended by increasing the pension age and addressing cultural barriers and stereotypes of elderly women. This can lead to labor market inclusion and lower liabilities in the short, medium and long term.

Intensified support clients

“Intensified support clients” require special attention since they face the greatest barriers to (re)employment. In the Slovak Republic these clients are likely to be **less educated individuals who have never worked; inactive women with marginal work experience,** as well as some **young unemployed with no work experience** and **newly unemployed older individuals with work experience, but disabled.**

- **Less-educated individuals who have never worked:** This group has a greater distance to the labor market, and potentially suffers from multiple barriers. These individuals might need a comprehensive approach to integrate them into the labor market. There are some successful programs, such as Chile Solidario and Jovenes, that have worked in rehabilitating low-skilled youth and bringing individuals from families with a more disadvantaged background closer to the labor market; these models could be adapted to suit the specificities of the Slovak context. It is important to pilot any new interventions that are introduced so as to assess their suitability; potentially one may have to modify the design of the intervention in the face of unexpected impacts.

- **Inactive women with marginal work experience:** Since about half of persons in this group receive the parental benefit, decreasing the length of the parental benefit and increasing kindergarten facilities can also have a positive impact on their incentives to take up a job. However, unlike women in the “support” client group, these women will need more intensive training or other employment support. Linking these women with new training or jobs could decrease the size of this inactive group.

- **Young unemployed with no work experience:** It is important to help this group of youth transition from school to work (77 percent of them have at least a secondary education). Independent young people between 18 and 25 seem to be heavily drawn toward activation work (Figure 31), such as small municipal work, instead of training, when they receive the BMN. Training measures aimed at filling their skills gaps can be more effective in preparing for real jobs compared to relatively ineffective small municipal works, which rarely provide real work experience or teach skills desired on the labor market. As BMN does not have compulsory job search requirements, this could further prevent these individuals from actively looking for work and contribute to their labor market detachment. Ensuring that these youth register with public employment services is important so that a targeted approach can be adopted at an early stage. An apprenticeship program could provide this group with valuable work experience. Programs could be more specifically targeted to disadvantaged youth and complemented with other measures aimed at increasing employability of young people.

- **Newly unemployed older individuals with work experience, but disabled:** Persons in this group who are moderately to severely disabled are likely to have significant challenges finding a suitable job. Integrating such persons into the labor market can be difficult. A combination of meaningful financial incentives to employers to hire persons with disabilities and a comprehensive approach to providing conditions and environment for employment of the disabled may facilitate their integration on the labor market. Current labor market measures aimed at the disabled such as sheltered workshops appear to be under-utilized (see Annex 3). These measures should be evaluated and adjusted, if needed, to provide better opportunities for the disabled. Moreover, a campaign to increase public acceptance of the disabled persons at work may be needed. Many people with health problems can work and indeed want to work in ways compatible with their health condition. Helping disabled people to work is potentially a “win-win” policy: it helps people avoid exclusion and have higher incomes while raising the prospect of more effective labor supply and higher economic output in the long term⁵⁷.

Programs already in place, such as the graduate practice program, could be used to successfully reach “intensified support clients.” The graduate practice program has the highest placement rate among the activation measures – with 41.6 percent of participants subsequently

⁵⁷ OECD (2010b).

placed in the open labor market in 2011. However, because the eligibility for a program is widely defined, it is likely that some participants would have been placed on the labor market even in the absence of the program, as firms are likely to choose more qualified participants. Additionally, some firms may be reluctant to keep participants once the internship is completed, as they can recruit a new intern instead at a subsidized cost. This is likely to generate considerable turnover, loss of human capital, and repeat unemployment spells among youth. The program can be improved by explicitly including training and offering formal qualification upon completion.⁵⁸ An opportunity to participate in the program should be offered early in the job search only to young jobseekers deemed disadvantaged in terms of skills, professional experience, or other characteristics. Other young jobseekers could have access to the graduate practice program only after a period of unsuccessful job-search (perhaps six or nine months).⁵⁹

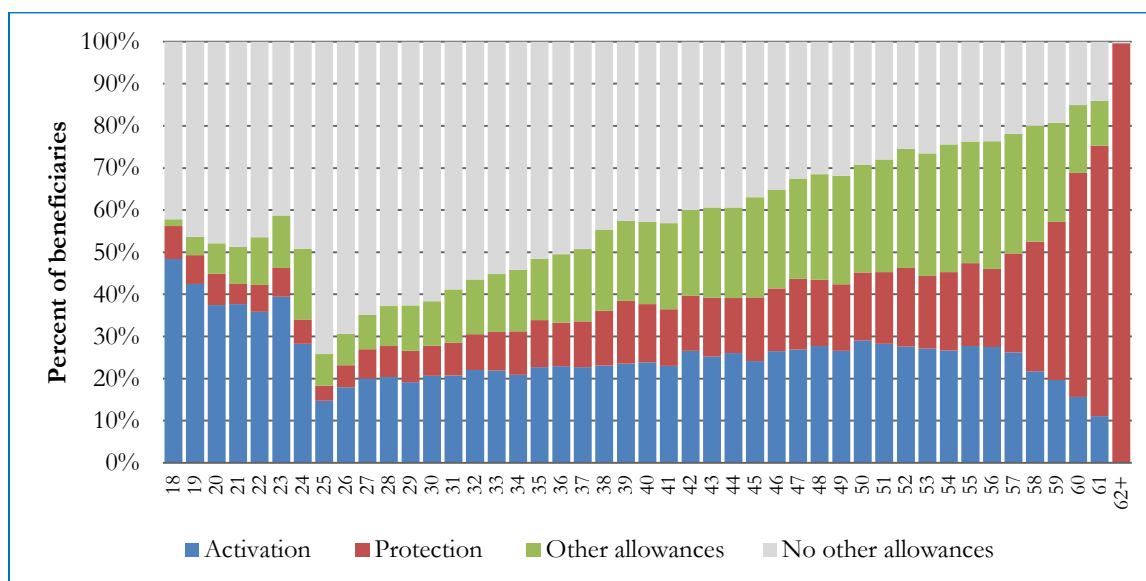
Teenage jobseekers/BMN recipients from marginalized communities are encouraged into activation works rather than into training and education. Many youth from marginalized communities who leave school after mandatory education (typically at 16 years of age) are offered participation in activation works that have little success in open labor market placement (Figure 31). They are typically not offered additional education or training opportunities. Such a “work-first” strategy for highly disadvantaged young people is likely to lead to long spells of unemployment and welfare dependency. Instead, incentives should be directed towards a “train-first strategy” to ensure highly disadvantaged young people get basic education and some vocational training.

Within the existing framework, it would be important to ensure preferential access to employment programs, such as the graduate practice program, and social services to the intensified support jobseekers. Long-term unemployment among youth can have very high costs, both in the short and medium term. Directly connecting youth to measures, such as the jobseekers allowance tied to activities such as job search, may help cut short long unemployment spells. Providing second chance education and retraining in skills relevant to the labor market could also be helpful in facilitating school to work transitions.

⁵⁸ OECD (2007).

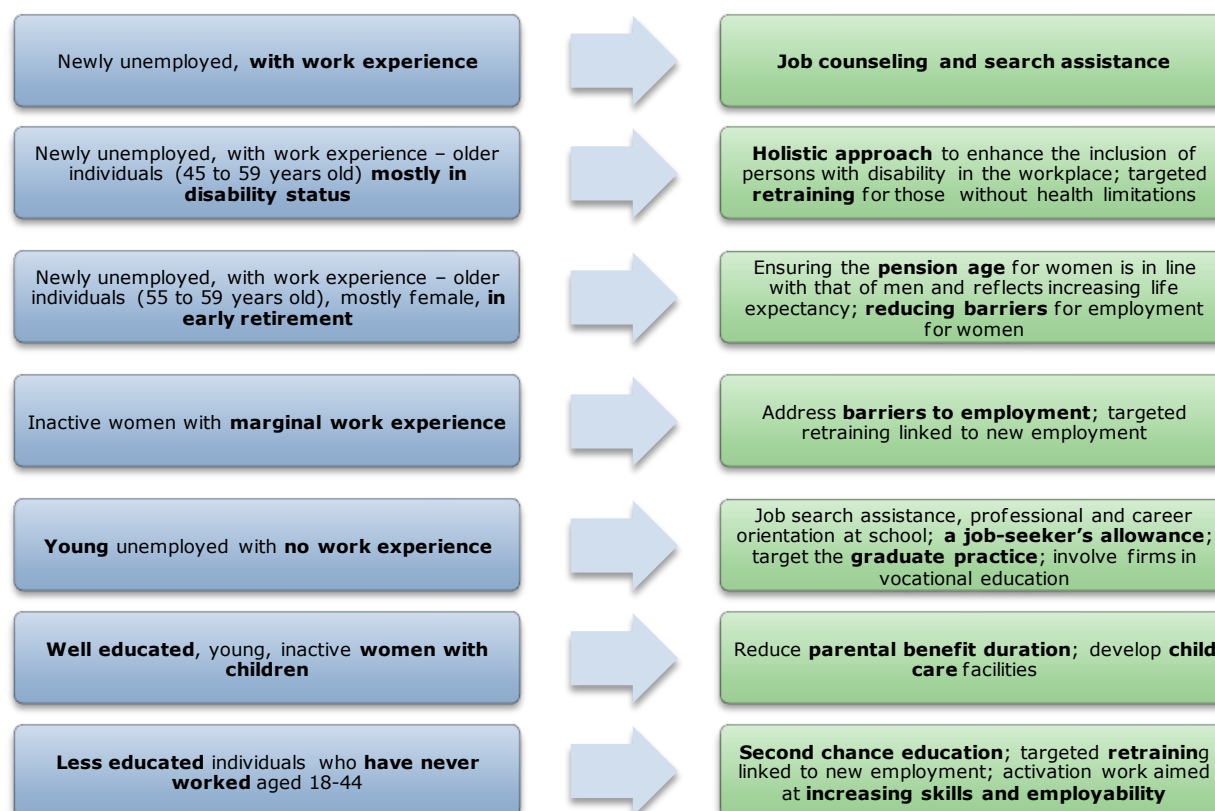
⁵⁹ Ibid.

Figure 31: Breakdown of single beneficiaries by receipt of allowances to the BMN by age



Source: Administrative data, Staff calculations

Figure 32: Recommended activation measures for target groups



Effective policies and programs need to take into account the heterogeneity of different groups in order to target activation policies, including those who are recipients of social assistance. Figure 32 illustrates the activation measures best geared toward specific groups to better facilitate their (re)entry into the labor force. It is especially important to differentiate the approach to activation of those who may be unemployed due to the economic ‘cycle,’ as well as the young and first-time jobseekers from those who face more structural barriers to employment. As opposed to young jobseekers, the long-term unemployed may face multiple barriers to work, including medical, social and psychological challenges. They may also have less or no comparative advantages as jobseekers, due to long-term detachment from work, lower education attainments and obsolete skills. The eligibility rules for BMN allow graduates over 25 years old to receive the benefit over the period when they look for their first job. However, educated young and first-time job seekers need help with job search rather than an income security guarantee. They are usually not ‘typical’ clients of the social assistance system; and even less typical claimants of the last-resort social assistance program. Instead of basic BMN, they could be provided with a jobseekers’ allowance to link them with employment services that facilitate finding the first job.

Box 6: Roma and Social Assistance

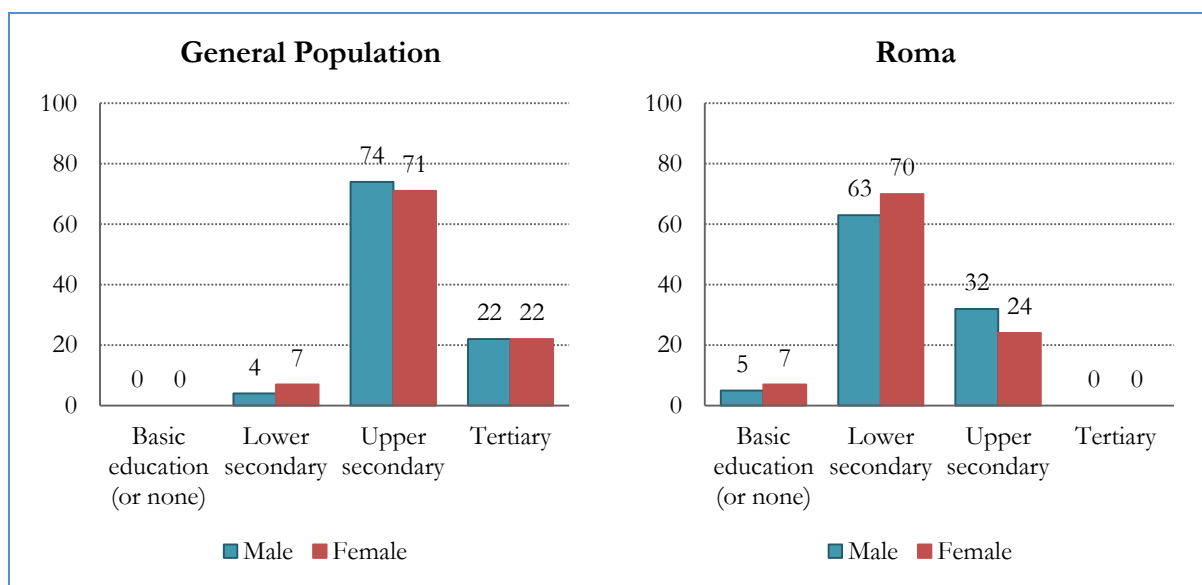
The Roma in Slovakia face a high degree of social exclusion – many Roma live in ‘separated’ or ‘segregated’ neighborhoods. ‘Separated’ neighborhoods are concentrated in a certain part of a town or village, either within the village or on its outskirts. ‘Segregated’ neighborhoods are settlements at a distance from a town or village or separated by some barrier. About 87 percent of Roma families live in poverty.

The popular perception is that the Roma are the main beneficiaries of the Benefit of Material Need. This is not the case – only about a third of households that receive the BMN are of Roma origin. This proportion is imputed using data from the 2010 UNDP Slovak Roma Survey, and assuming that the population of Roma in the Slovak Republic is 320,000 individuals (World Bank (2012f)). Approximately 38,800 Roma households receive the BMN, while about 72,200 non-Roma households receive the benefit.

The Roma are largely excluded from the labor market in the Slovak Republic. Nearly 70 percent of working age Roma were unemployed at the end of 2010. The very high unemployment rates among the Roma stem from a combination of poor education, lack of access to market opportunities, discrimination in the labor market and other factors.

The first step in ensuring that disadvantaged groups are protected and employed is to focus on education. Segregation and tracking of children, particularly of Roma origin, into special schools at an early age leads to poor quality education and results in a pool of labor market entrants with multiple disadvantages. On average, about two-thirds of persons of working age have an upper secondary education in the Slovak Republic; however slightly less than one-third of Roma have an upper secondary education (see Figure a).

Figure a: Education level attained, 25-65 years, excluding current students, percent



Source: EU-SILC, Roma Regional Survey. World Bank (2012f).

Quality of education is also important. Cahu (2011) finds that Roma children who attend mainstream schools have PISA¹ scores 30 percent below the Slovak Republic average. This large difference can be accounted for by several complementary factors: (a) more than half of the lower score is due to the poorer socio-economic background of Roma children; (b) given they live in poorer areas, they typically have peers in class who are drawn from similar socio-economic backgrounds; and (c) even when they attend schools with peers from the majority population, and better socio-economic characteristics, they do not benefit from such peers, suggesting that they may suffer from social exclusion in the school environment. Attending a “good” or a “bad” school does not seem to make any difference for Romani pupils. Parental background also does not matter for pupils’ performance; they seem to suffer from discrimination as long as they speak Romani. In fact, Romani speaking pupils actually report being discriminated by their teachers. As a result, integration of Roma pupils into mainstream schools is not sufficient on its own; it would be important to create an environment where Roma students can truly benefit from the education offered.

A comprehensive approach beginning with good quality early childhood education, quality primary and secondary education, and support in school to work transition, can help the next generation of Roma youth. For the current unemployed among the Roma, second chance education programs, targeted training programs, and apprenticeship programs can help. Evidence from other European countries suggests that young people with a low educational level need specific and intense counseling and follow-up. Enforcement of anti-discrimination measures, both in school and in the labor market, will be important for any effort to succeed in labor market integration of the Roma.

Part V. Recommendations

To find solutions to persistent unemployment, the Slovak Republic must look beyond the social assistance system. Policies that guarantee macroeconomic stability; improved business climate; promote healthy competition; and provide incentives to innovate, are key for increased job creation. Investing in good quality education and skills for all individuals in the Slovak Republic is also a priority can lead to lower unemployment rates as well as increased internal mobility.

The primary focus of policy makers in the Slovak Republic is the Benefit in Material Need and work disincentives created by this benefit, particularly among marginalized communities. It is important, however, to look at the design of the whole range of benefits – including parental allowance; disability benefit; and early retirement schemes –to understand what effect the social assistance system might have on employment rates.

This section provides both broad policy recommendations – that go beyond the scope of social assistance – in terms of policies that have some impact on the structural unemployment rates, as well as more specific recommendations focused on the design of social assistance policies and on activating particular target groups of unemployed/inactive persons. Well-designed and implemented activation policies can play a role in promoting efficient labor markets, reducing benefit dependency, and making social assistance more adequate for those who need it most. A complex approach would be needed to ensure that all components of the social protection system are working in the same direction with the goal of increasing equity and providing opportunity.

Address structural constraints that may impede job creation and labor mobility

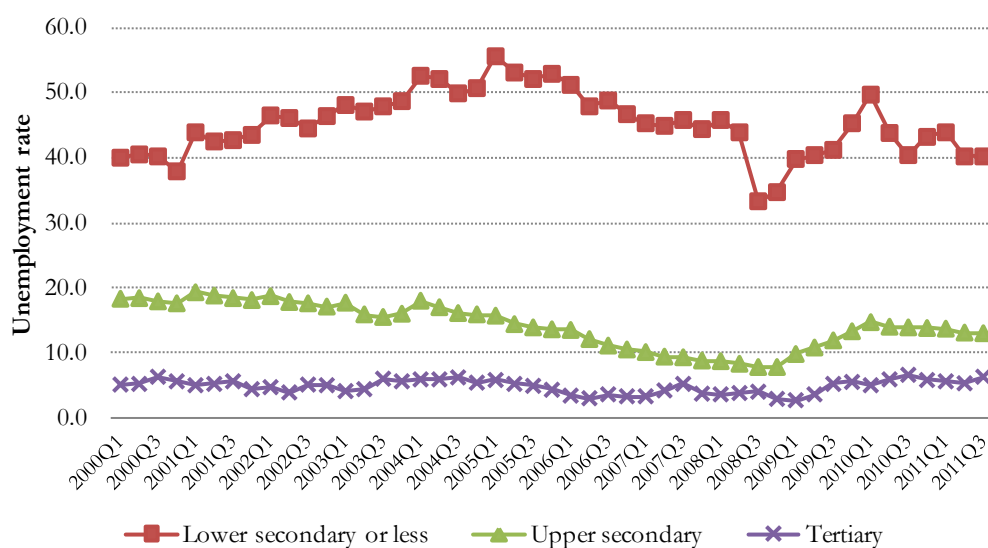
Facilitate job creation to have a first order impact on the high unemployment rates in certain parts of the country. One of the striking features of the Slovak Republic is the geographic dispersion in economic activity, unemployment and poverty rates. The process of economic transition exacerbated regional inequality. Given such dispersion in economic activity, as well as in poverty and employment rates, it is important to (a) facilitate job creation in lagging regions; and (b) facilitate labor mobility within the Slovak Republic. Policies that guarantee macroeconomic stability; improved business climate; promote healthy competition; and provide incentives to innovate, are key for increased job creation. Internal migration is low in the Slovak Republic and has fallen over time (Paci et al 2007). Mobility rates are similar to Southern European countries, and to neighboring countries, such as Hungary and Poland. Among the current instruments of the active labour market policy that support labor mobility of jobseekers is the allowance for commuting to work, allowance

for moving house for the sake of employment⁶⁰ and allowance for transport to employment.⁶¹ However, there is low take-up of such allowances, and the work, at best, at the margin, in increasing movement to economically prosperous areas. Provision of affordable housing in prosperous regions can facilitate employment of individuals likely to earn lower wages in such regions. Decreasing the level of segregation among socially excluded communities could help residents access employment opportunities.

Address quality of education and skills for incoming labor cohorts

Invest in good quality education for *all* individuals in the Slovak Republic to lower unemployment rates and increase internal mobility. Unemployment rates and inactivity rates are much higher for those with a primary (or lower) education compared to those with upper secondary (and higher) education (Figure 33). In the Slovak Republic, education is of particular relevance for the Roma community (See Box 6 for further details)

Figure 33: Unemployment rates by education



Source: Eurostat, Staff calculations.

⁶⁰ The entitlement to this allowance is conditional upon the change of permanent residence in connection with employment, with the minimum distance of the new place of permanent residence from the original permanent residence being 50 km.

⁶¹ In case the transport of employees to the place of employment is not ensured by public transport at all, or in a scope meeting the needs of the employer, the employee may be provided allowance for transport to employment, if the employer secures daily transportation of employees to and from work.

Improve ‘equity’ through the social protection system

Make eligibility conditions less strict to increase access to the contributory unemployment benefit system. Eligibility for the contributory unemployment benefit is very strict; and hence protection against unemployment risk in the Slovak Republic is significantly less comprehensive compared to other EU Member States and OECD countries, both in coverage and in generosity. The qualifying contribution period for receiving the unemployment benefit is about 12 months in many EU member states and OECD countries—much lower compared to the qualifying period in the Slovak Republic.⁶² The Slovak Republic could consider easing conditions for eligibility, and could also consider making the duration of benefit receipt longer depending on contribution history.

Improve the coverage of the BMN program. In the Slovak Republic, less than one in five poor people receive the BMN. Coverage is low even among the extreme poor—only 41 percent of the individuals in the poorest five percent of the income distribution receive the BMN benefit. Increasing the coverage of the BMN to include a greater proportion of the poor is a priority. The EU-SILC survey can be analyzed to understand the characteristics of the poor who do not receive the BMN; and special surveys that focus on the poorer population can be designed to elicit the reason for poor coverage, and barriers to access to the benefit.

Alter the design of the BMN to ensure equitable treatment of families with children under 3 and those vulnerable due to illness. The income test for the Benefit in Material Need includes disregards for work related income as well as for some transfers. For instance the first 25 percent of formal wage income is not counted for the income test. Similarly, income from pensions is partially disregarded, and the universal child benefit is fully disregarded. The parental benefit that a family with a child under 3 years of age receives is fully counted as income for the means-test, unlike the child benefit. Similarly sick leave compensation is also fully counted as income. This represents an inconsistency in the design, leading to less favorable treatment of poor families with children under the age of 3, as well as families who are more vulnerable due to sickness. The small proportion of families with children among recipients of the BMN could be the unintended consequence of this design feature.

Increase the coverage of those affected by “severe housing deprivation.” One of the current supplemental allowances to the BMN is the housing allowance. About half of current BMN beneficiaries receive the housing allowance supplement. Eligibility for this allowance depends on the means-test, but is also conditional on families living in legally built, owned and rented housing. This condition prevents some of the most vulnerable people in the Slovak Republic – Roma living in illegal housing or in shacks – from receiving the housing benefit. For instance, according to the

⁶² See Annex 1 in World Bank (2011) for details.

survey conducted by UNDP, 40 percent of Roma living in ‘mixed’ neighborhoods⁶³ receive the housing benefit. Only 27 percent of Roma in ‘segregated’ neighborhoods⁶⁴, and 28 percent in ‘separated’ neighborhoods⁶⁵ receive housing benefits. Further, eligibility for the housing benefit also requires that the family should have paid all property taxes, rent, municipal and maintenance fees before receiving the benefit. Measures to assist the poor who may be lagging behind in such payments, which would increase the equity in accessing the housing allowance, are lacking.

Consider increasing the amount of the contributory unemployment benefit and the basic BMN. Benefit generosity is not high in the Slovak Republic. The net replacement rate of contributory unemployment benefits in the first year of the unemployment spell is 37.9 percent⁶⁶--the second lowest among OECD countries. The basic Benefit in Material Need is also not very generous; the transfer amount ranges between 24 and 32 percent of the subsistence minimum, based on family size. Currently, beneficiaries of BMN in the Slovak Republic are some of the worst off among OECD countries (Figure 24).

Improve ‘promotion’ through the social protection system

Benefit generosity of the BMN and unemployment benefits in the Slovak Republic is not excessive, alleviating some concerns of dependency. The evidence from OECD countries suggests that benefit size is a key determinant of labor force participation: eight out of eleven studies reported a negative association between benefit size and labor force participation decisions.⁶⁷ Thus, setting the optimal benefit size is a key tool for policymakers in balancing the adequacy of social assistance transfers and the beneficiaries’ incentives to work. Benefit generosity of the minimum income benefit (the BMN) is not high in the Slovak Republic. The percentage of the population that lives in households with low work intensity⁶⁸ is quite low in the Slovak Republic – at about 5 percent of the population—although there was a slight uptick in 2010 (EU 2012). This provides some indirect evidence that the number of households that depend completely on social transfers is not very large in the Slovak Republic.

Include family members above the age of 25 in the joint assessment of household eligibility for BMN to reduce incentive issues. The primary objective of the Benefit in Material Need is poverty alleviation. In most countries, families become eligible for the poverty-targeted benefit on

⁶³ Those living mixed in a town or village, i.e. among the majority population.

⁶⁴ Those living in a settlement at a distance from a town or village or separated by some barrier.

⁶⁵ Those living concentrated in a certain part of a town or village on its outskirts or within it.

⁶⁶ Based on 2009 policy parameters; see Annex 1 in World Bank (2011) for details.

⁶⁷ Lemieux & Milligan, 2004; Barr et al., 2010.

⁶⁸ The indicator persons living in households with low work intensity is defined as the number of persons living in a household having a work intensity below a threshold set at 0.20. The work intensity of a household is the ratio of the total number of months that all working-age household members have worked during the income reference year and the total number of months the same household members theoretically could have worked in the same period.

the basis of the entire family's income. The treatment of individuals above the age of 25 who live with their family as a separate unit of assessment is somewhat unique to the Slovak Republic.⁶⁹ Given that about 70 percent of individuals between 18 and 35 years of age still live with their family in the Slovak Republic, it is not surprising that a large number of single claimants of prime working age are among BMN recipients. Access to the basic Benefit in Material Need for individuals aged 25 and above based on their own income, while they may have access to assets belonging to their family could pose some incentive issues. The Slovak Republic should consider potentially changing the design of the BMN to jointly assess all members of a family as a single unit, regardless of the age of any single member.

Increase expenditure and improve evaluation of active labor market policies (ALMPs). In spite of persistent labor market problems, spending on active labor market policies (ALMPs) has been modest in the Slovak Republic (Figure 27). Moreover, current targeting of the ALMP measures and functioning of PES could be improved to address the more salient problems in the labor market. A closer link between active labor market policy and social assistance policy is needed, particularly in light of the recent crisis. ALMP measures are often duplicated, and there is a lack of monitoring and impact- and effectiveness-evaluation of the applied tools.

Tie job search allowance to job search behavior. One of the active labor market programs in place, and that which is most likely made available to beneficiaries of the BMN, is the small municipalities activation works. There is very little evidence that this active labor market program improves the labor market opportunities of BMN recipients—and there is some evidence that it crowds out regular low-skilled employment, as some municipalities depend on the availability of this free labor. Given that a large percentage of beneficiaries of the BMN are single individuals and many of them are young, a job seeker's allowance that requires active job search efforts could be considered as an alternative to the *activation* allowance—at least for some proportion of the target group. Instead of providing additional support through activation works, a job search allowance would be tied to job search behavior. The job search allowance would not replace the basic Benefit in Material Need (as that is constitutionally mandated to be unconditionally given). But it could potentially replace activation works—which do not necessarily increase employability—with job search and other activities that could improve matching in the job market. Close monitoring by public employment services (or privately engaged providers) would be necessary.

Improve existing instruments to “make work pay.” Currently there are three main “in-work” benefits: (1) the activation allowance of €63.07 per month given to those who move from long-term unemployment to employment; (b) the employee tax-credit, of a maximum of €50.34 annually; and (c) a child credit of €20 per child per month. Analysis of the effective tax rates at various transitions

⁶⁹ This is a legacy of the historic design of the Benefit in Material Need – before 2003 eligibility for this benefit was determined on the basis of individual income and not household income.

at the low end of the labor market, such as from long-term unemployment or inactivity to full-time minimum wage job, strongly points to the weaknesses of the current instruments to “make work pay.” For example, the activation allowance is time limited. The time limit itself is not necessarily an issue, as unlimited in-work benefits can create disincentives to increase effort and earnings. However, studies suggest that a relatively short time limit (e.g. up to 6-12 months) is unlikely to provide time for wage progression to result in self-sufficiency and could be counterproductive (OECD 2005). Moreover, the employee tax credit is not sufficient to substantially reduce social security contributions paid at low wage levels. And, a €20 per child per month tax credit for children is not available to singles and childless families who form the majority of the BMN beneficiaries. Thus, the current “make work pay” instruments do not necessarily cover potential costs in entering the labor market; some individuals and families may face low incentives to take up low paid jobs. A system of incentives to reward work through in-work benefits could be implemented. The time limit on the activation allowance could be extended. A robust earned income tax credit could provide income support to poor working individuals and families. Such a scheme could be an effective way to increase labor supply if complemented by efforts to increase labor demand and measures to improve employability of low-skilled individuals.

Pay careful attention to incentive issues related to the parental benefit and to early retirement and disability pension schemes. The profiling exercise outlined in Part IV of this paper indicates that some with recent attachment to the labor market have become inactive and may be depending on ‘inactive’ transfers. For instance, Category 2 in the profiling exercise includes about 122,000 individuals who are newly unemployed, with work experience, are older (aged 45 to 59) and mostly in disability status. About 80 percent of individuals in this Category receive disability benefits. Similarly, 97 percent of individuals in Category 3 (which is of similar size to Category 2) describe themselves as being in early retirement. About 47,500 women (Category 6) are highly educated, with recent work experience, but inactive. More than 70 percent of women in this category receive the parental benefit. These individuals may be incentivized to remain inactive by the structure of the benefit system.

Increase institutional capacity of Public Employment Services (PES)

Complete integration of employment services and social assistance needs. Currently employment services and social assistance are co-located, but their actual interaction is limited to file sharing. The work of the two units *vis-à-vis* the client is carried out separately. Moreover, no special attention is given to the placement of BMN recipients on the open labor market. To ensure the merger is an efficient one stop-shop the different social and employment services in the work organization should be integrated in order to implement a case management approach. Alternative approaches to integration of these services, and experience of other countries is provided in Box 7. Case management allows for a more efficient treatment of the unemployed with multi-faceted barriers to employment, and avoids shifting the jobseekers with multiple barriers to employment

from one institution to the other.

Re-assess staffing in labor offices given the workload and caseloads. The cuts in staff and the rise in the number of jobseekers have led to nearly a doubling of caseload per employment service staff member between 2006 and 2011. Regional disparities in the labor market situation have also led to considerable differences in the workload across labor offices in the Slovak Republic. Administrative tasks absorb about 50 percent of the labor office staff time, leaving only 50 percent of the workday devoted to interaction with clients. Evidence from other countries suggests that a reasonable caseload is an important factor for the effective delivery of services. A pilot project in German labor offices showed that an improvement of caseload (1:70 per case worker) has helped to reduce unemployment duration. Similar results were observed in the case of the Netherlands (Konle-Seidl 2011). Moreover, caseload is ideally lower for those caseworkers servicing hard-to-place jobseekers.

Secure funding for effective labor market programs through increased absorption of European Structural Funds. Active Labor Market Programs are almost fully financed through the European Social Fund. The Slovak Republic lags behind in the absorption of these funds in relation to other EU new member states. It would be advisable to review and simplify the current administrative requirements for the allocation of EU Structural Funds. Currently, internal rules concerning advance payments and size of projects make it difficult for smaller NGOs to apply for funds. Moreover, funding delays and shortages force Labor Offices to decrease the availability of some active labor market measures and lead to inefficiencies and *ad hoc* changes.

Increase and facilitate the outsourcing of some PES services to non-state providers. While a framework exists for outsourcing employment services, these possibilities have not been highly used. If outsourcing were used more for activating and placing highly disadvantaged jobseekers, it would be important to develop an effective subcontracting system. Adopting a payment system for outsourced services that differentiates by the type of jobseeker and their difficulty in being placed, rewarding placement into the open labor market (if needed after participation in a measure) and taking sustainability of the job into account, are all important in a subcontracting system.

Improve the profiling of clients to shift to a differentiated and more targeted treatment of jobseekers. In 2009 a Three-Zone System which profiles clients of the PES into three groups, based on the degree of labor market barriers and the level of personal motivation, was introduced in the Slovak Republic. The applied profiling system is clearly a positive shift to a differentiated and more targeted treatment of jobseekers. Nevertheless, BMN recipients are not given preferential treatment with respect to placement on the labor market. Given that BMN recipients are typically less ready for jobs in the open job market the end result is that equal treatment of all PES clients implies that BMN beneficiaries could be prioritized against. Additionally:

- Profiling of job-seekers is less comprehensive compared to many other EU Member States and OECD countries. The profiling does not explicitly take into account BMN recipient status. Evidence from other European and OECD countries suggest that a good statistical profiling model not only contains hard factors such as length of unemployment, prior work experience and formal qualifications but also “soft” factors such as motivational aspects, health and social networks as well as the regional labor market conditions.
- When a vacancy is being filled, requirements of the job are considered first and because they typically require higher levels of education and skills, many of the BMN recipients and disadvantaged jobseekers are left with less competitive advantage and ultimately excluded.
- Labor offices do not undertake vacancy search targeted at hard-to-place clients or promotion of disadvantaged jobseekers when in contact with employers.

Adopt and ‘train-first’ and not a ‘work-first’ strategy for disadvantaged youth with low skills.

The design of the work-first strategy permitting young school leavers at the age of 16 to become involved in activation work and to earn their first income from work in the form of the activation allowance sets wrong incentives for low-skilled young people of very disadvantaged social backgrounds, in particular among the Roma community. Instead, incentives should be directed towards a “train-first strategy” to make sure highly disadvantaged young people get basic education and some vocational training. Evidence from other countries as well as from the international literature strongly indicates the need for developing an integrated approach, including education and training, in order to tackle unemployment of low-skilled youth. Low-skilled unemployed young people should be offered opportunities to receive more education in second-chance-schools, combined with the possibility to acquire work experience in a firm.

Improve the quality of data collected, increase accessibility to such data, and improve the conversion of data into ‘relevant information’ to enable evidence-based policy making

Improve survey quality as well as information collection on social benefits through surveys.

The Statistical Office of the Slovak Republic conducts many surveys – the household budget survey and the EU-SILC survey on an annual basis, and quarterly labor force surveys. The household budget survey has an outdated module on social benefits that reflects the structure of benefits that existed prior to the 2004 reforms, and cannot be used for analysis of performance of social assistance. The EU-SILC survey does collect relevant social benefits information, though the module can be improved further – for instance, it would be interesting to collect information on activation benefit receipt at an individual level rather than household level to see whether more than one individual receives the activation allowance within a household. Of greater concern is the coverage of poor and marginalized households by this survey. For instance, the EU SILC survey shows dramatic declines in the number of beneficiaries of the BMN program from 2005 to 2009; as well as decline in the budget (as computed by multiplying the BMN allowance per receiving household as captured in EU-SILC and weighting it). Administrative data do not show such trends

(see Annex 1 in World Bank (2012a) for more details). The labor force survey includes a question on ethnicity and enables some analysis of barriers faced by various ethnic groups in the labor market – however this survey does not collect information on wages; further the information collected on social benefits is fragmented (the survey includes a question on the activation allowance, but not on receipt of the basic benefit in material need). Improving the modules and questions on social benefits, including questions on ethnicity, and improving the coverage of poorer households as well as households in marginalized communities would enable better analysis and improve the quality of information available on social benefits.

Improve the quality and organization of and accessibility to administrative data.

Currently, there are two separate administrative databases: one containing information about job-seekers and participants in ALMPs and the other on the beneficiaries of the Benefit in Material Need and other non-contributory social benefits. Both sets of data are collected from regional labor offices and maintained by CoLSAF, but matching data from the two databases is complicated. As a result, information about participation in ALMPs and benefit receipt is difficult to obtain. CoLSAF is in the process of introducing a new IT system which will integrate the two databases which should enable easier data sharing between the employment services and social assistance units in the labor offices. In addition, information on social security contributions as well as receipt of contributory benefits (unemployment benefit, pensions, etc.) is collected and maintained separately by the Social Insurance Agency (SIA). While theoretically the data from CoLSAF databases can be matched to the SIA records using unique personal identification numbers, in practice, it is currently not possible due to a lack of legal agreement between all the agencies involved (MoLSAF, CoLSAF and SIA) on sharing the data. Many OECD and EU countries provide such anonymized matched data for research purposes (in Denmark, for example, the statistical office provides anonymized data by combining information from administrative databases for approved research projects). Administrative data offers significant advantages compared to household survey data (larger sample sizes, fewer problems with attrition, non-response, and measurement error) and is, therefore, critical for credible policy evaluation (Card et al. 2010). It is, therefore, crucial that the Slovak Republic overcomes institutional challenges in improving the quality, organization and accessibility of administrative data available for research purposes to facilitate evidence-based policy-making.

Improve the conversion of data into ‘information,’ and particularly into ‘relevant information’ to further advance evidence-based policy making in the area of social benefits.

Labor offices in the Slovak Republic collect an immense amount of information, both on social benefits, as well as on the unemployed and on active labor market programs. Much of this data is organized in a manner that facilitates the production of regular reports in certain formats with certain standard tables. If one wants to access the data in a slightly different format, a specialized request often needs to be made to the private company that maintains the database. The turn around time for such requests can be as long as a month, and each request for specialized data extraction needs to be paid for. Improving the organization of data to facilitate looking at the data from many

different angles, and enabling easy access to multiple users, is a priority. An information system that scopes out what types of information policy makers would find useful, and facilitates the creation and reporting of appropriate information to appropriate levels of policy makers at appropriate times can help transform the vast quantity of administrative data collected into a fairly powerful information tool to enable policy making.

Pilot and evaluate the impact of any new (or existing) policy intervention. As the Slovak Republic continues to reform its social benefits system, it is important that both new and existing policy interventions are meaningfully evaluated. For instance, information exists on the percentage of participants in specific ALMPs who get jobs in the open labor market. However the quality of participants in the ALMP is not taken into account to see whether the job placements would have occurred regardless of the intervention. It is important to get information on the effectiveness, including cost-effectiveness of the various policy interventions that exist and that are proposed.

Box 7: Examples of integration of employment services and social assistance units

Local one-stop-shops were set up in **Norway** in 2006, merging former services of municipalities targeted to social assistance recipients and public employment services as well as services for people with disabilities. Two departments are set up in the one-stop shops: a common reception (UB claimants, other jobseekers, social assistance claimants) and long-term follow-up. The first department offers self-service and limited guidance to jobseekers and to employers. The second department 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. Most importantly, these different units and departments comprise of employees from all three of the former service. The head of the local offices are appointed after discussions between the regional/county heads of the common labor and social administration (NAV) and the mayors concerned which has resulted in a situation where one-third of the office directors are nominated and employed by the municipalities and two-thirds are civil servants employed by central government and a common leadership might also be possible. Although, integration of services is quite advanced in the work organization problems that needed more time to be resolved related to harmonization of IT systems, training of case workers as well as the integration of three different institutional cultures (Duell et al. 2009b).

In **Finland**, a reform of the Public Employment Services was implemented in 2004 and 2006. One major element of these reforms consisted in the setting-up of Labor Force Service Centers (LAFOS), for the hard-to-place unemployed, jointly staffed by municipalities who are in charge of processing social assistance and means-tested unemployment assistance and the Public Employment Services. This institutional reform resulted from a European pilot program on Territorial Employment Pacts. The LAFOS offer multi-professional services, including services from nurses, doctors, psychologists, debt advisors, social workers, training advisors and employment advisors. Most often employment opportunities in the intermediate labor market (subsidized work) are proposed, which aim to prepare disadvantaged groups to take up employment in the open labor market, but the LAFOS can use all Public Employment Services schemes. The LAFOS offices are either led by an Employment Office staff member or a municipality staff member and in some cases a rotating system is used (Duell et al. 2009a).

With the introduction of the means-tested Unemployment Benefit II – scheme in **Germany**, paid by the PES (while social assistance was and still is paid for those not employable by the welfare office of the municipalities), cooperation models between the municipalities and the local PES evolved. Although the first attempt for an institutionalization of the cooperation through the setting-up of “*Arbeitsgemeinschaften*” (ARGE) failed, as the Supreme Court declared it was against the constitution, a new form of cooperation between the local PES and municipalities could be set up after a change of the law (establishment of Jobcenters). The aim of providing a common framework for the different types of jobseekers has become a priority by applying new approaches for differentiating different target groups (König-Seidl 2011).

Annex 1: Terms of Reference for the Fee-Based Service on social benefits

Advisory Services. Except as the Recipient and the Bank may otherwise agree, the Bank shall perform the following Advisory Services:⁷⁰

- a) Expenditure benchmarking and Performance benchmarking of non-contributory cash transfers.

Deliverable: *Brief comparing expenditures and performance of social assistance cash transfers in the Slovak Republic to relevant countries in the EU and OECD. Workshop for staff of MoLSAF and MoF on expenditure and performance benchmarking.*

- b) Review of key design parameters and draft legislation for non-contributory cash transfers.

Deliverable: *Paper on design parameters including recommendations for improvements.*

- c) Assessment of implementation arrangements for non-contributory cash transfer programs.

Deliverable: *Paper on main implementation arrangements including recommendations for improvements, and ease of access/possible barriers for minority groups.*

- d) Analysis of the incentive structure created by the benefit system, and profiling of beneficiaries of social assistance cash transfer programs (to the extent possible, given data quality) to understand potential barriers to employment and the types of enabling services needed to ensure greater probability of success of activation programs.

Deliverable: *Brief on incentive effects of benefits system, and on other barriers to employment, including recommendations on enabling services that could improve employability of beneficiaries.*

- e) Proposals for improving performance of social assistance cash transfers, including striking an effective balance between promoting labor force participation and providing adequate social protection.

Deliverable: *A final paper summarizing in-depth analysis and including recommendations on design and implementation so as to achieve both the 'protection' and 'promotion' goals of social assistance. Subject to the Recipient's agreement, a joint workshop organized to disseminate the results of the analysis and proposals with participation from government, academia, policy circles, and other interested stakeholders.*

- f) Develop detailed and disaggregated poverty map using latest census and survey data.

Deliverable: *Poverty Map as well as ongoing capacity building on micro-simulation and poverty mapping tools.*

⁷⁰ All Deliverables shall be in English language.

Annex 2: Methodology for benchmarking performance of social assistance transfers

Data from the 2008 European Union Statistics on Income and Living Conditions (EU-SILC) is used to assess the performance of social assistance programs in the EU countries. Using household survey data has its limitations. While household surveys, unlike administrative data, allow estimation of incidence of transfers for different socio-economic groups, using this data does not come without limitations. Some social assistance transfers are captured by surveys, while others are not. In particular, many in-kind transfers may not be included in survey questionnaires. Even if they are included, estimating the value of such in-kind transfers may be problematic. Consequently, the performance analysis focuses mostly on cash social assistance only.

The extent to which information on specific transfers is captured in the household surveys can vary across countries. It is assumed here that the EU-SILC national questionnaires capture existing transfers reasonably well in all EU countries⁷¹. However, even then some under- or mis-reporting of income received from social protection transfers may exist.

Furthermore, using aggregate EU-SILC data available for all EU countries restricts the depth of the analysis to a significant extent. The EU-SILC data has many advantages as it provides comparable cross-country data on household incomes, economic status, labor market participation and so on. However, information on benefit receipt is significantly aggregated in the data that is widely available to users. In particular, information on benefits is not recorded in accordance with EU's functional classification and without making a distinction between contributory and non-contributory, means-tested or non means-tested, transfers. For the purposes of the analysis an approximate breakdown of available benefit types was made (Figure A).

Figure A: Approximate breakdown of social benefits in EU-SILC



Source: World Bank Staff.

⁷¹ This is definitely the case for Slovak national questionnaire to which the World Bank team has access to.

Annex 3: Implementation of all ALMP measures in 2011

ALMP tool (applicable paragraph of the Act on Employment Services in parenthesis)	Agreed number of jobs, or jobseekers, or employees or the number of allowances provided	Total agreed/awarded (euro)
Increasing employability		
Education and training for the labor market of a job seeker and a job changer (§ 46)	1,333	185,127.38
Benefit during education and training for the labor market for the labor market integration (assertion) of a disabled person (§ 48b)	1	926.9
Allowance for induction of a disadvantaged jobseeker (§ 49a)	200	113,325.82
Allowance for the performance of a school graduate's work experience (§ 51)	18,117	18,211,940.35
Allowance for an activation activity (in the form of minor municipal services for a municipality or taking the form of minor services for a self-governing region) (§ 52)	23,132	4,444,574.30
Allowance for an activation activity (in the form of voluntary service) § 52a	5,775	5,859,176.54
Supporting safeguarding of employment and creating new jobs/employment		
Education and training for the labor market of an employee (§ 47)	-	0
Allowance for self-employment activity (§ 49)	12,075	41,386,141.05
Allowance for employment of a disadvantaged jobseeker (§ 50)	525	1,201,086.16
Allowance to support low-wage employees in staying in employment (§ 50a)	4,353	18,599,256.79
Allowance to support the creation and safeguarding of jobs in a social enterprise (§50b,c)	334	1,977,958.90
Allowance supporting employment of graduates education and training for the labor market (§ 51a);		0
Allowance for commuting to work (§53)	17,370	6,905,399.19
Allowance for moving house because of employment (§53a)	55	55,221.90
Allowance for transport to employment (§53b)	20	1,134.00
Preparation for employment assertion of a citizen with disabilities (§ 55a)	-	0
Allowance to set up a sheltered workshop and a sheltered workplace (§56)	2,373	20,208,782.88
Allowance to retain a disabled citizen in employment (§56a)	384	837,028.96
Allowance to a citizen with disabilities for the operating or carrying out self-employment (§57)	548	4,876,522.70
Allowance for modernization or technical appreciation of tangible property of a sheltered workshop or a sheltered workplace (§ 57a)	-	0
Allowance for the activity of an occupational assistant (§59)	545	3,548,408.35
Allowance to reimburse operating costs of a sheltered workshop or a sheltered workplace and to reimburse transportation costs of employees (§60)	20,814	13,272,596.01

Projects

Pilot projects (§54)	114	131,080.80
Anti-crisis measures		
Allowance to support safeguarding of employment (§50d) – effective until 31 December 2011	944	566,294.12
Allowance to support regional and local employment (§50i) – effective until 31 December. 2011	3,588	11,659,173.87
Allowance to support employment to implement measures for the protection against floods and the solution of consequences of an emergency (§50j).	10,836	30,422,069.34
TOTAL	123,436	184,463,226.31

Source: CoLSAF.

Annex 4: Latent Class Analysis: Methodology and Results

Methodology

Latent Class Analysis (LCA) enables a characterization of categorical *latent* (unobserved) variables from an analysis of the structure of the relationships among several categorical *observed* variables. LCA is thus "the classification of similar objects into groups, where the number of groups, as well as their forms are unknown" (Kaufman and Rousseeuw, 1990). The method was originally conceived of as an analytic method for survey data. As an exploratory technique, LCA can be used to reduce a set of several categorically scored variables into a single latent variable with a set of underlying types or "classes". As a confirmatory method, the latent class model can be used to test hypotheses regarding the researcher's a priori assertions about the structure of the relationship among the observed variables. In this section, LCA was used as an exploratory technique to create the optimal number of groups of non-working individuals with the most similar characteristics.

The LCA model can be seen as a probabilistic or model-based variant of traditional non-hierarchical cluster analysis procedures such as the K-means method. Contrary to traditional ad hoc clustering approaches, the LC approach to clustering is model-based. The fundamental assumption underlying LCA is that of *local independence*, which states that observations (non-working individuals in our case) in the same latent class share a common *joint probability distribution* among the observed variables. Since persons in the same latent class (cluster) cannot be distinguished from each other based on their observed responses, they are similar to each other (homogeneous) with respect to these observed variables. Individuals are hence classified into the class for which they have the highest posterior probability of belonging, given their observed characteristics.

LCA is thus most similar to the K-Means approach to cluster analysis in which cases that are "close" to one of K centers are grouped together. In fact, LCA can be viewed as a probabilistic variant of K-Means clustering where probabilities are used to define "closeness" to each center. As such, LCA provides a way not only to formalize the K-Means approach in terms of a statistical model, but also to extend the K-Means approach in several directions: flexible distance to the center of the cluster, determination of the optimal number of clusters, inclusion of categorical and continuous variables, and inclusion of exogenous variables. First, while K-Means uses an ad-hoc distance measure for classification, the LC approach allows cases to be classified into clusters using model based posterior membership probabilities estimated by maximum likelihood (ML) methods. Second, LCA provides various diagnostics such as the BIC statistic, which helps determine the number of clusters. Third, while K-Means clustering is limited to interval scale quantitative variables, for which Euclidean distance measures can be calculated, LCA can be performed on variables of mixed metrics (continuous, categorical (nominal or ordinal), or counts or any combination of these). Fourth, the LCA model can be easily extended to include exogenous variables (covariates).

The LCA model with covariates can be written as:

$$f(y_i | z_i) = \sum_k p(x=k | z_i) f(y_i | x=k)$$

where y_i is a vector of dependent (endogenous) indicators for individual i , z_i is a vector of independent (exogenous) covariates for individual i , x is a nominal latent variable (and k denotes a class, $k=1,2,...,K$), and $f(y_i | x=k)$ denotes the joint distribution specified for y_i given latent class $x=k$.

For continuous y_i , the multivariate normal distribution is used with class-specific means. In addition, the within-class covariance matrices can be assumed to be equal or unequal across classes, and the local independence assumption can be relaxed by applying various structures to the within-class covariance matrices. For variables of other/mixed scale types, local independence among the variables imposes restrictions on second-order as well as to higher-order moments.

For this section, the non-working population of the Slovak Republic is the population of interest, and was restricted to individuals aged 18 to 59, not working, or having worked less than two months over the past 12 months, minus students aged 18 to 24. Age, gender, status of unemployment/inactivity, ability to start job immediately, work experience, educational level, and disability status represent the *observed covariates* and are used to predict non-working status. In addition to these active covariates, exogenous variables were included in the model, such as income quintile, whether the household was receiving BMN, parental disability benefits and unemployment benefits, the household size, the spouse activity status, intensity of work at the household level, and geographic indicators. According to the BIC statistic, the optimal number of classes was determined to be 7.

These clusters are the following:

Cluster1	Cluster2	Cluster3	Cluster4	Cluster5	Cluster6	Cluster7
Newly unemployed, with work experience	Newly unemployed, with work experience – older individuals (45-59 yo), mostly disabled	Newly unemployed, with work experience – older individuals (55-59 yo), mostly female, in early retirement	Inactive women with marginal work experience	Young unemployed, without work experience	Well educated, young, inactive women with children	Less educated individuals who have never worked (18-44 yo)

Table 1: LCA Results

		Cluster 1	Cluster 2	Cluster 3	Cluster 4	Cluster 5	Cluster 6	Cluster 7
	Latent class prevalences	0.31	0.18	0.18	0.12	0.09	0.07	0.05
Indicators								
Self-defined status of economic activity	Unemployed	0.96	0.06	0.00	0.18	0.92	0.00	0.21
	Retired, early retirement	0.00	0.10	0.97	0.00	0.00	0.00	0.00
	Disabled incapable of working	0.00	0.82	0.01	0.00	0.01	0.00	0.56
	Other inactive person	0.03	0.02	0.02	0.82	0.08	1.00	0.23
Actively looking for a job	Yes	0.89	0.03	0.01	0.05	0.88	0.00	0.03
	No	0.11	0.97	0.99	0.95	0.12	1.00	0.97
Work experience	Individual has worked >2 months last year	0.51	0.06	0.14	0.00	0.00	0.57	0.00
	Individual worked, but not >2 months last year	0.49	0.93	0.85	0.83	0.00	0.43	0.01
	Individual has never worked	0.00	0.01	0.00	0.17	1.00	0.00	0.99
Education	Primary/Lower secondary	0.14	0.13	0.14	0.12	0.15	0.02	0.71
	(Higher) secondary	0.77	0.77	0.77	0.77	0.77	0.57	0.29
	Post-secondary and higher	0.09	0.10	0.09	0.10	0.08	0.41	0.00
Restrictions due to health problems	Yes (Very limited functionality)	0.06	0.59	0.14	0.03	0.03	0.01	0.41
	No (Not limited or somewhat limited)	0.94	0.41	0.86	0.97	0.97	0.99	0.59
Gender	Male	0.56	0.50	0.14	0.08	0.56	0.00	0.47
	Female	0.44	0.50	0.86	0.92	0.44	1.00	0.53
Age	18-24	0.14	0.00	0.00	0.11	0.81	0.07	0.35
	25-34	0.25	0.03	0.00	0.44	0.16	0.80	0.39
	35-44	0.24	0.15	0.00	0.20	0.03	0.12	0.20
	45-54	0.29	0.49	0.01	0.24	0.00	0.00	0.04
	55-59	0.08	0.33	0.99	0.00	0.00	0.00	0.01

		Cluster 1	Cluster 2	Cluster 3	Cluster 4	Cluster 5	Cluster 6	Cluster 7
Covariates								
Quintiles	1	0.42	0.32	0.15	0.43	0.55	0.20	0.42
	2	0.14	0.25	0.23	0.19	0.18	0.22	0.26
	3	0.18	0.20	0.24	0.17	0.10	0.24	0.19
	4	0.15	0.16	0.20	0.13	0.11	0.13	0.09
	5	0.11	0.07	0.18	0.08	0.06	0.21	0.04
Benefit in Material Need (household level)	Yes	0.26	0.07	0.04	0.11	0.21	0.01	0.27
	No	0.74	0.94	0.96	0.89	0.79	0.99	0.73
Parental benefit (household level)	Yes	0.11	0.04	0.04	0.53	0.17	0.72	0.24
	No	0.89	0.96	0.96	0.47	0.83	0.28	0.76
Disability benefit	Yes	0.03	0.79	0.08	0.20	0.02	0.03	0.51
	No	0.97	0.21	0.92	0.80	0.98	0.97	0.49
Unemployment benefit	Yes	0.18	0.02	0.01	0.02	0.09	0.00	0.04
	No	0.82	0.98	0.99	0.98	0.91	1.00	0.96
Family size	Mean	4.15	3.32	3.02	4.76	5.51	4.32	5.22
Type of family	Single, no children	0.09	0.12	0.11	0.01	0.00	0.00	0.02
	Single, 1+ children	0.00	0.01	0.00	0.02	0.00	0.01	0.00
	Two+ adults, no children	0.47	0.66	0.72	0.25	0.45	0.05	0.57
	Two+ adults, 1-2 children	0.34	0.18	0.14	0.54	0.39	0.82	0.24
	Two+ adults, 3+ children	0.10	0.04	0.02	0.19	0.15	0.13	0.17
Economic activity of spouse	Employee/self-employed/retired	0.37	0.49	0.64	0.65	0.04	0.84	0.11
	Unemployed/inactive	0.17	0.14	0.07	0.13	0.11	0.03	0.12
	Not married	0.46	0.36	0.28	0.22	0.85	0.13	0.77
Household work intensity	Adults(18-59) have worked >20%	0.82	0.65	0.68	0.85	0.79	0.99	0.61
	Adults(18-59) have worked <20%	0.18	0.35	0.32	0.15	0.21	0.01	0.39
Urban density	Dense	0.17	0.20	0.25	0.19	0.22	0.31	0.28
	Average	0.26	0.29	0.31	0.41	0.25	0.31	0.34
	Sparse	0.56	0.51	0.44	0.40	0.52	0.39	0.37
Region	Bratislava	0.06	0.06	0.10	0.08	0.05	0.09	0.03
	Western Slovakia	0.33	0.35	0.34	0.36	0.26	0.40	0.34
	Central Slovakia	0.24	0.26	0.25	0.27	0.22	0.28	0.21
	Eastern Slovakia	0.38	0.33	0.31	0.30	0.47	0.23	0.42

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