

State's activity in bringing the unemployed to the labour market

Do all of the unemployed get the help they need?

Report of the National Audit Office to the *Riigikogu*,
Tallinn, 4 October 2012

Summary of audit results

Considering the increasing need for workforce in the coming years and the state's goal to achieve the highest possible employment rate, the National Audit Office evaluated whether the current system of supporting the unemployed:

- manages to solve the problem of structural unemployment (incompliance of the skills of the unemployed and the needs of employers);
- prevents people becoming long-term unemployed or disillusioned; and
- helps as many unemployed as possible.

The state is obliged to guarantee people with assistance if they lose their jobs, and to help jobseekers find work. The Labour Market Board and the Estonian Unemployment Fund were merged for this purpose in 2009. The change resulted in the establishment of an agency whose primary task is to increase employment, improve people's ability to cope, guarantee adequate social protection for the time when the person is looking for work, and provide need-based assistance. The state intends to spend ca. 146 million euros on supporting the unemployed in 2012.

The population of Estonia is decreasing and aging. Forecasts indicate that the share of people aged 65 and over will increase from the current 17% to approximately 22% by 2025. In the coming years the population will decrease mainly on the account of working-age people (15-64). According to forecasts we will have 73,000-88,000 fewer working-age people by 2025, and 100,000 fewer people 20 years from now. The initial results of the recently completed census suggest that we may have even fewer working-age people.

This demographic development means that the number of taxpayers is going to decrease and the number of people who need the state's support will go up. Social expenditure will comprise one-half of the total state budget expenditure by 2015, and it will increase by ca. 23% compared to 2011. This means that maintaining the current level of social security requires an increasing number of working people every year. This also means that it is necessary to increase the level of employment in these regions of Estonia, where it is currently below the Estonian average.

In addition to the need of maintaining social security, it is also important to guarantee an increase in the added value created by Estonian companies. This means that working-age people should, irrespective of the region or gender, be employed in enterprises that generate as much added value as possible, and which require people with good skills and knowledge.

Unemployment in Estonia has been high in recent years. The high unemployment rate and shortage of jobs during recession lengthened the time it takes to find a job. The share of long-term unemployed among all unemployed has remained large for several years. Structural unemployment, which means that the skills, qualifications and place of residence of the unemployed do not meet the needs of companies, also increased during the recession.

The National Audit Office is of the opinion that the current system for supporting the unemployed needs to be changed, because it does not help solve the problem of structural unemployment, prevent long-term unemployment or provide assistance to all people who need it.

Although Estonia has reacted flexibly to the changes occurring on the labour market in an unstable economic situation and set ambitious goals in labour and social policy, the National Audit Office is of the opinion that the current system for supporting the unemployed does not allow the state to achieve a high level of employment in the future due to the following reasons:

- **The problem of structural unemployment cannot be solved with the present system, because the labour market measures and their implementation do not promote retraining of the unemployed.** Although the rate of unemployment is high and the number of applicants larger, most (98%) companies claim that finding qualified workforce is difficult or admit that only a few applicants are suitable. They cannot find the employees they need among the unemployed, because the education and skills of most unemployed people do not meet the actual workforce needs of employers. The options of retraining the unemployed, however, are limited. The training courses offered by the Unemployment Insurance Fund are usually short and do not promote the acquisition of a new vocation in the vocational or higher education system, because the unemployed would have to cancel their registration as unemployed in order to learn a new profession.
- **Only a few unemployed persons get help from the support system.** Although the Constitution stipulates that the state has to provide people with assistance in finding a job or in case they find themselves in need, only one-third of all registered unemployed received financial support and one-fifth received labour market services from the Unemployment Insurance Fund in 2011. The share of those who received financial support has decreased by almost two times in comparison to 2008. Many unemployed persons receive no financial support from the Unemployment Insurance Fund, because not all of them are eligible for support and not all unemployed persons are registered with the Unemployment Insurance Fund. The reason why some unemployed persons are not receiving services is that access to services is not guaranteed for all unemployed persons and eliminating the reasons that obstruct return to work is not a task of the Unemployment Insurance Fund. According to estimates, 63% of all unemployed persons were registered with the Unemployment Insurance Fund in 2011. In 2011, 16% of them received unemployment benefits and 18% received unemployment insurance benefits. 20% of registered unemployed persons on average received labour market services in a month in 2011.
- **The share of long-term unemployed among the unemployed is increasing.** The share of long-term unemployed has reached the highest level of the decade in the last two years. The proportion of long-term unemployed among all unemployed was 45% in 2010, but it increased to as much as 57% in 2011 irrespective of the increase in economic activity. There are several different reasons that make it difficult for the long-term unemployed to return to work (poor health, unfavourable place of residence, etc.), which cannot be eliminated simply by offering the present labour market services. Most unemployed are therefore facing coping difficulties, and the number of people who are having difficulties has grown alongside the increase in unemployment. More than a half (52%) of the unemployed persons were in great difficulties in 2011; 34% had some difficulties, and only 13% of unemployed persons coped on a satisfactory level.
- **The number of people who have lost hope of finding a job has increased. The Unemployment Insurance Fund does not deal with these people.** There were approximately 10,000 people in 2011 who had lost hope of finding a job. Their number has almost doubled in the last three years. As the Unemployment Insurance Fund has to deal with registered unemployed persons pursuant to law, then the state does not provide them with any services to help them find work. The risk that the number of people who have lost hope of

finding a job will increase is big, because the share of people among the unemployed who have been unemployed for two years and longer has already grown. Compared to 2007 the number of people who have been unemployed for two years and longer has increased 20%.

- **Unemployment reveals the regional problems that the state has been unable to solve.** The share of unemployed persons in total workforce is the biggest in Ida-Viru County and Valga County. In the last three years the share of the unemployed in these counties has been around 10 percent or higher. The share of long-term unemployed is also large in these regions. The audit indicated that problems in certain regions cannot be solved by the provision of labour market services alone. For example, the number of unemployed persons who received services in Ida-Viru County was considerably higher than the average, but only a little more than one-third of them had found employment. In the opinion of the National Audit Office, this shows that there are no jobs that suit the knowledge and skills of the people who have lost their jobs.

The National Audit Office advises to change the present support system to ensure that the state is able to prevent the potential social problems caused by a decrease in workforce and achieve better competition conditions.

Responses of auditees:

The **Minister of Social Affairs** thanks the National Audit Office for the suggestions made in order to improve and develop the provision of services and payment of benefits to the unemployed. The Minister agreed that labour market measures and related policy areas need constant development and adaptation on the basis of the situation on the labour market. The Ministry is currently working on a social code, which also stipulates the further development trends of national labour market services and unemployment benefits.

The **CEO of the Unemployment Insurance Fund** pointed out that the global financial crisis affected the labour market of Estonia more than the labour markets of other EU countries. The transfer of labour market services to the Unemployment Insurance Fund occurred at the time when the situation in Estonian economy was the most complicated. This meant that the Unemployment Insurance Fund had to find the best measures for supporting the unemployed and employers during the crisis; change the work principles, content and organisation of service provision in the labour market agency; updated technical solutions and client services; and create a united team all at the same time.

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