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Employment Research Institute

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**PROMOTING INVESTMENT AND INCREASING  
EMPLOYMENT AMONG THE ECONOMICALLY INACTIVE –  
A REVIEW OF BEST PRACTICE**

**Final report to the Department of Enterprise, Trade and  
Investment, Northern Ireland**

**Final Report November 2010**

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**Appendices 1-15 are in a separate Working Document**

## Executive Summary

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### Introduction

This report sets out the findings from a study into strategies that link the promotion of investment and the employment of economically inactive groups. The aim is to ascertain current practice in 10 relevant countries (Australia; Belgium; Denmark; Finland; Germany; the Netherlands; New Zealand; Slovenia; Spain; USA plus Great Britain) and their transferability to the Northern Ireland (NI) policy and labour market context. The study was carried out by the Employment Research Institute at Edinburgh Napier University on behalf of the Department of Trade, Enterprise and Investment in NI (DETI).

The study describes cases of good practice in securing investment in areas, sectors and occupations that provide accessible entry-level positions for economically inactive groups. It seeks to identify the 'critical success factors' common to effective strategies, drawing out lessons for future Northern Ireland policy.

In this study '*Investment*' includes foreign direct investment (FDI) and private investment that expands the 'export' capacity of the NI economy (i.e. excluding investment aimed at the NI market). '*Economically inactive*' people are those excluded or seriously at risk of exclusion from the labour market.

### Promoting Investment and Job Creation for the Inactive

This study has not found significant evidence of direct incentives to encourage investment that is specifically aimed at employing high levels of economically inactive groups. Indeed most participants in the study argue against such a link in general and target predominantly high-value added sectors and jobs.

There are some incentives tied to job creation, but these are not focused in the main on particular groups of jobseekers and workers. Only a minority of the case studies explored in this study obliged companies to employ specific groups of jobseekers. For instance, in the Basque Country any enterprise (including FDI) with more than 50 employees should have at least 2% of workers who are registered as disabled. However, enforcement of such policies is difficult.

### Linking Investment and Employment Policies for the Inactive

There are examples of indirect links between investment and job creation for the economically inactive. Employment agencies have a number of strategies to encourage the creation of employment and the integration of the economically inactive into the labour market. This can take the form of subsidies or quotas for employers. There are also opportunities for employing economically inactive in the social economy (potentially subcontracted from newly investing firms). Investors can be encouraged to use these incentives

and therefore, arguably, they indirectly link investment with the employment of the economically inactive.

Joint working between investment promotion and employment agencies (and employers) appears crucial if strategies for the greater employment of the inactive are going to be successfully implemented. There are some examples of fairly effective communication between these stakeholders and they do promote each other's services. Additionally any incentives and obligations that encourage the employment of economically inactive groups need to be closely monitored to ensure that the economically inactive feel the benefits and to reduce any displacement or deadweight effects.

### **Targeting Sectors**

Investment agencies often target certain sectors when promoting the investment opportunities in their country. Generally the focus is on high-tech and R&D activities. These high wealth generators in the main require a highly skilled workforce and do not always offer many opportunities to the economically inactive. With limited resources, a focus on high value added contact centres and other investors is more likely to meet DETI priorities such as improved productivity. Nonetheless whichever industries are targeted it needs to be ensured that the labour force has the skills required by industry.

### **Lessons for Northern Ireland**

This report considers the transferability of some strategies to the Northern Ireland policy and labour market context.

- There were no significant strategies to link investment and the employment of inactive people. It was the general view that the two should not be compulsorily linked as it may deter mobile investment.
- There are examples of good practice showing indirect links between investment and the access of the economically inactive to the jobs created.
- The emphasise of DETI is likely to be in terms of closer working with other agencies (e.g. the Department for Employment and Learning (DEL)):
  - To ensure they have suitable programmes to act as incentives for the employment of inactive people.
  - To market the employment support available from DEL to potential investors.
  - To ensure suitable training packages are available and tailored to the needs of investors.
  - To help gain the agreement of the investor to consider and use these programmes; and to encourage some sub-contracting to bodies who employ significant numbers of formally inactive people (including in the social economy).

- To improve co-ordination, for example through regular action orientated meetings between DETI, DEL and employers to discuss forthcoming and potential investments so that flexible provision of training support can be made.

Of course any body promoting investment is in a highly competitive market and the fine balance between attracting or losing an investor must always be considered.

## **Recommendations**

### **Targeting Sectors**

- With limited resources, a focus on high value added investments, including high value added contact centres, is more likely to meet DETI priorities such as improved productivity and value added, and potentially indirectly open opportunities for the inactive.

### **Linking Investment Agencies and Employment Agencies**

- DETI may consider explicitly marketing training and employment support available through DEL for different groups, such as the inactive, when the [www.nibusinessinfo.co.uk](http://www.nibusinessinfo.co.uk) website is re-launched. It may be useful to consider the Flemish website when designing the relaunch.
- When considering potential employment subsidies, the Hamburg model, of wage subsidies for those with inadequate skills, may be worth further investigation by DEL.

### **Training and Skills Development**

- DETI should continue to work with DEL and local training and skills development bodies to ensure that suitable training and work readiness packages are available to tailor to the needs of investors. Consideration might be given to how these programmes can better be adapted to, and marketed to, potential inward investors.

### **The Social Economy and Intermediate Labour Market Enterprises**

- DETI could investigate working with DEL to identify the opportunities of encouraging investors to consider using Intermediate Labour Market type enterprises as suppliers to investors (e.g. enterprises that provide work experience for disadvantaged people, including the inactive). The Basque country examples may be worth further consideration.

### **Joint Working**

- To improve co-ordination - for example through regular action orientated meetings between DETI, DEL and employers to discuss forthcoming and potential investments so that flexible provision of training support can be made. The New Zealand regional examples may be worth further consideration.

## 1 Introduction

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- This chapter introduces the report and sets out the aims, background, methodology and outline of the report.
- It defines what is meant by the terms 'investment' and 'economically inactive' for the purposes of this report.
- The aim is to ascertain current practice in linking the promotion of investment and the employment of economically inactive groups in ten countries and their transferability to Northern Ireland.

### 1.1 Introduction and overview

This report sets out the findings from a study into strategies that link the promotion of investment and the employment of economically inactive groups. The aim is to ascertain current practice in 10 relevant countries (Australia; Belgium; Denmark; Finland; Germany; the Netherlands; New Zealand; Slovenia; Spain; USA plus Great Britain) and their transferability to the Northern Ireland (NI) policy and labour market context. The study was carried out by the Employment Research Institute at Edinburgh Napier University on behalf of the Department of Enterprise, Trade and Investment in NI (DETI).

The study describes cases of good practice in securing investment in areas, sectors and occupations that provide accessible entry-level positions for economically inactive groups. It seeks to identify the 'critical success factors' common to effective strategies, particularly drawing out lessons for future NI policy, and identifying particular lessons for policy. It makes specific recommendations and discusses how future jobs growth strategies might learn from examples from abroad while also responding to priorities identified in DETI's 'Regional Innovation Strategy Action Plan'<sup>1</sup> and the NI Executive's 'Programme for Government 2008-11'<sup>2</sup>. The report also reflects on how the changing dynamics of labour demand and the recession have raised new challenges for policies promoting access to employment. Some of the practical opportunities for transferring specific models and approaches to the NI policy and economic context are discussed.

The following definitions were used for the purposes of this study:

- (a) *Investment* includes foreign direct investment (FDI) and private investment that expands the 'export' capacity of the NI economy of the type supported by DETI (and excludes retail or investment primarily aimed at the NI market). In other words the study is concerned with investment that expands the NI economy. The study is not about disadvantaged people getting employment in existing firms, unless they are investing and expanding.

- (b) '*Economically inactive*' people, who are the focus of the study, are those who are excluded or seriously at risk of exclusion from the labour market, i.e. are 'far from the job ready'. This includes: those who are not in the labour force and unlikely to join it (e.g. sick or disabled or those on incapacity benefit but who might return to work, but excluding students as they are likely to join the labour force with little additional assistance); those who are unemployed but unlikely to enter work without considerable extra support (e.g. very long term unemployed).
- (c) *Employment agencies* in this study include the public employment service, and private sector and third sector employability services providers. *Investment agencies* primarily mean public agencies to encourage investment, although may, in some places, include other private and third sector investment organisations.

## **1.2 Background to the Study**

### 1.2.1 Northern Ireland Labour Market

The Northern Ireland labour market performed well for much of the 2000s through a 16.2% increase in the overall number of jobs in NI between September 1998 and September 2008, compared to a 9.1% increase in Great Britain for the same period<sup>3</sup>. However NI still has a high inactivity rate (see below). Before the economic crisis the labour market was becoming 'tighter' and the need for bringing inactive workers back into the labour market grew. The current recession has significantly increased the level of unemployment in most European countries. For the period December 2009-February 2010 the working age employment rate in NI was 67.9% with certain groups, such as young men particularly affected during the recession<sup>4</sup>. This is the lowest of all the UK regions with the UK average standing at 72.1%<sup>5</sup>. As a result the labour market is now less 'tight' than previously, which means that there are now a greater number of recently unemployed persons to fill available jobs, thus pushing the economically inactive further from employment. However, as the workforce across the EU, as well as in NI, is ageing significantly and inactivity rates are likely to rise due to the recession, when economic recovery does occur then the need to bring more inactive people into the labour force is likely to reappear.

The level of economic inactivity among the working age population (16-64 years) remains higher in NI than in Great Britain for the period May - July 2010 (28.6% compared to 23.2%)<sup>6</sup> with an estimated 556,000 economically inactive persons in NI. These higher rates of inactivity may reflect the substantial barriers to work faced by some jobseekers and entrenched worklessness within some local communities – it is notable that economically inactive people in NI are less likely to report 'wanting to work' than those in GB. Reasons for inactivity include being a student (27%), being sick/disabled (27%), looking after the family and home (24%), being retired (14%) and other reasons (8%). In NI 92% of the inactive apparently did not want to work<sup>7</sup>. UK

data for April-June 2010 on reasons for households not being in work (*“households with inactive people aged 16 and over, but at least one person aged 16 to 64 and some will contain children. Contains households in which all are inactive and households where some are unemployed and some inactive”*<sup>8</sup>) show that there are 1.5 million households containing at least one person who is not in work because they are sick/disabled. Some 1.2 million households are not in work because at least one person is retired. There were 851,000 households where at least one person was not in work because they were looking after the family and home. 742,000 households had at least one person not in work because of other reasons such as being a student, being a discouraged workers or not wanting to work<sup>9</sup>. Although NI has a large number of economically inactive individuals who are students, which is likely to benefit the economy in the long run, high proportions are long term sick.

The employment rate (in 2010) of Northern Ireland (66.5%) remains well below the UK level (70.7%), although in the year from 2009 to 2010 (May to July), NI’s employment level rose by 2.3 percentage points<sup>10</sup>. Based on experience from past recessions it has been predicted that GDP may take 3-4 years from the start of the recession to recover, and the labour market may need a 8-10 year recovery period<sup>11</sup>. This decrease in levels of employment opportunities is likely to affect those with the greatest barriers to employment. It is expected that the recession will disproportionately impact on young adults (20-24 year olds), those with poor educational qualifications and those from ethnic minorities<sup>12</sup>. For example, over 80% of jobs lost have been for manual, administrative and less skilled workers<sup>13</sup>. Inactivity rates may rise (depending also upon relevant government policies), so future medium term growth in economy is likely to be supported if more inactive workers can be attracted back into the labour force.

As part of the current study, interview participants in Northern Ireland outlined that they believed the barriers to getting the economically inactive into work depended on the unique circumstances of the individual but included:

- Age
- Lack skills – literacy skills, numeracy skills, basic skills, job specific skills
- Long term exclusion from the work force
- Poverty of resources
- Mobility of workers
- Child care issues
- Benefits culture and the benefits trap
- Individual preference for work.

Additionally the perceptions of employers need to be addressed as many may be reluctant to deal with and manage disadvantage.

It is important that policy makers develop strategies to ensure that the benefits of future employment growth are spread to economically inactive people and

workless communities. DETI's Economic Research Agenda reflects the NI Executive's commitment to address these issues and achieve the strategic goal of increasing the employment rate from 70% to 75%. Specifically, Part B of the Research Agenda focuses on 'Employment Growth' acknowledges the NI Executive's goal of securing 6,500 new jobs from investment and that a substantial minority of these new opportunities may be in sectors and occupations that are accessible for those currently detached from the labour market. If economically inactive groups and disadvantaged communities are to benefit from future jobs growth, it is important that DETI and its partners develop strategies that can create and locate the kind of opportunities that can attract people back to the labour market (and provide them with sustainable progression routes in work).

Many of the lessons from this study are generally relevant to how investment is promoted. So while the context of this study has changed dramatically since its commissioning the lessons will still be useful in both the short- and the medium terms. Some of these general issues include the aims of government to help create employment that is long term, of good quality and can withstand economic downturns.

### 1.2.2 Case Study Countries

This report ascertains current practice in 10 relevant countries and their transferability to the NI policy and labour market context.

7 EU states were selected to gather lessons from national and/or regional economies that have similar spatial, population and economic characteristics as Northern Ireland (see Tables 1.1 and 1.2) and several with a devolved regional or Federal system. These countries are Belgium (with a focus on Flanders, population 5.5 million); Denmark; Finland; Germany (a Federal system with regions/Länder of various sizes, including Hamburg, one of the highest per capita value added regions in the EU, with a population of 1.8 million); the Netherlands; Slovenia; and Spain (with a focus on the Basque Country, population 2.1 million). In addition, 3 non-EU countries have been selected Australia (NSW population 6.8 million); New Zealand; and the USA (with a focus on the state of Nebraska, population 1.8 million). Further statistics can be found in Appendix 13.

**Table 1.1 – Macroeconomic and background indicators (2007)**

	GDP per capita (US\$)	GDP UK=100	Real GDP Growth (annual %)	Population levels (thousands)	Population growth rate (%)
UK	34957.1	100	2.6	60,975.4	0.64
<i>Northern Ireland</i>		79.5		1,759	1.0
Belgium	34665.2	99	2.9	10,625.7	0.74
<i>Flanders</i>				6,162	
Denmark	36325.6	104	1.7	5,457.4	0.42
Finland	35346.3	101	4.2	5,288.7	0.43
Germany	34683.4	99	2.5	82,247.0	-0.16
<i>Hamburg</i>				1,754	
Netherlands	39593.8	113	3.6	16,381.7	0.22
Slovenia	26556.5	76	6.8	2,010.1	0.24
Spain	31469.3	90	3.6	44,873.6	1.83
<i>The Basque Country</i>		110.2		2,130.3	
Australia	37616.2	108	3.7	21,015.0	1.53
<i>NSW</i>				6,875.7	
New Zealand	27019.9	77	3.1	4,228.3	1.04
USA	46433.8	133	2.1	301,279.6	0.95
<i>USA - Nebraska</i>	42299		3.9	1,774.6	

Source: OECD (<http://stats.oecd.org/Index.aspx?DataSetCode=CSP2010>)<sup>15</sup>. For NI: ONS Regional GVA, NISRA Demography StatsGVA figs are used in place of GDP; real GVA growth figures are not available.

Note that these data were gathered at the start of the project, before the effects of the recession were known.

**Table 1.2 - Labour Force statistics % (2008)**

	Labour Force Participation <sup>1</sup>	Employment to population ratio <sup>2</sup>	Total unemployment <sup>3</sup>	Inactivity <sup>4</sup>
	2008	2008	2008	2008
UK*	76.3	56.3	5.6	23.7
Belgium	66.2	46.5	7.0	33.8
Denmark	79.6	60.3	3.3	20.4
Finland	74.9	54.7	6.4	25.1
Germany	75.4	51.7	7.5	24.6
Netherlands	76.5	59.3	2.8	23.5
Slovenia	70.5	54.1	4.4	29.5
Spain	71.5	48.6	11.3	28.5
Australia	75.9	59.4	4.2	24.1
New Zealand	77.6	62.7	4.1	22.4
USA	74.4	59.2	5.8	25.6

1 – Labour force participation for aged 15-64 / Source: ILO estimates – EAPEP Database, 5<sup>th</sup> edition

2 – Employment to population ratio for those aged 15 or over / Source: ILO estimates – Trends estimation model

3 – Rate of unemployment from the total Labour Force

Source for: Australia, New Zealand, Slovenia, and US - Household or labour force survey from LABORSTA. / Source: Belgium, Denmark, Finland, Germany, Ireland, the Netherlands, Spain and UK - European Labour Force Survey (Eurostat)

4 – Inactivity rates for aged 15-64 / Source: ILO estimates – EAPEP Database, 5<sup>th</sup> edition

\* The relevant directly comparable data for Northern Ireland are not available. The seasonally adjusted figures for July-September 2008 for NI and GB respectively were: Economic Activity rate (Labour Force participation) (age 16-64) 70.9% in NI and 77.2% in GB; Employment to Population 16+ ratio 57.3% and 59.9%; Unemployment rate (age 16-64) 4.2% and 6.0%; Economic Inactivity rate (age 16-64) 29.1% in NI and 22.8% in GB<sup>16</sup>.

An initial review of policy and labour market contexts conducted as part of this study also highlighted the value in comparing approaches across:

- Successful small EU economies which have experienced high employment growth in recent years such as Slovenia
- Economies with high employment rates such as Denmark and the Netherlands
- Mature regional economy such as Flanders in Belgium and the Basque country in Spain and small countries such as Denmark and Finland
- Similar non-EU economies with relevant local/regional strategies - New Zealand, USA and Australia.

### 1.3 Methodology and outline of the report

The study had 5 phases:

Phase One involved consultation with key stakeholders within DETI; Invest NI; other departments with a stake in the employment growth/economic

development agenda; relevant local authorities; Enterprise NI; and leading sector-based organisations.

Phase Two involved an extensive desk-based literature and policy review, drawing on EU reports, academic studies and national government policy documents.

Phase Three involved survey research with national policy experts in each of the selected countries.

Phase Four involved in-depth case study research in GB plus five countries: Spain (the Basque Country); Denmark; Germany; the Netherlands; and New Zealand. These case studies were facilitated by local institutes/contacts who provided detailed information.

Phase Five involved the drawing together of the findings.

## **1.4 Report Structure**

The report is set out as follows:

- Chapter 2 examines the role of investment policies towards the creation of jobs that are likely to be accessible to the economically inactive.
- Chapter 3 assesses how employment policy relates to investment and business practices. The potential for joint working between employment and industry agencies on labour market issues is addressed.
- Chapter 4 examines why, and if, investment from certain sectors is targeted by investment agencies; and the potential for these sectors to provide employment for the economically inactive.
- Chapter 5 highlights examples of good practice and assesses their potential applicability to the NI context.
- The Appendices provide much more detail on specific countries and sectors.

## 2 Promoting Investment & Job Creation for the Inactive

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- Investment agencies provide a range of services to potential investors to encourage them to invest in a particular country/region.
- These incentives are not directly linked to creating positions likely to be accessible to the long term unemployed, those who face barriers to employment or the economically inactive. Indeed most argue against promoting such a link in general.
- There are some incentives tied to job creation, but these are not focused on particular groups of jobseekers and workers.
- In one country companies are obliged to employ specific types of worker, while in two, some local authorities are increasingly putting conditions on public tendering, and one has a 'best endeavour' clause.

### 2.1 Introduction

This chapter examines the role of investment agencies in the creation of jobs that are likely to be accessible to the economically inactive. It briefly sets out general investment incentives and indicates where there is some explicit link which seeks to encourage the employment of the economically inactive. *However, it is stressed that this study has not found significant evidence of direct incentives to encourage the employment of economically inactive groups that are specifically targeted at investors.* Finally, some of the advantages and disadvantages of these initiatives are discussed.

### 2.2 Promoting Investment

Each country in the study has dedicated investment agencies that focus on attracting and/or supporting prospective investors to the country. Some only deal with foreign investors while others also support domestic investors and assist them if they wish to internationalise their enterprise (see the Appendices on each country for further details).

These investment agencies are mainly the responsibility of the economic, industry or foreign affairs ministries: for example the Ministry of Economic Affairs in the Netherlands; the Ministry of Economic Development in New Zealand; and the Ministry of Foreign Affairs in Denmark. In the majority of cases the ministries responsible for investment and general employment policies are separate. In this study only Finland had a ministry that managed both portfolios: the Ministry of Employment and the Economy.

In some countries there are also provincial, regional or local investment agencies, which serve to attract investors to a particular area. Such regional investment agencies are primarily referred to in the Basque Country (Spain), Flanders (Belgium) and Nebraska (USA) cases. The government departments responsible for inward investment and the agencies charged with inward investment promotion that are considered in the case studies are set

out with a summary of their responsibilities, in Table 2.1. Further details can be found for each country in the Appendices. Broadly speaking the government departments in the case studies are equivalent to the Northern Ireland Department of Enterprise, Trade and Investment and the agencies responsible for inward investment promotion are the Invest Northern Ireland equivalents.

**Table 2.1 - Ministries and Agencies Responsible for Inward Investment Promotion**

	Government department responsible for inward investment	Agency Responsible for Inward Investment Promotion	
		Name	Responsibilities
<b>Australia</b>	Department for Foreign Affairs and Trade	Austrade	- First point of contact and information <sup>17</sup> - Discretionary incentives administered at state/territory level for example through Invest Queensland <sup>18</sup>
<b>Belgium - Flanders</b>	Flemish Government - Flanders Investment and Trade	Flanders Investment and Trade	- Information <sup>19</sup> - Guidance on grants and incentives <sup>20</sup>
<b>Denmark</b>	Ministry of Foreign Affairs	Invest in Denmark	- Advice, information and benchmarking tools <sup>21</sup> - Establishing contacts <sup>22</sup> - Fact finding visits <sup>23</sup> - Practical assistance and aftercare <sup>24</sup>
<b>Finland</b>	Ministry of Employment and the Economy	Centres for Economic Development, Transport and the Environment (ELY)	- Promote entrepreneurship and labour market functioning <sup>25</sup>
<b>Germany</b>	Federal Ministry of Economics and Technology and the Federal Government Commissioner for the New Federal States	Germany Trade and Invest	- Project management, location consulting and support services <sup>26</sup>
<b>Netherlands</b>	Ministry of Economic Affairs	Netherlands Foreign Investment Agency	- Information and practical assistance <sup>27</sup> - Regional agencies, for example, the Brabant Development Agency, provide incentives <sup>28</sup>

<b>New Zealand</b>	Ministry of Economic Development	Investment New Zealand	<ul style="list-style-type: none"> <li>- One-stop shop</li> <li>- Access to investment specialists</li> <li>- Information</li> <li>- Pre-investment site visits<sup>29</sup></li> </ul>
<b>Slovenia</b>	Ministry of the Economy	JAPTI (Invest Slovenia)	<ul style="list-style-type: none"> <li>- Information</li> <li>- Links to industry and local authorities</li> <li>- Organisation of visits and events<sup>30</sup></li> </ul>
<b>Spain – the Basque Country</b>	Industry, Innovation, Commerce and Tourism Department	Society for the Industrial Promotion and Reconversion' (SPRI)	<ul style="list-style-type: none"> <li>- Information</li> <li>- Cooperates and refers to other agencies</li> <li>- Guidance<sup>31</sup></li> </ul>
<b>USA - Nebraska</b>	Nebraska Department of Economic Development	Nebraska Department of Economic Development	<ul style="list-style-type: none"> <li>- Promotes investment, administers incentives and is responsible for community and rural development<sup>32</sup></li> </ul>
<b>Northern Ireland</b>	Department of Enterprise, Trade and Investment	Invest Northern Ireland	<ul style="list-style-type: none"> <li>- Financial and advisory support<sup>33</sup></li> </ul>

### 2.2.1 Services Provided by Investment Agencies

The investment agencies, whether nationally or regionally operated, in general advertise themselves as being a one-stop shop service, which is free of charge and provides prospective investor with information and practical assistance to help their needs. This is the case even when investment agencies refer prospective investors to other agencies for more specialised and in-depth information and help. For example, the Netherlands Foreign Investment Agency provides foreign investors with information and practical assistance; arranges fact-finding trips; and assists with site selection<sup>34</sup>. Investment New Zealand assists with analysis of market information and feasibility studies<sup>35</sup>.

As expected each investment agency focuses and tries to capitalise on specific regional and national aspects, which makes their country attractive to investors. Such 'selling' points are highlighted to prospective investors and range from the political and institutional environment including their tax regime or social contribution levels, to labour market characteristics such as liberal employment practices, wage levels or educational and skills accessibility. In most cases an investor will be informed of any incentives that could increase the attractiveness of a country. These incentives are often listed on the investment agency' websites; or investors are invited to discuss appropriate incentives with representatives from the agency (see Appendices).

## **2.3 Investment Incentives**

In all countries there are incentives and aids to investment, often these may only be discretionary. For example, the investment agency for the Australian state of Queensland, Invest Queensland, offers discretionary incentives to competitive projects<sup>36</sup>. In contrast some countries such as Denmark and New Zealand offer investors few direct subsidies or incentives. Rather they view a relatively open economy as the strongest incentive for investment, for example<sup>37</sup>.

The incentives identified by this study fall into 4-broad categories: economic conditions; addressing regional disparities; size of enterprise; and employment incentives linked to investment (discussed in section 2.4). There are also some incentives with target specific industries or sectors, which are discussed in chapter 4.

### **2.3.1 Economic Environment**

There are economic conditions, which are seen as incentives to potential investors. Some of these include:

- A low corporate tax rate – ‘marketed’ by the Netherlands<sup>38</sup>, Denmark<sup>39</sup>, Germany<sup>40</sup>.
- Low social security contributions by enterprises – Denmark<sup>41</sup>.
- A low dividend tax – the Netherlands<sup>42</sup>.
- A reduction of the taxable profit of energy saving investments/assets – the Netherlands<sup>43</sup>.
- Limited business restrictions – such as in New Zealand where there are no restrictions on the movement of funds<sup>44</sup>.

### **2.3.2 Regional Disparities**

Some incentives try to deal with regional disparities. This may be particularly important as the inactive will generally have shorter job search ranges and so will not work in jobs that are far away from their homes (especially if wages are low or their jobs are part-time). Mobility was highlighted as an issue by the participants in NI, in some cases due to rurality while in some others as a result of spatial sectarian barriers, with one participant mentioning the need for transport ring routes. Therefore investments primarily aimed at generating jobs for the economically inactive should be located near areas of disadvantage.

#### **(a) Subsidies –**

- Nebraska Rural Advantage for example offers incentives for businesses to locate in areas with a low population and/or where 30% of the residents live below the poverty line<sup>45</sup>.
- Incentives such as the Peak in the Delta programme in the Netherlands encourage regional innovation in sectors that will provide regional advantages<sup>46</sup>.

- In Germany the highest levels of incentives are given in less economically developed regions, with some programmes targeted at 'incentive regions'. The Investment Allowance incentive program, which is part of the cash incentives for investment; loans given by state development banks.
- (b) Grants –
- In Denmark industrial and demographic development financial grants are given in order to deal with regional disparities<sup>47</sup>.
  - Regional Investment Project Grants (BSRI) are made available in the Netherlands to companies that invest in core zones, with the aim of strengthening these economically weak regions<sup>48</sup>.
- (c) Holistic approaches to attract investment –
- In the Netherlands the Brabant Development Agency (BOM) Restructuring Industrial Areas scheme supports the restructuring of old industrial estates by initiating, managing and financing projects in the area<sup>49</sup>.

These incentives are not directly linked to the employment of economically inactive groups. Nevertheless there could be the indirect effect of increasing employment for this group by targeting economically weak areas and/or those regions, which have high levels of poverty.

### 2.3.3 Size of the Enterprise

In some cases incentives are directed at encouraging the growth and development of different sized enterprises:

- In Denmark and Germany the relatively larger grants are primarily available for small and medium size enterprises<sup>50</sup>.
- In Flanders, Growth Premiums are offered to stimulate growth. The amount available to the investor depends of the size of the company and the investment. In 2008 the subsidy percentage for small sized enterprises was 10% and 5% for medium sized enterprises<sup>51</sup>.
- The Nebraska Advantage Package has 6-tiers structured around the amount being invested in the State and the number of new jobs created (the type of, and scale of, the incentive also varies between each tier with greater levels of sales tax and wage credits given for higher investments and jobs created)<sup>52</sup>.

## 2.4 Employment Incentives Linked to Investment

This study has not found evidence of direct incentives to encourage the employment of economically inactive groups that are specifically targeted at investors. Nevertheless there are some of examples of incentives that link investment to job creation.

*"There is a focus on employment but not on employment of disadvantaged groups. That, I think, is an important thing to add."*  
(Participant, the Netherlands)

#### 2.4.1 Job Creation

There are incentives that encourage investors to create new jobs. However, these incentives do not specify that these jobs need to be accessible to a particular group, such as the economically inactive.

- The Nebraska Advantage Package uses Wage Credits. Some tiers offer a full sliding scale wage credit which, depending on wage levels, the level of sales tax and wage credit, increases as the wage increases<sup>53</sup>.
- In Slovenia the FDI Cost-Sharing Grant Scheme provides funds for foreign investors who will create new jobs. There is a minimum investment value. Investment projects in manufacturing, strategic services and research and development (R&D) can receive co-financing<sup>54</sup>.

#### 2.4.2 Training Incentives

Training incentives can be used to address labour and/or skill shortages and can also increase the employability of the economically inactive.

For example, the Nebraska Customized Job Training Advantage provides employee training assistance to businesses that maintain, expand and diversify the state's economic base and, in the process, retain and create quality jobs for Nebraska's residents. It provides grants of \$800-4,000 per qualified new job<sup>55</sup>.

In some countries there are a number of incentives to attract high skilled foreign workers, or from those industries where there are labour or skill shortages (these incentives are detailed in chapter 3 and the Appendices).

### 2.5 Obligations to Employ Specific Types of Workers

In 4 countries the study identified an obligation by companies to employ specific types of workers.

- In the Basque Country any enterprise with more than 50 employees has to have no less than 2% of workers who are registered as disabled. Alternatively enterprises can subcontract some of their activities to 'special work centres', which hire disabled people. This obligation is set in law 13/1982 Legislation LISMI for the social integration of disabled people<sup>56</sup>. Hence this applies to inward investors as well as other firms.
- Three participants in the Netherlands drew attention to how municipalities are increasingly working with 'social return' policies. Tenders may now include special conditions for hiring unemployed people, for example spending 5% of the budget on activation policies. In some cases tenders may only be opened up to social enterprises (social enterprises are discussed more fully in section 3.5).
- Participants in Denmark mentioned that some municipal public authorities' contracts require that companies providing services make

available a number of apprenticeships for people in the area, although this scheme is very new and controversial.

- Participants in NI drew attention to the fact that firms in receipt of government incentives must make a 'best endeavour' to hire at least 10% of the workforce from the long term unemployed. However, this clause was thought to be unenforceable. Additionally through its Employer Service the Department for Employment and Learning in Northern Ireland (DEL) can offer inward investors services such as recruitment assistance, provided that they are willing to engage with DEL's (unemployed and inactive) clients<sup>57</sup>.

### 2.5.1 Should Investors be required to Employ the Inactive?

The potential lack of jobs or accessible jobs for the economically inactive, after training, skills development or other activation measures have been used, is an important issue for consideration. This concern seems to be behind some participants reasoning when supporting the introduction of employment obligations:

- According to participants in Denmark the voluntary path to employing the economically inactive through subsidies and incentives is preferred to the path of quotas. Participants from the employers' side mentioned that their perspective is about focusing on education and giving people the right qualifications. Nevertheless the expectation is that companies have corporate social responsibility, which is characteristic of the Danish labour market model. If quotas were introduced participants said that it would probably not stop companies from coming to Denmark, as the incentives to invest in Denmark are not anyway based on employment directly, as the costs are high when compared to other European countries. Rather labour market flexibility and low social security contributions act as an incentive.
- Participants from investment and other agencies in the Basque Country would not necessarily oppose the introduction of employment obligations for enterprises. Some respondents from investment agencies did not think that such measure would prevent prospective investments. Nevertheless employment agencies favoured the idea of allowing the firms to subcontract some of their work to intermediate labour market (ILM) enterprises or special work centres, rather than putting the obligation on the firms to directly employ such disadvantaged people. A participant said that quotas in the long term would help to change employers' perceptions of disadvantaged groups. A contact centre participant said they would welcome obligations to private enterprises to hire people from disadvantage groups, as in their opinion the employment of those excluded should be an issue for all the government departments. However, some participants raised concerns about the enforcement of such measures. The experience of the LISMI legislation<sup>58</sup> is that it is difficult to enforce.
- One participant in NI felt that instead of imposing quotas on investors the economically inactive should be supported through training. It was felt

that using tie-ins could create tensions within the employment agency and investment agency community.

- A participant from the Netherlands highlighted the need for monitoring the social returns of projects as there were often disputes between contractors and municipalities regarding the qualification levels of the quota workers: *“the employers prefer very skilled people not unskilled unemployed (or) long term unemployed people”*.
- Some participants in New Zealand mentioned that obligations or policies which favour particular groups can displace other workers. When asked about this possible displacement, participants in Denmark and the Basque Country said that it could be an issue with those measures.

## **2.6 Summary**

In summary, this chapter has highlighted the lack of direct ties between investment and the encouragement of creating jobs that are targeted at the economically inactive.

Investment agencies and the employment agencies, on the whole, are located in different ministerial portfolios. The investment agencies offer a wide range of incentives to investors. Some may be indirectly linked to job creation for the economically inactive; for example by encouraging investment in economically weaker regions. Nevertheless, the incentives specifically geared at job creation do not target particular groups of jobseekers and workers. Only 4 of the 11 case studies explored in this study obliged companies to employ specific groups, however, their proper enforcement is needed in order for them to provide significant benefits.

### 3 Linking Investment & Employment Policies for the Inactive

- Although this study found few examples of direct promotion of the employment of economically inactive groups related to investment (chapter 2), there are indirect policies.
- Most areas had employment agency policies and incentives for employers to take on the inactive.
- Any incentives and obligations that encourage the employment of economically inactive groups need to be closely monitored to ensure that the economically inactive feel the benefits and reduce deadweight effects.
- There are useful examples of joint working between investment agencies, employment agencies and employers.

#### 3.1 Introduction

This chapter focuses on how employment and investment policies relate to each other concerning the employment of the inactive. The potential for joint working on labour market issues between employment and investment agencies is also examined. The employment agencies and their responsibilities that are considered in this study are summarised, in Table 3.1. They are generally equivalent to DEL. Further details can be found in the Appendices for each country.

**Table 3.1 - Employment Agencies**

	Name	Responsibilities/Services
<b>Australia</b>	Job Services Australia	<ul style="list-style-type: none"> <li>- One-stop shop</li> <li>- Provide sustainable employment and help employers find workers</li> <li>- Encourage skills development and training opportunities</li> <li>- Provide early interventions<sup>59 60 61</sup></li> </ul>
<b>Belgium - Flanders</b>	Flemish Employment and Vocational training service (VDAB)	<ul style="list-style-type: none"> <li>- Database of vacancies and jobseeker CVs</li> <li>- Job guidance for those facing barriers to employment</li> <li>- Training<sup>62</sup></li> </ul>
<b>Denmark</b>	Ministry of Employment	<ul style="list-style-type: none"> <li>- Labour law</li> <li>- Benefit allowances</li> <li>- Employment measures</li> <li>- JobNet website<sup>63</sup> part of the National Labour Market Authority<sup>64</sup></li> </ul>

<b>Finland</b>	Employment and Economic Development Centres	<ul style="list-style-type: none"> <li>- Employment exchange</li> <li>- Guidance and information</li> <li>- Training and support</li> <li>- Employer services<sup>65</sup></li> </ul>
<b>Germany</b>	Federal Employment Agency	<ul style="list-style-type: none"> <li>- Training and work placements<sup>66</sup></li> <li>- Career guidance<sup>67</sup></li> <li>- Training promotion and allowances<sup>68 69</sup></li> <li>- Unemployment benefits and other payments<sup>70 71 72</sup></li> <li>- Start up grant<sup>73 74</sup></li> </ul>
<b>Netherlands</b>	UWV WERKbedrijf Centres	<ul style="list-style-type: none"> <li>- Employment services</li> <li>- Information for employers</li> <li>- Assistance for those entitled to benefits<sup>75 76</sup></li> </ul>
<b>New Zealand</b>	Work and Income	<ul style="list-style-type: none"> <li>- Employment services</li> <li>- Financial help e.g. training grants</li> <li>- In-work support<sup>77</sup></li> </ul>
<b>Slovenia</b>	Employment Service of Slovenia	<ul style="list-style-type: none"> <li>- Employment services e.g. career orientation</li> <li>- Training</li> <li>- Unemployment insurance<sup>78 79</sup></li> </ul>
<b>Spain – the Basque Country</b>	Department for Employment and Social Affairs in the Basque Country	<ul style="list-style-type: none"> <li>- Employment issues</li> <li>- Training</li> <li>- Social services</li> <li>- Employment service Lanbide<sup>80</sup></li> </ul>
<b>USA - Nebraska</b>	Nebraska Department of Labor	<ul style="list-style-type: none"> <li>- Assists jobs seekers, the unemployed and employers</li> <li>- Incentives for employers who hire the economically inactive</li> <li>- Training opportunities<sup>81</sup></li> </ul>
<b>Northern Ireland</b>	Department for Employment and Learning	<ul style="list-style-type: none"> <li>- Promote learning and skills<sup>82 83</sup></li> <li>- Provides and supports training programmes<sup>84</sup></li> <li>- Help job seekers to find work (offering some financial help) and employers to find staff<sup>85</sup></li> </ul>

This study found few examples where there was a clear and direct promotion of the employment of the economically inactive by investment agencies (see chapter 2). However, employment agencies in each country have a range of active labour market policies (ALMP) whose aims include employment creation and the integration of the economically inactive into the labour market. Investors could be encouraged to use these incentives (even as part of an overall investment incentive package) and therefore they can potentially indirectly link investment with the employment of the economically inactive.

## **3.2 Incentives for Employment**

This section examines tools that are used to encourage employers to take on the economically inactive and as such provide opportunities for some level of joint working or coordination between employment agencies and industry.

These policies are made up, in most cases, of incentives to companies in the form of subsidies, tax credits and social security savings for example. These incentives to employment indirectly link to investment by:

- Reducing workforce costs.
- Influencing employment growth.
- Encouraging corporate social responsibility amongst firms with benefits for public relations, marketing and motivation of existing staff, etc.

The number and type of incentives vary by country. In some countries employment agencies such as Jobcentre Plus, can offer labour related incentives, which are specific to that locality. This policy can have the effect of addressing regional economic and employment imbalances within a country. However, if not properly monitored, these policies can also negatively restrict the movement of labour between localities. Broadly, the policies encourage: employment in general; employment of specific disadvantaged groups including in some cases the economically inactive; training incentives; or employment in high value jobs. Examples of these are now considered (fuller details are in the appendices).

### **3.2.1 Creation of employment in general**

There are incentives for the creation of employment without a requirement that the jobs created are ring fenced for a specific group.

#### **(a) Social security reductions**

- For example in Belgium employers are encouraged to take on additional employees by being given a general temporary exemption from social security contributions (although additional reductions may be available for specific groups – see below)<sup>86</sup>.

### **3.2.2 Employment of specific groups**

There are a number of incentives to employ individuals of specific, usually disadvantaged or economically inactive, groups:

#### **(a) Tax credits –**

- The Nebraska Department of Labor provides the ‘Work Opportunity Tax Credit’ to private, for-profit employers who hire individuals from a series of target groups (such as qualified ex-felons) who have found it difficult to find employment. These employees should not have worked for the company in the past<sup>87</sup>.

#### **(b) Social security exemptions –**

- Such as the Activa plan in Belgium which offers social security exemptions to employers who take on the long term unemployed<sup>88</sup>.

There are a number of programmes in this scheme: the Activa Start programme provides employees who are registered with the Flemish employment agency, who are under 26-years and have low education levels with €350 per month<sup>89</sup>. The other Activa programmes are described in more detail in the Appendix.

(c) Loans to companies –

- In the Northeast Nebraska Economic Development District, a local development agency runs a Business Loans programme. One objective of the programme is to create jobs for the unemployed and the under-unemployed in local private businesses. This initiative also aims to increase the local tax base and economic diversity as well as reverse the current out migration trends<sup>90</sup>.

(d) Premiums –

- In Belgium companies can receive premiums for hiring older worker. The 50+ scheme provides €1200-3000 (dependent on the salary level per quarter (for up to 4 quarters). The 57+ scheme provides a premium of €400 per quarter<sup>91</sup>.

(e) Compensation for workers with a high risk of illness –

- In the Netherlands companies who employ jobseekers aged 55 and over are able to be compensated if those employees cannot work due to illness within 5-years of their employment<sup>92</sup>.

(f) Allowances –

- The Slovenian employment agency makes allowances available to employers who hire persons with a disability: *“50% of the salary of an employee with a disability that is less than 100% and 70% of the salary of an employee with a 100% disability and deaf and dumb persons”*<sup>93</sup>.

(g) Wage Subsidies –

- For those facing barriers to employment, the long term unemployed or those who have a disability. In Australia employers employing any of these groups receive subsidies covering the wages for the first few months of employment<sup>94</sup>. In Denmark there are subsidies for employers taking on disabled people, this scheme is called Flexjobs<sup>95</sup>.

### Flexjobs

Flexjobs are subsidised jobs for the long term disabled. There are special working conditions such as reduced working hours and restricted job demands. The partial wage subsidy is unlimited in duration and the amount relates to the reduction of the employee's working capacity. According to the Danish Ministry of Finance in 2005, since its introduction the number of applications for disability has fallen<sup>96</sup>.

- Germany has a combination of wage and subsidies (Kombilohn), which aim to encourage those on benefits to take work that pays below the level of unemployment benefits. The Hamburg Model is an example of one of these subsidies<sup>97</sup>.

### The Hamburg Model

The Hamburg Model is one of a series of “Kombilohn” (combination of wage and subsidies) models in Germany. These subsidies aim to encourage those on benefits to take work that pays below the level of unemployment benefits<sup>98</sup>. Several national and regional Kombilohn were introduced, but the majority were not effective in bringing the inactive back into employment, and are no longer in place. However, the “Hamburg Model” (which is targeted at: the long term unemployed; people who might face long term unemployment; and persons who lack qualifications or whose qualifications are not currently in demand<sup>99</sup>) has been successful and is still in place. 10,000 people take part each year and offers<sup>100</sup>:

- The subsidy, of €250-300 per month, is tax exempt for the employer and employee and does not shorten the welfare eligibility.
  - The employee must work for at least 15-hours per week and be earning €401-1,700.
  - The employer can also claim vouchers for vocational training. This training aims to enable employees to avoid the bad-job-low-skills-trap.
- The Hamburg Model was started parallel to the Mainzer Modell (MZM) which was a social security subsidy that declined with income<sup>101</sup>. The Hamburg Model has been found to link the unemployed to stable unemployment whereas the MZM had the opposite effect<sup>102</sup>. A participant felt that the Hamburg Model has succeeded where others had failed because:
- Other models did not offer an employee subsidy
  - The employee only has to be in receipt of unemployment benefit and does not have to meet any other criteria.
  - The application process is easy and not bureaucratic.
  - The employee can receive a training grant.

- In Northern Ireland, DEL offers the Steps to Work Employer Subsidy which provides a 26-week package of assistance for employers who recruit eligible workers. It should be noted that this subsidy follows the employee, and does not support particular posts<sup>103</sup>.

There could be some limitations to strategies whose goal is to encourage employers to take on workers who may face barriers to employment. A number of participants in the Basque Country and a report by a non-profit organisation in Nebraska<sup>104</sup> raise issues about the efficiency of the incentive packages:

- In the Basque Country participants said that in many cases subsidies to companies had a ‘deadweight effect’ (i.e. employers employed who they would have done anyway and the subsidy was just a ‘bonus’ to them) they did not encourage integration of the groups they were aimed at, but rather were used by companies in an ad-hoc manner. This also has the effect of ‘creaming’ the most employable people from the group targeted and not those who would most fully benefit from the incentive: “*when they*

[employers] *contract someone older than 45 they go to the subvention because they know they have it, but it doesn't encourage [employers] to contract them*" (participant, Basque Country).

- Nebraska Appleseed argues in a 2009 report that the jobs created through the state incentive schemes do not always provide a living wage; that the benefits offered to workers may be limited; and that some workers are not given training opportunities<sup>105</sup>. Conversely a participant highlighted that most tiers of the Nebraska Advantage Package only give credits on wages that are at least 60% of the Nebraska average wage and therefore were unlikely to be used for low-entry or low-skill workers<sup>106</sup>.
- Although the Work Highcross Local Employment Partnership (discussed further in the next section) in GB has encouraged employers to recruit non-traditional groups, employers continue to be reluctant to recruit candidates with a disability. This illustrates the issue that certain groups within the inactive may be particularly disadvantaged.
- As a way to make sure subsidies and/or job training target the right people, in Denmark there is a requirement that as a prerequisite to take part in this type of activation, individuals should have been unemployed for 6-months. Although this safeguard could deal with creaming effects, participants mentioned that activation policies have the aim to be effective and fast, and waiting 6-months until a person can take part on some schemes is impractical and slows the process of integrations.
- Some, such as the participants from NI have also criticised the subsidies and other support for the economically inactive because of the potential displacement effect. One participant from the Jobcentre in Denmark mentioned "*... we are walking in a tightrope. Yes they do displace people... but then would they [the company] have employed another one, maybe not...so we are walking on a tightrope*".

### 3.2.3 Training incentives

There are also training incentives given to companies, with the aim of addressing labour and/or skill shortages and to increase the employability of the economically inactive. In Northern Ireland the Bridge to Employment scheme provides customised training in conjunction with employers to equip unemployed people, particularly the long term unemployed, with the skills necessary to compete for new employment opportunities with that particular employer, on an equal basis with others<sup>107</sup>.

#### (a) Subsidies for providing training –

- In the Netherlands subsidies pay for the employee to receive training if the company has skill shortages. At the provincial level, ventures between businesses and knowledge institutes can get subsidies for schemes that provide training for disadvantaged groups<sup>108</sup>.
- On the job training subsidies are paid in Germany<sup>109</sup> and in the Netherlands they take the form of wage cost subsidies<sup>110</sup>. In Denmark

companies can get subsidies when employing an unemployed person in job training or when employees are participating in job rotation<sup>111</sup>.

- For jobseekers that do not have all the skills required, training grants are available in Belgium, but the employee must be recruited full-time after the training<sup>112</sup>. Similarly in Germany prospective employees can receive training covered by up to 100% by regional authorities<sup>113</sup>, and in Finland joint purchase training is available enabling employers to take on and/or keep a worker who is lacking skills: recruitment training is available if no skilled employees are available; precise training provides basic or further vocational training for employees; and change training can help those who have been dismissed for financial or production-related reasons to find new employment<sup>114</sup>.

#### **Enterprise Centres**

In Denmark since 2008, according to participants, a new tool of activation has been used through which economically inactive groups can access work-based training, while the employer does not incur any expense. The Jobcentre makes agreements with local employers to take on a number of people, and funds the employer to assign a mentor to the employee.

The aim is to train the person in a real job but also to supervise the person and identify the barriers to their inclusion in the labour market. This initiative has some safeguards built in to avoid displacement.

#### **(b) Apprenticeships –**

In Australia, Germany and Denmark, there are a variety of apprenticeships schemes open to all jobseekers of working age.

- In Australia the Apprenticeships Access Program is for those who face barriers in finding skilled employment<sup>115</sup>. The Apprenticeships Incentives Program gives financial incentives to employers who take on apprentices<sup>116</sup>; while the Rural and Regional Skill Shortages Incentive gives additional incentives for the employment of an apprentice in non-metropolitan areas<sup>117</sup>. There are also completion incentives<sup>118</sup>. However a participant in Australia drew attention to limits of the apprenticeship scheme: due to the strong competition for places, employers will impose screening criteria, which could disadvantage the economically inactive.

#### **3.2.4 High skilled foreign labour**

Incentives to attract foreign, normally high skilled workers, or from industries where there are labour or skill shortages:

##### **(a) Special tax regime –**

- In Denmark this is the case for foreign key personnel and employees<sup>119</sup>.

##### **(b) Reduced the visa restrictions for employees –**

- In Australia until 08 February 2010 the Migration Occupations in Demand List (MODL) played a part in the Australian visa application process. The Department of Education, Employment and Workplace Relations developed a list to identify sectors where skilled workers were in short supply<sup>120</sup>.

### **3.3 Joint working**

Chapter 2 outlined a number of incentives to attract investment but none of them are directly linked to the employment of economically inactive groups and only a few are targeted at job creation:

*“We are very focus on the supply side, there is not national policy focused on the demand, is part of our employment policy, of course is part of a broader strategy for the country to have foreign companies, to attract investment, to develop the economy... but is not focused on labour market policy, it is focused on growth. And we look at labour market policy ... to transform or develop the supply that is employable, that is part of our thinking... and making people able to take a job.”*  
(Participant, Basque Country)

Investment agency representatives in Denmark and the Netherlands, and a participant in New Zealand stressed that investment agencies were responsible only for attracting investment. They had a very different portfolios and expertise from the employment agencies:

*“I think operationally it should be left to the employment agencies but of course both, both ministries they should be aware of all the information they need to inform their own positions best...It would be of course a strange situation if the [investment agency] could bring in a new company with the promise that they can supply all the staff that they need and then on the local grounds the social affairs and employment cannot provide these types of staff...So there should be a clear communication and information outreach between the both of them but they do have their own speciality when it comes to their own programmes.”* (Participant, the Netherlands)

Despite the clear differentiation in portfolios this study did identify some joint working between the investment agencies and the employment department. This section outlines examples of this joint working.

#### **3.3.1 Communication between Services**

There are examples of direct co-operation between the different agencies to explore whether they can address specific issues together.

- In the Basque Country when a specific labour market issue is highlighted, such as high youth unemployment or a skills shortage in the IT sector, ‘joint tables’ are formed and strategies to tackle this issue are discussed amongst the different social actors.

The investment agency's board of directors meets every three months and has, amongst other representatives, someone from the employment department. Nevertheless a participant mentioned that horizontal mainstreaming sometimes does not happen, even when there is joint participation.

- In Denmark there is similar discussion and cooperation between social actors at a national, regional and local level, regarding labour market issues and policy is common place. In Denmark the links between the social actors are institutionally established by the national, regional and local employment councils<sup>121</sup>.
- In New Zealand Industry Partnerships are developed to meet employer demands for (skilled) labour and to respond to local employment opportunities. They ensure that industry, government and employers work together<sup>122</sup>. Partnerships are established with employers and/or employer groups such as national industry associations; chambers of commerce; and large retail chains. Also in New Zealand a network of mayors set up a 'Taskforce for Jobs' with the aim to addresses work and training issues faced by those under 25-years of age<sup>123</sup>.

### 3.3.2 Awareness of Incentives

There are some channels of information on incentives that are available to prospective investors and other stakeholders.

- In Germany the investment agency website details the incentives prospective investors could get including employment incentives<sup>124</sup>. The same as in the case with the Slovenian investment agency website<sup>125</sup>. In the Basque Country the investment agency participant presented prospective investors with an information pack that includes employment incentives. If the investor requires more information in a specific issue the agency refers them to the appropriate agency.
- In New Zealand, the Ministry of Economic Development and the Department of Labour have promoted a programme of inter-agency cooperation and communication, which resulted in the "2008 Resource Roadmap"<sup>126</sup> to help clarify government and non-government organisation's roles in a region's economic development. The Roadmap is a guide to the landscape of organisations involved in regional economic development, providing role outlines, availability of support, available funding and contact information for numerous agencies. The Resource Roadmap identifies some of the labour market activation programmes.

Partnership working is favoured by participants in New Zealand as in their opinion it supports good governance, regional priority setting, and engagement with industry. Hence getting bigger, better and faster projects and making it possible to work with industries rather than just firms. The same participants believe that small industries are less easy to engage on activation measures as they have greater resources constraints.

This is also supported by Danish participants who mentioned that involvement in activation policies is more common in bigger firms. Some participants in

Denmark welcome joint working but think that employment policies should sit within the employment department.

In the Basque Country participants in general agreed that employment (activation) policies should be present in almost all government departments. According to one participant if industry was to be involved, private enterprises would be more deeply involved in such policies, which according to another participant would make sense as the larger enterprises are usually the ones with capacity to include inactive people in the labour market.

### 3.4 Linking Employers and Employees

In most countries incentives offered by the employment agencies are advertised on the internet. These are included some of the investment agency websites.

#### Website calculation of incentives

The Flemish case study also provides the best example of an accessible way in which employers and employees could navigate and identify the subsidies and premiums available to them. The website [www.aandeslag.be](http://www.aandeslag.be) allows employers to calculate what benefits they will be entitled to if they hire a certain unemployed person. Employees can also enter their details on the website in order to demonstrate to future employers the premiums they will receive in hiring them. There is a link to this website on the Flanders Investment and Trade website<sup>127</sup>.

*(Note this website is only available in Dutch, French and German. The French version was consulted in this instance).*

The Flanders Investment and Trade website lists in detail the employment incentives available from the Flemish employment agency (VDAB). The relationship between the two agencies is described as follows:

*“Together with Flanders Investment & Trade, the VDAB (the Flemish Employment & Vocational training service) will be your partner in working out the most cost-effective way of finding adequate personnel for your Belgian activity”<sup>128</sup>.*

#### 3.4.1 Active Promotion

In some cases Jobcentres act as links between businesses and the workforce, promoting employment growth through offering companies national and regional incentives and subsidies to employment and training; solving skills and labour shortages through training and courses aimed to match labour demand with the supply; and by increasing the employability of the economically inactive. Danish participants from employers' organisations said that *“it is a task of the Jobcentre to go and ask the companies to take part on this [labour market activation]”*.

- In Denmark the employment service is very proactive and their responsibilities include reaching local companies and promoting policies to get people back into work (activation tools). A participant outlined that in one Jobcentre there were seven 'employer consultants' who do outreach work, finding places in companies for people. This job has now been systematised and structured through a national activation programme called 'enterprise centres' (see section 3.2.3). A participant from an employers' organisation said:

*"We have never heard that it has been difficult for the Jobcentre to get companies to be part of this, they [employers] want to fulfil their responsibilities ... it is part of the activity for the Jobcentre to go to companies and show that it is part of doing business in Denmark, and we support it from the organisations ... we want to show that it is supported by our organisation and that our members should take part in these activities."* (Participant, Denmark)

- In GB the focus has been on attempts to make links with major regeneration projects in order to create jobs for the economically inactive. It must be noted that these relate mainly to activities which do not encompass our definition of investment, but do illustrate mechanisms that might be usefully be applied to cases of investment. Local Employment Partnerships (LEPs) have been used to "tackle the increasing recruitment and skills challenges of our labour market and economy"<sup>129</sup>. They are agreements between employers to work in partnership with Jobcentre Plus to help the long-term unemployed and economically inactive back to work through work trials and mentoring schemes for example.
- In Finland the delivery of business and employment agency services are combined through the Employment and Economic Development Centres (see box). The employment offices can offer discretionary subsidies and support to employers who hire unemployed jobseekers<sup>130</sup>.

#### **Employment and Economic Development Centres**

In Finland business development and employment were linked at a local level, through the Employment and Economic Development Centres (T&E Centres). These centres provided:

- Development services for businesses and entrepreneurs.
- Specialist services for each phase of the corporate life-cycle.
- Financing for investments which improve the competitiveness of businesses and that could have an important impact on employment, internationalisation, productivity or improved local business structure.
- Employment activities career planning; an internet service; finding workers for enterprises which need temporary labour; and an information service.

Since January 2010, under the Reform Project for Regional State Administration (ALKU), the roles, duties and divisions of the regional authorities have changed. The Employment and Economic Development Centres (T&E Centres) have been phased out and have been replaced by the Regional State Administrative Agencies (AVI) and the Centres for Economic Development, Transport and the Environment (ELY) with the aim of increasing the statutory powers of the regional authorities<sup>131</sup>. There are 15 ELY within the administrative sector of Ministry of Employment and the Economy<sup>132</sup>, and they will “promote entrepreneurship, labour market functioning...and are in charge of functions related to labour force immigration” amongst other things<sup>133</sup>.

The benefits of close employer – employment agency contact is emphasised in a study on Denmark by Holt, which found that the more contact there was with the municipality and job placement bureau, the more likely was the firm to have subsidized employees<sup>134</sup>. So investment agencies may have a useful role in using their relationship with employers to help to build such links.

### 3.5 Social Enterprises

The social economy includes many different forms of enterprise some of which have as their main aim the promotion of the inclusion of economically inactive groups in the labour market<sup>135</sup>. DETI's *Social Economy Enterprise Strategy 2010-2011* frames the social economy as an important way in which to lessen the impact of the recession on local economies; and as a way in which to develop equality of opportunity for a number of the Section 75 groups - persons of different religious belief, political opinion, racial group, age, marital status or sexual orientation; men and women; persons with a disability and persons without; and persons with dependants and persons without<sup>136 137</sup>. This study found that the importance and number of social enterprises varies between the case study countries. Countries promote or have promoted this type of companies given them subsidies and grants.

- New Zealand provides Enterprising Communities Grants which fund non-profit community projects that provide jobs and training for local people. There were no new grants from July 2009 although existing projects continued their funding<sup>138</sup>. In Finland social enterprises can be granted subsidies to help fund hiring an individual who is economically inactive<sup>139</sup>.
- In the Basque Country the field of the social economy is well developed. There are a number of social enterprises which employ disabled people and whose services are contracted by the public and private sector. These enterprises are called ‘special work centres’ and are private companies. In the Basque Country the survival and success of the ‘special work centres’ for disabled people has been help by the LISMI law (see chapter 2 section 2.5).
- In the Basque Country the relationship between the social enterprise confederation and the Department of Employment appears good. There is no apparent relationship with the Industry Department or with the

Jobcentre but some with employers' confederations and with the individual companies.

- One participant from the Netherlands was keen to highlight the potentially central role social enterprises could play in getting the economically inactive into work in the future.

### 3.5.1 Intermediate Labour Market enterprises

Another important form of enterprise, whose aim is the integration of the economically inactive in the labour market, is the 'intermediate labour market' (ILM) enterprise. In Finland intermediate labour market offers job opportunities to those that face barriers to employment with the aim of increasing skills and labour market status<sup>140</sup>.

The employment department in the Basque Government has a policy of support for ILM enterprises.

#### **Intermediate Labour Market Enterprises**

Intermediate Labour Market enterprises in the Basque Country are *"productive structures of goods or services that have as aim the inclusion to the labour market of disadvantage groups or that are excluded, and that those firms undertake personal programmes of insertion through an adequate process of learning that takes into account the achievement of social skills, employment skills, basis learning, labour qualification and knowledge that allow them to improve their employability"*<sup>141</sup>. They are considered as an important activation tool: a step between education and training and the ordinary labour market.

Intermediate Labour Market enterprises have to employ a minimum of 40% and a maximum of 75% of workers that are excluded or at risk of exclusion from the labour market. The people can be employed for a maximum of 3-years. They provide people with personal support programmes (in terms of training, social and working skills, social accompaniment)<sup>142</sup>.

Support for people after taking an ordinary job is not systematic and depends on the capacity of the ILM enterprise.

According to participants, data from the government in 2007 showed that the employment in ordinary jobs after participation in ILM enterprises has been of around 50%, although this depends from the economic environment and the type of industry. According to participants the benefit of these enterprises is social but also financial. A study conducted by the Spanish Federation of Social Economy in 2005 found that the ILM enterprises were cost effective considering the financial outflows by each worker and the saving incurred for each worker now in work<sup>143</sup>.

These ILM enterprises and the 'special work centres' have been criticised by a participant from a workers union in the Basque Country, which stresses that the terms and conditions of the jobs created are not suitable and *do* replicate the terms and conditions in the ordinary market.

### 3.5.2 Corporate Social Responsibility and Social Return Clauses

Social corporate responsibility and social return clauses were particularly mentioned by participants in Denmark, the Basque Country and the Netherlands. In Denmark social corporate responsibility appears to be part of the culture, and linked to this were the first activation schemes for people with disabilities. According to one participant it is in the interest of companies to embrace social corporate responsibility:

*“Because they think it is good for business. Our system here is also a recruitment channel because we can see that the ageing of the population ... so they have a high interest on keeping the labour supply as high as possible, and the workforce as big as possible. And they think of course, and that maybe is especially Danish, that it has to be done in a social responsible way you have to have tolerance towards people that are not living up normal expectations and so on.”*  
(Participant, Denmark)

In term of the intermediate labour market enterprises, groups in the Basque Country which promote the social enterprise sector have been working to introduce ‘Social Clauses’ which have the double objective of:

- opening the market to intermediate labour market enterprises by way of public contracts, which in turn generates employment for the disadvantaged, and
- ensuring ‘ordinary’ business are involved in social responsibility by taking into account or making it a requirement that they employ excluded people or those at risk of exclusion<sup>144</sup>.

Participants in the Basque Country saw the Social Clauses as a tool that could be similar to the LISMI legislation and part of private companies’ and public administrations’ social corporate responsibility. They also saw public tendering as an activation tool to support the employment of certain types of labour and the demand for ILM enterprises. Social economy organisations found that trying to advance the Social Clauses (which are a tool to include social considerations in the public tendering) has always met with opposition, often citing competition considerations. Nevertheless the 2007 national legislation on public tendering and the 2008 the Basque Country government agreement appears to have overcome this issue.

Participants in the Netherlands also drew attention to the use of social return clauses by municipalities over the last 12 years or so. There are 2 main types of clauses: the ‘carrot’ model is used after a contract has already signed when the municipality may approach their contractors to see if they can help create opportunities for the long term unemployed. In the ‘stick’ model there is a clause in the contract that requires the contractor to spend 5% of their budget on recruiting the long term unemployed or providing work placements for individuals undertaking certain types of training. Although at first these social returns met with opposition from employers, over time they have been demonstrated to be effective and have become increasingly popular. The services provided by municipalities to the long term unemployed have also

improved as otherwise they would be unable to match suitable candidates to the positions opened up by the social return clauses.

### **3.6 Summary**

This chapter has highlighted the existence of indirect links between investment and the employment of economically inactive groups. The case study countries have numerous examples of schemes and incentives that encourage the employment of those who have found it difficult to find work in the past. This can take the form of subsidies or even quota obligations for employers. There are also opportunities in the social economy. These obligations, however, need to be closely monitored to ensure that they benefit those who they aim to help. However, these are generally within the remit of employment or social agencies and not investment agencies. Examples of joint working between investment agencies, the employment agencies and employers have been highlighted. Communication between these stakeholders is important and they actively promote each others' services.

## 4 Targeting Sectors

- Investment agencies target certain sectors when trying to attract investment. However, these sectors often do not always offer low entry positions.
- Contact centres have potential in offering relatively greater numbers of opportunities to the economically inactive.
- It is important that training programmes for the economically inactive are shaped to meet the skills needs of industry.

### 4.1 Introduction

This chapter briefly examines why, and if, investment from certain sectors are targeted by investment agencies; and the potential for these sectors to provide employment for the economically inactive. It then considers contact centres. A more detailed version of this chapter containing further examples from the case study countries is included in the Appendix.

### 4.2 Target Sectors

Investment agencies often try to attract specific sectors to their country/region. Invest NI tries to attract businesses in the sectors of: financial services; business services; ICT; telecoms/electronics; software; renewables; connected health; manufacturing; and life sciences<sup>145</sup>. These sectors are similar to those targeted by the investment agencies in the case study countries. This is summarised in Table 4.1 and more information can be found in the Appendices.

**Table 4.1 - Inward Investment Target Industries by Case Study Country**

Country	Target Industries
<b>Australia</b>	- Financial services, clean energy, advanced manufacturing, biotechnology, infrastructure, agri business, food and beverage, ICT and resources <sup>146</sup>
<b>Belgium – Flanders</b>	- Support for the self-employed and small and medium enterprises - R&D, automotive industry, logistics, chemical production, the life sciences and a high-tech ICT <sup>147148</sup>
<b>Denmark</b>	- ICT, life sciences, renewable energies and maritime industry <sup>149</sup>
<b>Finland</b>	- Support for the self-employed/entrepreneurs - Cleantech, ICT, healthcare, mining, retail, real estate, business services, logistics and travel and tourism <sup>150</sup>

<b>Germany</b>	- Support for the self-employed/entrepreneurs - Aerospace, automotive industry, biotechnology, shared services, chemical industry, consumer goods, contact centres, electronics and micro technology, energy efficiency, environmental technology, food and beverages, health care, ICT, logistics, machinery and equipment, nanotechnology, renewable energies, security technologies and travel and tourism <sup>151</sup>
<b>Netherlands</b>	- R&D <sup>152 153 154 155</sup> - Logistics and food <sup>156</sup> - Headquarters, manufacturing, marketing and sales, logistics, shared services and customer care <sup>157</sup>
<b>New Zealand</b>	- Entrepreneurs <sup>158 159 160 161</sup> - Biotechnology, clean technology, food and beverages, high value manufacturing, ICT, infrastructure, petroleum and minerals, and venture capital and private equity <sup>162</sup>
<b>Slovenia</b>	- Self employment <sup>163</sup> - Manufacturing, strategic services and R&D <sup>164 165</sup>
<b>Spain – the Basque Country</b>	- High technology - Innovative and competitive businesses, entrepreneurship, R&D and SMEs <sup>166</sup>
<b>USA - Nebraska</b>	- Transportation, warehousing and distribution logistics; bioscience and technology; processed foods; information services and data centres <sup>167</sup>
<b>Northern Ireland</b>	- Financial services, business services, ICT, Telecoms / Electronics, Software, renewables, connected health, manufacturing and life sciences <sup>168</sup>

Incentives targeted at specific sectors included:

- (a) Tax reduction of wage cost –
  - Belgium offers tax breaks for R&D personnel<sup>169</sup> and also partial exemptions on advance wages<sup>170</sup>.
- (b) Providing capital –
  - In the Netherlands, the Investment and Development Agency for the Northern Netherlands (NOM) will support innovative businesses in the region<sup>171</sup>.
- (c) Providing loans –
  - The Brabant Development Agency (BOM) in the Netherlands supports innovative companies<sup>172</sup>.
- (d) Subsidies –
  - The Dutch ‘Peaks in the Delta’ programme stimulates regional innovation projects in businesses that provide important regional advantages<sup>173</sup>.
- (e) Grants –
  - In Slovenia investment projects in manufacturing, strategic services and R&D can receive co-financing<sup>174 175 176</sup>.

These sectors require, in the main, a high-skilled workforce, with some but relatively few entry level positions, although every investment would have some spill over effects. However, there are a small number of examples where opportunities could be available for those requiring low entry positions. Invest in Finland targets the retail sector. Germany Trade and Invest targets contact centres, although investment in Germany in this sector is encouraged because of the high calibre and well educated workforce:

*“Germany offers a vast pool of highly qualified, culturally-attuned, and flexible agents, available on short notice, with strong command of German and foreign languages”<sup>177</sup>.*

Similarly the Netherlands Foreign Investment Agency targets the customer care sector by promoting the availability of a:

*“well-educated, highly flexible, multilingual and service-oriented pool of professionals”<sup>178</sup>.*

There still may be opportunities for those facing barriers in the labour market and Germany Trade and Invest outlines the availability of training institutes, wage subsidies for companies hiring the long term unemployed and on the job training<sup>179</sup>.

**However it should be stressed that there was not extensive evidence of investment agencies purposefully seeking to attract sectors that are likely to be accessible to economically inactive groups.**

Additionally, while investment agencies may target sectors that, in the main, require a high-skilled workforce, it does not necessarily mean that these are the sectors where they actually get investment.

### **4.3 Contact Centres**

In NI contact centres can potentially offer appropriate opportunities for long-term unemployed people<sup>180</sup>, and those claiming incapacity benefits<sup>181</sup>. In Australia a participant outlined that contact centres offered good opportunities for the long term unemployed because of the number of low entry positions available, and the often casual or part-time nature of the work. Nevertheless opportunities in contact centres may be limited due to the nature of the work.

#### **4.3.1 Examples of Contact Centre Initiatives**

Our research did not uncover any major schemes to encourage the employment of the economically inactive in contact centres. Nevertheless there are some local schemes:

- In the Basque Country Gizarlin<sup>182</sup>, an ILM contact centre enterprise, works mainly with women with family responsibilities that have exited the labour

market or have never accessed it and are economically inactive (see section 3.5.1 for further discussion of the ILM).

- In the Netherlands the Contact Center Academy Limburg helps with the development of the contact centre industry in the region by providing education and training for new and existing staff<sup>183</sup>. There is cooperation with the employment services in identifying potential students.
- Call Britannia in the UK is a social enterprise outsourced contact centre, which locates in disadvantaged areas with the aim of recruiting those who face significant barriers to work. They provide training, education and other support to help develop the skills of their employees<sup>184 185</sup>.
- A number of contact centres have partnered the Greater Manchester Able to Work programme in running initiatives to try and attract those on long term incapacity benefit back to employment by offering them training in contact centre jobs<sup>186</sup>.

#### *Initiatives providing specific number of jobs for those inactive*

- In the north of the Netherlands, 40 unemployed people were offered contact centre job training and guaranteed employment. There are “*even other initiatives for disadvantaged people who can work from their homes to do some contact centre work.*” (Participant, the Netherlands).
- In the UK, Centrica set up a project to provide 50 jobs for disabled people and carers in contact centres and administrative positions in the North West of England (in 1998). This successful project was extended elsewhere<sup>187 188</sup>. Centrica also works closely in the UK with Job Centre Plus and Local Employment Partnerships as a result in 2009 they hired 150 new staff, 55 working as customer service advisors<sup>189</sup>.
- In NI, since January 2005, under a HBOS Return to Work Scheme, 50 individuals from areas with high unemployment have started work at the Belfast contact centre<sup>190</sup>.
- In NI the Halifax contact centre successfully recruited high numbers of employees, engaging the unemployed and labour returners by: providing options for flexible working patterns; removing a requirement for minimum qualifications; and liaising with local community groups, partnership boards and job centres<sup>191 192</sup>.

According to Keating (2008) high value activities generate benefits and in the financial service contact centres, there is a growing recognition that off shoring does not suit all services.

#### 4.3.2 Limitations of Contact Centre Work

Contact centre job characteristics and conditions could raise some issues on whether it is advisable and/or practical to target this sector (initiatives to address these issues are discussed in the appendices):

- Working conditions are not always attractive. A participant in the Basque Country considered it necessary to reform the ‘collective labour agreement’ for the industry in terms of salaries.

- The work can be repetitive and routine, stressful, with low job discretion and lack of progression. These job characteristics together with job conditions tend to produce a high workforce turnover<sup>193 194</sup>. In Australia a participant highlighted that the stringent performance requirements of contact centre work that could generate high stress levels in employees.

#### **4.4 Self-employment**

Self employment can sometimes provide opportunities for the inactive<sup>195</sup>. There are relevant incentives in most of the case study countries.

- In the Basque Country according to participants it is a strategic economic aim to increase the culture of entrepreneurship because although “*we have a well educated population they don’t have that entrepreneurial spirit, sometimes the good life is a handicap*” (participant, Basque Country).
- In New Zealand the Enterprise Allowance and in Australia the New Enterprise Incentive Scheme (NEIS) help unemployed jobseekers set up their own business<sup>196 197</sup>.
- In GB ‘test trading’ project has been used in North Wales to help overcome barriers of fear of the perceived risks regarding income by allowing individuals to continue claiming out-of-work benefits during their first 26 weeks of trading.

#### **4.5 The importance of education and skills to specific sectors**

Increasing the skills and education of the population is seen as an important path into labour market inclusion through accessing jobs in new investments.

##### **4.5.1 Training to Address Skills Needs and Increase Employability**

Besides the training incentives to employers and apprenticeships discussed in section 3.2.3, there are other initiatives that encourage education and training:

- In Australia the Productivity Place Program delivers training to meet the needs of industry<sup>198</sup> and in New Zealand the Straight-2-work strategy ensures that (potential) employees have the skills to meet industry demands<sup>199</sup>.
- In Slovenia training services are provided for employers who hire jobseekers who do not have all the skills required for the position<sup>200</sup>.
- In Belgium transition programmes are profession specific and are created by public sector employers to help the long term unemployed increase their employability<sup>201</sup>.

Whatever the particular training programme, it needs to be ensured that it provides specific skills, and that local employers are able to shape the course content. Any qualifications received should also be recognised by the labour market and some have found that programmes conducted on a small scale are most effective. Additionally training programmes have been most effective if labour markets are strong<sup>202</sup>.

#### 4.5.2 Work experience

Inactive jobseekers may be offered opportunities to gain skills while on-the-job. In Denmark participants mentioned an activation policy shift that reflected ideas that *“the best way to bring these groups back to the labour market is that they are close to the enterprise”* (participant, Denmark). Australia in particular has a wide range of work experience initiatives available to jobseekers unemployed for over 12-months<sup>203</sup>. These include the Work for the Dole scheme<sup>204</sup> and Unpaid Work Experience placement activities to allow jobseekers to get workplace experience<sup>205</sup>.

#### 4.6 Summary

Investment agencies often target certain sectors when promoting the investment opportunities in their country/region. However the sectors targeted often require a highly skilled workforce and do not always offer opportunities to the economically inactive. The contact centre sector is seen as a potential employer of the economically inactive. Whichever industries are targeted it needs to be ensured that the labour force has the skills required.

## **5 Lessons for Northern Ireland**

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- There were no significant strategies to link investment and the employment of inactive people. It was the general view that the two should not be too closely linked as it may deter mobile investment.
- There are examples of good practice showing indirect links between investment and the creation of jobs accessible to the economically inactive.
- If practices used in the case study countries were to be adopted in NI, certain barriers may need to be overcome and issues addressed.

### **5.1 Introduction**

Economically inactive people who are willing and able to undertake employment will be an increasingly important source of labour if the labour market tightens again and as the population structures of Northern Ireland and Great Britain age. The inclusion of some of the economically inactive would not only benefit individuals and society, but also business and the economy.

This study has shown there is some room for industry departments and agencies to encourage the labour market inclusion of economically inactive groups by inward investors, as part of their business plan and their social corporate responsibility. To do this, coordination and partnership working with other agencies and businesses is vital in order to devise and implement suitable strategies.

This final chapter sets out some issues concerning whether investment promotion should be linked directly or indirectly with the employment of the inactive. It then highlights examples of good practice from the previous parts of the report within the context of NI. The key success factors, and barriers, of these examples are then identified, as they would need to be addressed if the practices were adopted in NI.

### **5.2 Should investment promotion & employing the inactive be linked?**

This study has highlighted direct and indirect links between investment and jobs for the inactive. The examples discussed previously in this report are summarised below in Table 5.1 (further useful examples are detailed in the Appendices).

**Table 5.1: Direct and Indirect Links between Investment and Jobs for the Inactive – Examples Highlighted in the Main Report**

	Direct links	Indirect Links - investment and jobs for the inactive							
		Investment incentives				Employment incentives			
		Regional disparities	Job creation	Training	Employing specific groups	Employment of specific groups	General creation of jobs	Training incentives	Work experience
<b>Australia</b>				X		X		X	X
<b>Belgium (Flanders)</b>						X	X	X	
<b>Denmark</b>		X		X	X	X		X	
<b>Finland</b>						X		X	
<b>Germany</b>		X				X		X	
<b>Netherlands</b>		X		X	X			X	
<b>New Zealand</b>				X				X	
<b>Slovenia</b>			X	X		X		X	
<b>Spain – the Basque Country</b>				X	X				
<b>USA - Nebraska</b>		X	X	X		X			

### 5.2.1 Direct Links

The evidence gathered in the various countries in chapter 2 and the Appendices suggested that such links were not made directly and that the case for making a mandatory link was weak. While most interviewees supported the general idea that the economically inactive could get

employment in new investments, and where this was feasible it should be encouraged, this was not considered a practical policy in most cases.

Further interviews in NI also suggested that:

- If explicit requirements or tie-ins were to be placed on investments then employers would ask “what is the government going to give us for employing the disadvantaged?”
- Any mandatory tie-in of investment with requiring the employment of the economically inactive would constrict the decision making ability of businesses and decrease the appeal of investing in NI.
- Any increase in costs and/or red tape would create a burden that would limit the competitive advantage of NI businesses.
- It was thought that low-skill workers, some of whom may have been inactive, are used to “backfill” as either support for the new high-skill jobs or to fill jobs becoming vacant on lower rungs of the employment ladder. One interviewee felt that investment that creates high end jobs is still good for the economically inactive as for every 100 jobs there will be 3-5 low end and secondary jobs in support (although the figure of 3-5 should be treated with caution). Hence focusing on attracting higher level jobs would have a spill over effect on the employment of the inactive.

### 5.2.2 Indirect Links

However, there is a case for seeking to increase the employment of economically inactive people on the grounds of: equity; labour shortages (which will increase in the longer term due, for example, to population ageing and possibly the diminishing attraction of EU in-migrants compared to the last decade as East central EU economies improve, the initial wave of migrants fades and as countries such as Germany become open for A8 migrants); and government policy to reduce inactivity rates among those of working age. Trying to indirectly tie investment with the inactive can contribute both making NI a more attractive location in terms of labour supply and reducing the inactivity rate.

However, this requires good training and job readiness programmes (generally developed and funded through employment related agencies such as the Department for Employment and Learning) and close ties between the investment agencies (DETI), the employment bodies and the employers. Issues to consider include:

- Any tie-in of investment to the requirement to employ the economically inactive is a “noble notion”. However, it would require training in advance and during their employment to make sure people were ready to work and be productive.
- Mobility is key issue because of the location of investment and the generally short travel to work times of the formerly inactive workers. Hence appropriate transport initiatives are important and also, where possible, investments should be located near to areas of disadvantage.

- Any tie-in between hiring the economically inactive and investment would have to be closely matched with the government's willingness to contribute to costs and the availability of high quality training for the formerly inactive workers. Good pre-training is necessary so the economically inactive are already progressing to a job ready status.
- It was argued by NI interviewees that quotas are not the way to promote jobs for the inactive. The inactive people need to be supported/trained so they are competitive at the interview/ recruitment stage.

### **5.3 Targeting Sectors**

Investment agencies often aim to attract certain sectors, predominantly high value activities, to a country/region. There was no extensive evidence of investment agencies purposefully seeking explicitly to attract sectors that are likely to be more accessible to economically inactive groups.

Nonetheless, evidence showed that contact centres could offer some opportunities for the economically inactive, particularly if there were changes to the work environment and work practices. This may be possible with joint working between the employment department and agencies and industrial/employers organisations. Tourism/ hospitality/ catering were also sectors where there was scope to attract investment and also to employ relatively high percentages of inactive job seekers, although there was likely to be a high degree of displacement of other workers. Invest NI have supported and attracted contact centres for some time<sup>206</sup>.

While there is some evidence suggesting that contact centres could be a source of jobs accessible to the economically inactive, nevertheless attracting contact centres *per se* does not guarantee that economically inactive groups would get these jobs. Cooperation and communication between investment agencies and employment services seems to be a key factor in achieving the desired results on labour market activation.

It is likely that investment agencies would continue to focus on attracting high value activities as this is seen as the best way to boost an area's economy.

#### *Recommendation*

- With limited resources, a focus on high value added investments, including high value added contact centres, is more likely to meet DETI priorities such as improved productivity and value added, and possibly to indirectly open opportunities for the inactive.

### **5.4 Key Examples of Good Practice**

Taking into account the lack of systematic direct links between the promotion of inward investment and job creation for the economically inactive; this section discusses examples of good practice which highlight aspects of

schemes that could be considered by DETI. As is highlighted by these examples DETI's role is likely to be more indirect, ensuring that they maintain close operational links with DEL and that businesses are aware of the incentives available to them.

#### 5.4.1 Linking Investment Agencies and Employment Agencies

There are few examples of direct strategies linking investment agencies and employment agencies related to the explicit creation of employment for the economically inactive. This is primarily because of a view that these two agencies have very different responsibilities, both focusing on different parts of the labour market. However, there are examples of indirect links between practices and strategies to encourage the employment of the inactive. Employment services for example make available incentives to encourage job creation in businesses, although while increasing the number of jobs available is crucial, this may not always result in net new entry level positions.

There are, however, incentives that are linked to specific target groups which include many inactive, such as older workers and the long term unemployed (section 3.2.2). What must be noted is that much of this work does not occur when a business is considering investing in a country, but rather after they have made their investment decision.

#### *Recommendations*

- DETI may consider explicitly marketing training and employment support available through DEL for different groups such as the inactive when the [www.nibusinessinfo.co.uk](http://www.nibusinessinfo.co.uk) website is re-launched. It may be useful to consider the Flemish website.
- When considering potential employment subsidies, the Hamburg model, of wage subsidies for those with inadequate skills, may be worth further investigation by DEL.

#### 5.4.2 Training and Skills Development

The report has highlighted examples of training initiatives that have been promoted by the employment agencies in the case study countries (sections 3.2.3 and 4.5). These are worth consideration as arguably they may be useful in increasing the employability of the economically inactive. The examples cited in this study also draw attention to the role that employers play in shaping this training and skills development and providing jobs during and after the training. This is crucial to helping ensure that the skills needs of industry are met. Some issues for NI include:

- A number of relevant DEL programmes already exist: e.g. Apprenticeships NI, Bridge to Employment, Pathways to Work, Steps to Work, New Deal and the Disablement Advisory Service<sup>207 208 209 210 211 212 213</sup>.

- It is important to make people feel that can “get there from here” so the work to become job ready has a strong incentive at the end.
- An important approach is to have government assist with training and support to get the inactive person ready for employment and ongoing support until employment is steady.
- The approach taken by DEL is a “menu driven” provision of services that can be selected for the particular needs of the individual.
- Employers prefer to hire the best candidate at the time of recruitment. But many do support wider social corporate responsibility and employ a portion of “disadvantaged” people.
- NI has arguably some of the best recruitment standards of practice in the world. Equality and fairness are cornerstones that appear to be accepted by new businesses that move into NI.

#### *Recommendation*

- DETI should continue to work with DEL and local training bodies to ensure that suitable training and work readiness packages are available to tailor to the needs of investors. Consideration might be given to how these programmes can better be adapted to, and marketed to, potential inward investors.

#### 5.4.3 The Social Economy and Intermediate Labour Market Enterprises

The report has shown how the social economy and Intermediate Labour Market (ILM) enterprises can act as intermediate step between training/education and ordinary employment. The social economy is also arguably more likely to employ previously inactive people, so firms subcontracting to them should indirectly reduce inactivity. The development of the social economy is an existing priority for DETI<sup>214</sup> and past examples of ILM initiatives in NI have included the Worktrack programme<sup>215</sup>. There could be opportunities to increase the economic market for these types of enterprises through them, for instance, selling to inward investors, but this appears to have proven to be slow and difficult. In NI:

- “Social Economy” is about businesses locating in areas near to the geographic point of the disadvantaged.
- Many large employers have positive social policy in respect to hiring, but it is balanced with cost of employees who are not meeting basic skill levels and a desire to work.

#### *Recommendation*

- DETI could investigate working with DEL to identify the opportunities of encouraging investors to consider using Intermediate Labour Market type enterprises as suppliers (e.g. enterprises that provide work experience for disadvantaged people, including the inactive). The Basque country examples may be worth further consideration.

#### 5.4.4 Joint Working

Section 3.3 highlighted current examples of joint working between investment agencies, employment agencies and employers. This joint working was achieved by:

- Ensuring there was a dialogue between these stakeholders. By doing this, situations where one service can assist another can easily be identified and addressed. This however, occurred in only a minority of the case studies.
- Employers need to be aware of the incentives that are available to them. This can again be achieved by communication and ensuring that each agency promotes the services available from other agencies.
- There is also potential for employment services to conduct outreach work with enterprises.

#### *Recommendation*

- To improve co-ordination, for example through regular action orientated meetings between DETI, DEL and employers to discuss forthcoming and potential investments so that flexible provision of training support can be made. The New Zealand regional examples may be worth further consideration.

### **5.5 Further Issues**

Although there are examples of good practices in the cases considered, there are barriers to linking investment and the creation of employment for the economically inactive.

#### 5.5.1 Productivity of Economically Inactive Groups

Some individuals in this group will tend to have lower productivity than average and therefore companies may be reluctant to employ them. Subsidies and incentives to employers could bridge the gap in productivity for a period of time, or as long as needed. Policies in this area which are wide ranging and encompass whole sectors, rather than individual companies, could deal with competition issues. One example is subsidies to employers to cover sickness periods when they take on workers who are more likely to be ill, and hence lower the risks and costs associated with employing them (section 3.2.2, e.g. in the Netherlands companies who employ jobseekers aged 55 and over would be compensated if those employees cannot work due to illness within 5-years of their employment, although this could be extended to other groups likely to have high rates of illness).

#### 5.5.2 Monitoring Incentives to Employ the Economically Inactive

Incentives that encourage the employment of particular disadvantaged target groups, such as subsidies, social security exemptions and others schemes described in sections 2.5 and 3.2.2, need to be carefully monitored to ensure

that creaming and/or displacement does not occur. Creaming and displacement effects were highlighted by participants in the Basque Country, NI and Denmark (section 3.2.2). It is also necessary to ensure that these incentives target the right people, that jobs pay a living wage and that there are training opportunities to increase the options open to an individual.

### 5.5.3 Obligations to Employ Certain Workers

Obligations to hire a certain percentage of disadvantaged workers in an enterprise (such as those used in Denmark, the Basque Country, the Netherlands and NI and described in section 2.5) need to be carefully thought through, and if implemented, need to be closely monitored to ensure that targets are being met. Workers, and employers, may also need the continued support of the employment service. For a decade or more Invest NI contracts have a clause that firm receiving government incentives to locate in NI must make a “Best Endeavour” to hire 10% of workforce from the long-term unemployed. However, this appears difficult to enforce.

### 5.5.5 Other issues

The issues of displacement (of non-inactive workers) and deadweight (what the employers would do anyway), as well as cost-benefit analysis are all important when considering policies but are not discussed further here. Other factors not considered in this report are the supply issues (e.g. motivations for the inactive, the welfare system etc.).

## 5.6 Summary

This report has considered the transferability of some strategies to the Northern Ireland policy and labour market context.

- There were no significant strategies to link investment and the employment of inactive people. It was the general view that the two should not be compulsorily linked as this may deter mobile investment.
- There are some examples of good practice showing indirect links between investment and the access of the economically inactive to the jobs created.
- The emphasise of DETI is likely to be in terms of closer working with other agencies (e.g. the Department for Employment and Learning (DEL)):
  - To ensure they have suitable programmes to act as incentives for the employment of inactive people.
  - To market the employment support available from DEL to potential investors.
  - To ensure suitable training packages are available and tailored to the needs of investors.

- To help gain the agreement of the investor to consider and use these programmes; and to encourage some sub-contracting to bodies who employ significant numbers of formally inactive people (including in the social economy).
- To improve co-ordination, for example through regular action orientated meetings between DETI, DEL and employers to discuss forthcoming and potential investments so that flexible provision of training support can be made.

Of course any body promoting investment is in a highly competitive market and there is a fine balance between attracting or losing an investor.

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