



ESPN Thematic Report on integrated support for the long-term unemployed

Estonia

2015

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Summary

In Estonia, the long-term unemployed, after unemployment insurance benefit and unemployment allowance are exhausted, can apply for subsistence benefits, which are provided by local governments. Subsistence benefits, however, do not protect people from falling below the absolute poverty line. The benefit scheme also includes inactivity traps as the marginal effective tax rate is 100% up to a certain earnings level. However, empirical evidence is missing on whether these traps really matter for labour supply decisions by the long-term unemployed.

Provision of services for the long-term unemployed are not formally integrated. The one-stop shop approach is not established as labour market services and unemployment benefits are provided by the Estonian Unemployment Insurance Fund (EUIF) and social services and subsistence benefits by the local municipalities. Co-ordination between the EUIF and local governments in terms of services is voluntary and on an ad hoc basis.

There is a link between activation measures and social assistance benefits, as local governments have the right to refuse to grant benefits to inactive working-age people. Local governments have access to the EUIF's information system to check whether people applying for subsistence benefits have registered as unemployed at the EUIF. At the EUIF applicants are faced with job-search conditions as well as opportunities to receive various labour market services provided, in the same way as all other unemployed people. However, since the benefits that a long-term unemployed person may eventually lose when not following an individual action plan are rather small, the effect of the threat is rather moderate.

All the long-term unemployed who are registered at the EUIF have access to labour market services, of which the most suitable ones are assigned to the unemployed according to his/her needs. On the basis of collected information an Individual Action Plan is prepared by the EUIF, involving the local government and its services if deemed necessary by the case worker. Several measures are available to target the needs of the long-term unemployed and support their hiring (e.g. wage subsidies, coaching for working life, social rehabilitation, individual job coaching and placement, psychological, debt and addiction counselling, individual arrangements etc.).

Labour market services are provided uniformly across Estonia according to predetermined service standards, but there are no service standards for social services and the availability and quality of services depends on the economic capabilities of the local municipalities. Social services are not equally available in all regions. The lack of adequate social services provided by local governments also hinders the reintegration of the long-term unemployed with multiple problems into society and the labour market.

While studies on the effects of labour market services on the unemployed are gradually emerging in Estonia, research on the quantitative effects of Individual Action Plans, social services for the long-term unemployed or co-operation between the EUIF and local governments is still missing and needs further development.

1 Benefits and services supporting the long-term unemployed

1.1 Income benefits after the unemployment insurance/ allowance are exhausted

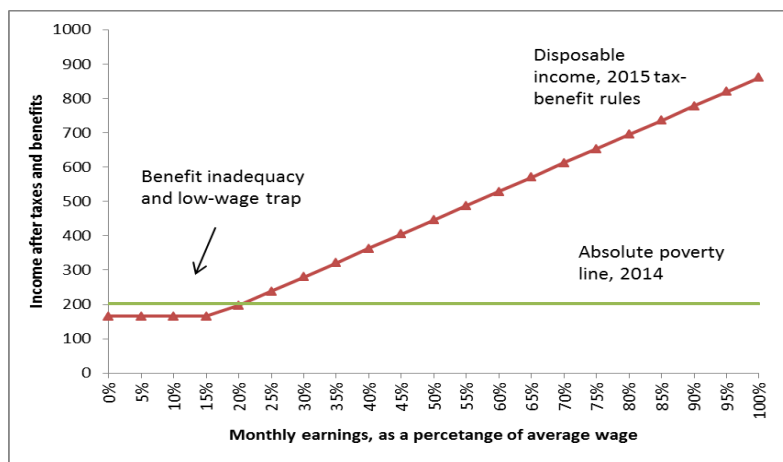
Long-term unemployed people (LTU) cannot receive unemployment insurance or unemployment assistance as these benefits are paid for 360 days and 270 days respectively. Only the unemployed who will reach retirement age in less than 180 days can receive unemployment assistance until the person attains pensionable age (bringing the total to 450 days) (Unemployment Insurance Act; Labour Market services and Benefits Act).

However, the LTU can apply for subsistence benefit, which is paid to an individual or a family whose monthly net income, after the deduction of fixed housing expenses, is below the subsistence level. Subsistence benefit is provided (i.e. assessment of applicants' eligibility and subsequent payments) by local governments, but it is eventually financed from the central government budget. Subsistence level is established based on minimum expenses for foodstuffs, clothing, footwear and other goods and services which satisfy primary needs (Social Welfare Act). The level is fixed for each year in the state budget. Subsistence benefits have most often been provided to households that have a long-term unemployed or a non-working jobseeker in the family.

The main critique about the subsistence level is its low value, which does not protect people from falling below the absolute poverty line. In 2013, the absolute poverty line for a single person was €205 per month, of which the minimum food basket was €92, while the subsistence level for a single person was €76.7. In 2015, the subsistence level was increased to €90 EUR per month for the first adult household member and for every additional child, with another €72 for any other adult household member.¹ Even after this increase the subsistence benefits for a single person (€90) are still below the minimum food basket from two years ago.

The subsistence benefit scheme also includes inactivity traps as the marginal effective tax rate is 100% up to a certain earnings level. For a single long-term unemployed person the budget line is described in Figure 1. It illustrates simultaneously the inadequacy of subsistence benefits, which are below the absolute poverty line, and a low-wage trap at very low levels of earnings.

Figure 1: Budget line for a single long-term unemployed



Source: Statistics Estonia, Praxis Center for Policy Studies, own calculations

¹ For example, a household with two children and two adults has a monthly subsistence level, which should cover their monthly minimum expenses for food, clothing, footwear and other goods and services, equal to €342 (€90 for the first adult, 2x€90 for two children and €72 for the second adult).

Unfortunately there are no empirical studies on whether these traps really matter for labour supply decisions by long-term unemployed people. Still, to combat possible negative effects on the labour supply, local municipalities can disallow payment of social assistance if the person has refused more than once, without valid reason, a suitable job, participation in active labour market policy measures or services organised by the local municipalities.

Note that the new government, formed in April 2015, has promised to increase subsistence level considerably, from €90 to €130 from 1 January 2016, which should improve the situation of the long-term unemployed and lift the subsistence benefits closer to the absolute poverty line.²

1.2 Services

1.2.1 Activation services

All registered unemployed are entitled to labour market services provided by the Estonian Unemployment Insurance Fund (EUIF) according to the Labour Market Services and Benefits Act and Employment Programme for 2014-2015. In total there are 20 different labour market services available. Several measures are available to target the needs of the long-term unemployed and support their hiring (e.g. wage subsidies, coaching for working life, social rehabilitation, individual job coaching and placement, psychological, debt and addiction counselling, individual arrangements etc.). The unemployed, who participate in labour market training, work practice or coaching for work life can receive a small benefit for every day of participation. The daily rate of the benefit in 2015 is €3.84 per day. Participants in these measures are also entitled to transport and accommodation benefits (Labour Market Services and Benefits Act).

An overview of studies on the effectiveness of activation services for the unemployed is given in two reports to the European Employment Observatory – see Leetmaa and Nurmela (2012) and Leetmaa (2015).³ The existing evaluation studies⁴ have focused on the impact of labour market training (Lauringson *et al.* 2011; Anspal *et al.* 2012), wage subsidies (Anspal *et al.* 2012), work practice and business-start-up grants (Villsaar *et al.* 2012 and 2014). The studies have shown that these measures have indeed increased the future employment prospects of participants, while the impact on future wages is ambiguous. Unfortunately, the long-term unemployed are rarely distinguished and separately analysed in these studies.

² Eesti Reformierakonna, Sotsiaaldemokraatliku Erakonna ning Erakonna Isamaa ja Res Publica Liit kokkulepe valitsuse moodustamise ja valitsusliidu tegevusprogrammi põhialuste kohta (*The coalition agreement*) 8.04.2015, retrieved on 15 May 2015 at <http://www.sotsdem.ee/wp-content/uploads/2015/04/RE-SDE-ja-IRLi-valitsusliidu-lepe.pdf>

³ Leetmaa, R (2015) "EEPO Review Spring 2015: Upskilling unemployed adults. The organisation, profiling and targeting of training provision. Estonia", European Employment Policy Observatory Review, March 2015.

⁴Anspal, S., Järve, J., Jääts, K., Kallaste, E., Maar, K., Mägi, A., Toots, A. (2012) Palgatoetuse ja tööturukoolituse teenuste vahehindamine (*Interim evaluation of the wage subsidies and labour market training*) Eesti Rakendusuringute Keskus CentAR & InterAct Projektid ja Koolitus OÜ. Available in Estonian at

http://www2.sm.ee/esf2007/files/hindamine2010/2012_06_18%20T%C3%B6B6%C3%B6turumeetmete%20hindamise%20I%C3%B5ppraport%20%28CENTAR%20InterAct%29%20final.pdf

Lauringson, A., Villsaar, K., Tammik, L. ja Luhavee, T. (2011) Tööturukoolituse mõjuanalüüs (*Counterfactual Impact Analyses of the Labour Market Training*). Tallinn: Eesti Töötukassa. Available in Estonian and English at <https://www.tootukassa.ee/content/tootukassast/uringud-ja-analuusid>

Villsaar, K., Lauringson, A., Tammik, L. ja Luhavee, T. (2012) Tööpraktika mõjuanalüüs mõjuanalüüs (*Counterfactual Impact Analyses of the Work Practice*). Tallinn: Eesti Töötukassa. Available in Estonian at https://www.tootukassa.ee/sites/tootukassa.ee/files/TOOPRAKTIKA_MOJUANALUUS.pdf

Villsaar, K., Tammik, L., Luhavee, T., Lauringson, A., Tilk, S., Nurmsalu, K. (2014) Ettevõtluse alustamise toetuse mõjuanalüüs (*Counterfactual Impact Analyses of Business-start-up Grants*). Tallinn: Eesti Töötukassa. Available in Estonian at https://www.tootukassa.ee/sites/tootukassa.ee/files/EvATanalyys_30052014.pdf

1.2.2 Social services

In addition to activation services, social services⁵, offered by local governments, include counselling, domestic services and housing for people with special needs. Counselling includes the provision of information about social rights and opportunities to protect legal interests and assistance in coping with specific social problems. Domestic services are provided to people in need in their own homes to help them cope with their difficulties in familiar surroundings. Housing is an obligation for local authorities – they are obliged to provide a dwelling to persons or families who are not able to afford it by themselves, and where necessary, also making social housing available for rent.

Quality and accessibility of these social services varies considerably among local governments due to the differences in their economic capabilities.⁶ As a result, the Ministry of Social Affairs has started the preparation of a strategic framework document, the Development Plan for Social Protection, Inclusion and Equal Opportunities, which encompasses all social policy areas: social security, social welfare, poverty, gender equality and equal opportunities. The background working document especially stresses the need to improve social services for an ageing population. The development plan should be approved by the government by the end of 2015.⁷

Among the shortcomings of social services there is still a lack of quality standards and shortage of a competent workforce at the municipal level. The non-existent systems for monitoring service quality could also be mentioned along with the fragmentation and lack of clarity about the division of tasks between the central and the local level.

All registered unemployed including the long-term unemployed are also entitled to health insurance, which often acts as an additional incentive for the long-term unemployed to register at the Unemployment Insurance Fund.

Unfortunately there are no studies that have analysed the effectiveness of social services in terms of reintegrating the long-term unemployed into the labour market.

1.3 Means for linking activation and benefits

To be eligible for active labour market policy measures, including training interventions, one has to be registered as unemployed in the EUIF. To register as unemployed the person must be aged 16 years or more (up to pensionable age), out of work, and actively searching for employment. In addition, since 1 November 2014 unemployed retirees (Government regulation no 122..., 2014) can also participate in labour market training and work practice measures.

Participation in labour market services is not directly conditional on the receipt of social assistance benefits: not all benefit recipients participate in ALMP measures and, on the contrary, the unemployed may participate in ALMP measures without receiving any benefits. However, failure to comply with the Individual Action Plan, including

⁵ Regulated by the Social Welfare Act

⁶ Vana, T. (2013). Sotsiaalteenuste kvaliteedi analüüs ja ettepanekud tervikliku kvaliteedisüsteemi tagamise juurutamiseks (*Analysis of Social Services' Quality And Proposals for Implementing Complete Quality System*). Analüüsi lõpparuanne. Sotsiaalministeerium, Astangu Kutserehabilitatsiooni Keskus/Euroopa Sotsiaalfond.

⁷ Ministry of Social Affairs (2015). Sotsiaalse turvalisuse, kaasatuse ja võrdsete võimaluste arengukava 2016-2023. Arengukava aluseks oleva hetkeolukorra ülevaade (*An Overview of Current Situation for Development Plan 2016-2023 of Social Security, Inclusion and Equal Opportunities*). Retrieved on 5 February 2015 at http://www.sm.ee/sites/default/files/content-editors/eesmargid_ja_tegevused/Sotsiaalse_turvalisuse_kaatuse_ja_vordsete_voimaluste_arengukava_2016_2023/heaolu_arengukava_hetkeolukorra_ulevaade_2015.pdf

participation in ALMP measures as agreed, may lead to the termination of the payment of social assistance benefits.

A local government has the right to refuse to grant a subsistence benefit to a person between the age of 18 and the pensionable age capable of working who is not working or studying and who is not registered as unemployed at the EUIF or who has, more than once and without good reason, failed to comply with the Individual Action Plan prepared by the EUIF or turned down suitable work offered to him or her, or has refused to participate in social services or studies organised by a rural municipality or city government aimed at increasing a person's abilities to cope independently (Social Welfare Act (§ 22³)).

Although there is no legal obligation, many local governments require that unemployed working-age people applying for subsistence benefits must register at the EUIF. The applicants are then faced with the job-search conditions. For example, they are obliged to fill in the individual action plan, to visit the EUIF regularly, to be available to accept suitable work, to seek employment independently and to keep the EUIF informed about their job search activities. On the other hand, the applicants have the opportunity to receive different labour market services (provided by the EUIF) the same as other unemployed people. Unfortunately there is no exact data about how often these requirements by local governments are imposed.

1.4 Statistic overview

According to EUIF data, there were 3 094 registered long-term unemployed from 01.12.2013 to 30.11.2014. Out of these, 89% participated in at least one active labour market policy measure.

According to statistics of the Ministry of Social Affairs, the total number of registered long-term unemployed who received subsistence benefits in 2014 was 2 433. On average about 1 445 applications per month were submitted which included the LTU.⁸ Since the total annual average number of long-term unemployed, according to the Estonian Labour Force Survey, was 22 500, it means that less than 10% of all long-term unemployed were simultaneously registered as unemployed and applied for subsistence benefits.

The long-term unemployed cannot receive unemployment insurance or unemployment allowance benefits due to the short duration of those benefits. Unfortunately, there are no data on the participation of the long-term unemployed in other social services.

2 Coordination between services towards a one-stop shop approach

2.1 Cooperation between different agencies

In Estonia, activation services and social services for the long-term unemployed are provided by different agencies. Typically, the Estonian Unemployment Insurance Fund is responsible for labour market services while local governments are responsible for social services and subsistence benefits. The long-term unemployed do not receive unemployment insurance benefits or unemployment allowance, but they may receive a training grant for each day they participate in labour market training, or additional transportation and accommodation benefits to take part in training programmes organised by the EUIF. The EUIF also provides various counselling services, such as psychological counselling, financial counselling, and addiction counselling, or coaching

⁸ Statistics on Subsistence Benefit, in Estonian at http://www.sm.ee/sites/default/files/content-editors/Ministeerium_kontaktid/Statistika/Sotsiaalvaldkond/Sotsiaalhoolekanne/2014._aasta.xlsx, sheets "leibkonnaliikmed" and "liikmed taotlustes", last accessed 20 April 2015

for working life. In addition, individual arrangements are made for people who face specific or multiple obstacles in finding and gaining employment.

Although the EUIF has no legal requirement to cooperate with local municipalities, since 2011 one of the aims of the EUIF has been to collaborate with local municipalities to help long-term unemployed people and individuals coping with difficulties to return to the labour market. A case worker from the EUIF and the municipality 1) choose the individuals in need, 2) assess the difficulties those individuals face in finding a job, 3) plan together the services and activities needed for those individuals to overcome the difficulties, and 4) conclude cooperation agreements that specify how these services are to be provided. Most often tailor-made coaching for work life or job club service is provided to the unemployed as a result of this cooperation. Different counselling services including psychological, social and debt counselling; training or practical activities necessary for the local community may be provided.

In a recent peer review (Estonian Unemployment Insurance Fund (2014)) mobile counselling services are also given as an example of co-operation between municipalities and the EUIF. The main goal of mobile counselling is to provide information and guidance on job search, explore working opportunities and increase awareness about the support the public employment services of the EUIF can organise and offer.

In 2014 (as of 19 November) the EUIF concluded 23 cooperation agreements with local municipalities (in 2014 there were 213 local municipalities in Estonia, hence co-operation was with about one in nine); services were offered to 241 individuals; in 2013 the respective numbers were 87 agreements with 322 individuals. As the unemployment rate decreased in 2014, there was also a decline in the number of services offered in 2014 (compared to 2013).

Regarding the exchange of data between the EUIF and local governments, the latter can acquire information about whether the person applying for social benefits is registered unemployed and/or receives unemployment benefits but the EUIF cannot directly access local municipalities' database on social assistance benefits or services. Local governments need to access the EUIF database as the level of subsistence benefits depends on all the income sources of an applicant, including unemployment benefits. In addition, local governments may require proof from the EUIF database that the person is registered as unemployed or is actively seeking for a job as this is an important input for local governments estimating a persons' activity in looking for a job and thereby deciding whether the applicants are eligible for receiving subsistence benefit. The latter conditionality stems from the Social Welfare Act (§22) and is optional (not an obligation) for local governments.

According to an interview held with the manager of the department of services of the EUIF, local governments are requiring this kind of information in most cases where they grant a subsistence benefit and so far there have not been any problems, i.e. the overall estimation of the current system was good. The EUIF does not formally need any information about participants in social services or receiving social assistance benefits as their own supply of labour market services and unemployment benefits does not depend on measures provided by local governments. That is also the reason why there is only a one-way exchange of data between the EUIF and local governments. On the other hand, the EUIF co-operates with local municipalities at the level of individual case management (see Section 3.)

Unfortunately, there are no evaluation studies available on the effectiveness of the current system of data exchange and cooperation between the EUIF and local governments.

In addition to cooperation agreements with the local municipalities, the EUIF conducted five cooperation agreements in 2013 with large employers (for providing work practice and organising work-trials for jobseekers, and also for the possibility of them subsequently hiring EUIF clients). Additionally the EUIF prepares tailor made trainings for the employers. In total 81 different events targeted at employers took

place in 2013. (Annual Report of the EUIF, 2013) Furthermore, the EUIF has counsellors who are responsible for strengthening the cooperation with employers. Special measures for employers targeted at long-term unemployed are wage subsidy (contract for an unspecified term or for fixed-term period of at least six months must be offered) and training costs compensation for the hired long-term unemployed who needs training during the first year at work.⁹

The EUIF also co-operates with NGOs, health institutions, education and training providers, and career centres. See a PES Paper by the Estonian Unemployment Insurance Fund (2014) for more details and examples.

2.2 One-stop shop approach and minimum standards for services

In Estonia, a one-stop shop approach is not established. Labour market services and unemployment benefits (unemployment insurance benefit and unemployment assistance) are provided by the EUIF and social services and benefits (i.e. subsistence and any other social assistance benefits) by the local municipalities.

Labour market services are provided uniformly across Estonia to a predetermined service standard. There are no service standards for social services and the availability and quality of services depends on the economic capabilities of the local municipality.

However, with the on-going reform of disability pensions and the increasing provision of services for the disabled people by the EUIF capacity to provide more social services should gradually build up, which may eventually lead closer to a one-stop shop approach for activation and social services.

3 Individualised approaches

3.1 Characteristics of recipients

There is no published evidence about whether any of the categories of the long-term unemployed are systematically not covered by activation or social services. Participation of the long-term unemployed in active labour market services is detailed in a Eurostat database provided by the EUIF. Data on participation of the long-term unemployed in social services is not publicly available.

3.2 Activation support

All services are offered based on the individual needs of the unemployed. Within thirty days from the registration of a person as unemployed, an Individual Action Plan (IAP) is prepared by the unemployed person in cooperation with the EUIF (Labour Market Services and Benefits Act § 10). Usually this is done at the second appointment with the advisor. Plans are developed and reviewed throughout the job-seeking period but at least once in every 3 months. The plan specifies the activities necessary to overcome the obstacles to finding a job. Jobseekers' activation and service needs are continuously assessed through regular work-focused interviews with a personal employment advisor (at least once every thirty days). Individual job-search plans developed by the EUIF and the unemployed consist of:

(1) background information (education, skills, work experience, job expectations),

⁹ According to the impact evaluation carried out by UIF in 2012 (Villsaar et al 2012), the impact of work practice was negative in the first months but by the fourth month after beginning work practice the impact became positive (both in terms of employment and income).

-
- (2) assessment of employment perspectives (assessment of advantages and/or obstacles in finding employment and ability to look for a job independently),
 - (3) agreed measures and activities (including referrals to vacancies) that support finding employment, and
 - (4) agreed interview appointments with the employment counsellor.

The concentration of effort to assist the unemployed person overcome the obstacles for returning to employment depends on the individual needs and the assessment of the case manager. For cases with multiple problems, the case manager contacts local government and they jointly create a suitable plan of services. Hence, individual action plans take into account the different starting points of the unemployed people and their different needs.

Unfortunately there are no published studies on the effectiveness of these individual action plans. At least, according to a customer survey of the unemployed, 62% of job-seekers were very satisfied and 28% rather satisfied with the personalised and flexible counselling that the EUIF provided (Faktum&Ariko, 2014, p 19).

3.3 "Integration contract"

There is an obligatory individual action plan that serves/acts as an integration contract for those who are registered at the EUIF (including the long-term unemployed). The EUIF is responsible for preparing the individual action plan in cooperation with the unemployed person (Labour Market Services and Benefits Act § 10). Fulfilling the individual action plan is tied to receiving unemployment insurance and unemployment allowances, and it may also be related to the payment of subsistence benefit (local governments can opt to make subsistence benefit payments conditional on the unemployed person being registered at the EUIF and fulfilling their individual action plan).

The activation and service needs of the long-term unemployed are assessed through regular work-focused interviews which take place at least once every 30 days, but an unemployed person can be asked to come in more frequently if he/she needs more support. Since 2012, specific individual arrangements can be made for people who face particular or multiple obstacles in finding and gaining employment. Arrangements include additional support services (i.e. sign language interpretation or personal assistance while participating in training), covering care costs of a family member (while care-givers participate in active measure in their first three working months), covering additional costs related to looking for or taking up a job (i.e. first month transport costs). Before 2012, these arrangements were targeted at people with disabilities, but since 2012, long-term unemployed people can also benefit.¹⁰

Unfortunately there are no studies on the effectiveness of these "integration contracts". Since the benefits that the long-term unemployed may lose when not following individual action plans are quite small anyway (see Section 1.1), the effect of the threat is rather moderate and does not discipline job seekers very much. Perhaps even more important than losing subsistence benefits is the termination of health insurance coverage, which the long-term unemployed lose when they are no longer registered as unemployed.

¹⁰ Peer Review 'PES approaches for sustainable activation of the long-term unemployed', The European Commission Mutual Learning Programme for Public Employment Services. Estonian Unemployment Insurance Fund, 2014.

4 Overview table

		Please put an X in the column that best represents the situation in your country			Please summarise in a few words and in order of priority the 3 key gaps that need to be addressed to improve effectiveness (if only one gap just complete one column)		
		Very good	Medium	Weak	Gap 1	Gap 2	Gap 3
Effectiveness of benefits & services supporting the long-term unemployed	Income benefits			X	Subsistence benefits and unemployment assistance benefit below absolute poverty line	Duration of unemployment benefits short	Coverage of unemployment benefits low
	Social services			X	Social services are not equally available in all regions. Availability depends on the ability of local governments, majority of them are very weak.	No uniform service standards available, hence the quality of social services varies across regions.	
	Activation services		X		The proportion of LTU who receive active labour market services		
Effectiveness of coordination between employment, social assistance and social services			X		Co-ordination between the EUIF and local governments on a voluntary ad hoc basis, no systematic bilateral exchange of information.		
Extent of individualised support			X		The lack of appropriate level of social services provided by local governments hinders reintegration of LTU with multiple problems into society and labour market.		

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